



# **The Ideas and Influence of F.A. Hayek**

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*The Ideas and Influence  
of F.A. Hayek*



# The Ideas and Influence of F.A. Hayek

## I. Order and Information

F.A. Hayek, "The Use of Knowledge in Society" *American Economic Review*, 1945, Vol. 35, No. 4, pp. 519-530.

F.A. Hayek, "Kinds of Order in Society", *New Individualist Review* (1964), Indianapolis: Liberty Fund, 2013.

## II. Knowledge and Discovery

F.A. Hayek, "Individualism and Economic Order," Chapter 2, *Economics and Knowledge*, Chicago: University of Chicago Press, 1948, pp. 33-56.

F.A. Hayek, "Competition as a Discovery Procedure," in *New Studies in Philosophy, Politics, Economics and the History of Ideas*, Chicago: University of Chicago Press, 1978.

## III. Hayek's Influence

F.A. Hayek, "Law, Legislation, and Liberty", Vol. 2, "The Mirage of Social Justice", pp. 62-100.

F.A. Hayek, "Why I Am Not A Conservative," from *The Constitution of Liberty*, Chicago: University of Chicago Press, 1960.

David B. Skarbek, "F.A. Hayek's Influence on Nobel Prize Winners", *Review of Austrian Economics* 22(1) 2009: 109-112.



# ***Session I***

## ***Order and Information***

F.A. Hayek, "The Use of Knowledge in Society" *American Economic Review*, 1945, Vol. 35, No. 4, pp. 519-530.

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## IV. The Use of Knowledge in Society\*

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### 1

WHAT is the problem we wish to solve when we try to construct a rational economic order? On certain familiar assumptions the answer is simple enough. *If* we possess all the relevant information, *if* we can start out from a given system of preferences, and *if* we command complete knowledge of available means, the problem which remains is purely one of logic. That is, the answer to the question of what is the best use of the available means is implicit in our assumptions. The conditions which the solution of this optimum problem must satisfy have been fully worked out and can be stated best in mathematical form: put at their briefest, they are that the marginal rates of substitution between any two commodities or factors must be the same in all their different uses.

This, however, is emphatically *not* the economic problem which society faces. And the economic calculus which we have developed to solve this logical problem, though an important step toward the solution of the economic problem of society, does not yet provide an answer to it. The reason for this is that the "data" from which the economic calculus starts are never for the whole society "given" to a single mind which could work out the implications and can never be so given.

The peculiar character of the problem of a rational economic order is determined precisely by the fact 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. The economic problem of society is thus not merely a problem of how to allocate "given" resources—if "given" is taken to mean given

\* Reprinted from the *American Economic Review*, XXXV, No. 4 (September, 1945), 519-30.

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to a single mind which deliberately solves the problem set by these "data." It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality.

This character of the fundamental problem has, I am afraid, been obscured rather than illuminated by many of the recent refinements of economic theory, particularly by many of the uses made of mathematics. Though the problem with which I want primarily to deal in this paper is the problem of a rational economic organization, I shall in its course be led again and again to point to its close connections with certain methodological questions. Many of the points I wish to make are indeed conclusions toward which diverse paths of reasoning have unexpectedly converged. But, as I now see these problems, this is no accident. It seems to me that many of the current disputes with regard to both economic theory and economic policy have their common origin in a misconception about the nature of the economic problem of society. This misconception in turn is due to an erroneous transfer to social phenomena of the habits of thought we have developed in dealing with the phenomena of nature.

## 2

In ordinary language we describe by the word "planning" the complex of interrelated decisions about the allocation of our available resources. All economic activity is in this sense planning; and in any society in which many people collaborate, this planning, whoever does it, will in some measure have to be based on knowledge which, in the first instance, is not given to the planner but to somebody else, which somehow will have to be conveyed to the planner. The various ways in which the knowledge on which people base their plans is communicated to them is the crucial problem for any theory explaining the economic process, and the problem of what is the best way of

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utilizing knowledge initially dispersed among all the people is at least one of the main problems of economic policy—or of designing an efficient economic system.

The answer to this question is closely connected with that other question which arises here, that of *who* is to do the planning. It is about this question that all the dispute about “economic planning” centers. This is not a dispute about whether planning is to be done or not. It is a dispute as to whether planning is to be done centrally, by one authority for the whole economic system, or is to be divided among many individuals. Planning in the specific sense in which the term is used in contemporary controversy necessarily means central planning—direction of the whole economic system according to one unified plan. Competition, on the other hand, means decentralized planning by many separate persons. The halfway house between the two, about which many people talk but which few like when they see it, is the delegation of planning to organized industries, or, in other words, monopolies.

Which of these systems is likely to be more efficient depends mainly on the question under which of them we can expect that fuller use will be made of the existing knowledge. This, in turn, depends on whether we are more likely to succeed in putting at the disposal of a single central authority all the knowledge which ought to be used but which is initially dispersed among many different individuals, or in conveying to the individuals such additional knowledge as they need in order to enable them to dovetail their plans with those of others.

### 3

It will at once be evident that on this point the position will be different with respect to different kinds of knowledge. The answer to our question will therefore largely turn on the relative importance of the different kinds of knowledge: those more likely to be at the disposal of particular individuals and those which we should with greater confidence expect to find in the possession of an authority made up of

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suitably chosen experts. If it is today so widely assumed that the latter will be in a better position, this is because one kind of knowledge, namely, scientific knowledge, occupies now so prominent a place in public imagination that we tend to forget that it is not the only kind that is relevant. It may be admitted that, as far as scientific knowledge is concerned, a body of suitably chosen experts may be in the best position to command all the best knowledge available—though this is of course merely shifting the difficulty to the problem of selecting the experts. What I wish to point out is that, even assuming that this problem can be readily solved, it is only a small part of the wider problem.

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 which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances 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, of 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 journeys of tramp-steamers, 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.

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It is a curious fact that this sort of knowledge should today be generally regarded with a kind of contempt and that anyone who by such knowledge gains an advantage over somebody better equipped with theoretical or technical knowledge is thought to have acted almost disreputably. To gain an advantage from better knowledge of facilities of communication or transport is sometimes regarded as almost dishonest, although it is quite as important that society make use of the best opportunities in this respect as in using the latest scientific discoveries. This prejudice has in a considerable measure affected the attitude toward commerce in general compared with that toward production. Even economists who regard themselves as definitely immune to the crud ematerialist fallacies of the past constantly commit the same mistake where activities directed toward the acquisition of such practical knowledge are concerned—apparently because in their scheme of things all such knowledge is supposed to be “given.” The common idea now seems to be that all such knowledge should as a matter of course be readily at the command of everybody, and the reproach of irrationality leveled against the existing economic order is frequently based on the fact that it is not so available. This view disregards the fact that the method by which such knowledge can be made as widely available as possible is precisely the problem to which we have to find an answer.

### 4

If it is fashionable today to minimize the importance of the knowledge of the particular circumstances of time and place, this is closely connected with the smaller importance which is now attached to change as such. Indeed, there are few points on which the assumptions made (usually only implicitly) by the “planners” differ from those of their opponents as much as with regard to the significance and frequency of changes which will make substantial alterations of production plans necessary. Of course, if detailed economic plans could be laid down for fairly long periods in advance and then closely adhered to, so that no further economic decisions of importance would be re-

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quired, the task of drawing up a comprehensive plan governing all economic activity would be much less formidable.

It is, perhaps, worth stressing that economic problems arise always and only in consequence of change. As long as things continue as before, or at least as they were expected to, there arise no new problems requiring a decision, no need to form a new plan. The belief that changes, or at least day-to-day adjustments, have become less important in modern times implies the contention that economic problems also have become less important. This belief in the decreasing importance of change is, for that reason, usually held by the same people who argue that the importance of economic considerations has been driven into the background by the growing importance of technological knowledge.

Is it true that, with the elaborate apparatus of modern production, economic decisions are required only at long intervals, as when a new factory is to be erected or a new process to be introduced? Is it true that, once a plant has been built, the rest is all more or less mechanical, determined by the character of the plant, and leaving little to be changed in adapting to the ever changing circumstances of the moment?

The fairly widespread belief in the affirmative is not, as far as I can ascertain, borne out by the practical experience of the businessman. In a competitive industry at any rate—and such an industry alone can serve as a test—the task of keeping cost from rising requires constant struggle, absorbing a great part of the energy of the manager. How easy it is for an inefficient manager to dissipate the differentials on which profitability rests and that it is possible, with the same technical facilities, to produce with a great variety of costs are among the commonplaces of business experience which do not seem to be equally familiar in the study of the economist. The very strength of the desire, constantly voiced by producers and engineers, to be allowed to proceed untrammelled by considerations of money costs, is eloquent testimony to the extent to which these factors enter into their daily work.

One reason why economists are increasingly apt to forget about the constant small changes which make up the whole economic pic-

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ture is probably their growing preoccupation with statistical aggregates, which show a very much greater stability than the movements of the detail. The comparative stability of the aggregates cannot, however, be accounted for—as the statisticians occasionally seem to be inclined to do—by the “law of large numbers” or the mutual compensation of random changes. The number of elements with which we have to deal is not large enough for such accidental forces to produce stability. The continuous flow of goods and services is maintained by constant deliberate adjustments, by new dispositions made every day in the light of circumstances not known the day before, by B stepping in at once when A fails to deliver. Even the large and highly mechanized plant keeps going largely because of an environment upon which it can draw for all sorts of unexpected needs: tiles for its roof, stationery or its forms, and all the thousand and one kinds of equipment in which it cannot be self-contained and which the plans for the operation of the plant require to be readily available in the market.

This is, perhaps, also the point where I should briefly mention the fact that the sort of knowledge with which I have been concerned is knowledge of the kind which by its nature cannot enter into statistics and therefore cannot be conveyed to any central authority in statistical form. The statistics which such a central authority would have to use would have to be arrived at precisely by abstracting from minor differences between the things, by lumping together, as resources of one kind, items which differ as regards location, quality, and other particulars, in a way which may be very significant for the specific decision. It follows from this that central planning based on statistical information by its nature cannot take direct account of these circumstances of time and place and that the central planner will have to find some way or other in which the decisions depending on them can be left to the “man on the spot.”

### 5

If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decisions must be

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left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralization. But this answers only part of our problem. We need decentralization because only thus can we insure that the knowledge of the particular circumstances of time and place will be promptly used. But the "man on the spot" cannot decide solely on the basis of his limited but intimate knowledge of the facts of his immediate surroundings. There still remains the problem of communicating to him such further information as he needs to fit his decisions into the whole pattern of changes of the larger economic system.

How much knowledge does he need to do so successfully? Which of the events which happen beyond the horizon of his immediate knowledge are of relevance to his immediate decision, and how much of them need he know?

There is hardly anything that happens anywhere in the world that *might* not have an effect on the decision he ought to make. But he need not know of these events as such, nor of *all* their effects. It does not matter for him *why* at the particular moment more screws of one size than of another are wanted, *why* paper bags are more readily available than canvas bags, or *why* skilled labor, or particular machine tools, have for the moment become more difficult to obtain. All that is significant for him is *how much more or less* difficult to procure they have become compared with other things with which he is also concerned, or how much more or less urgently wanted are the alternative things he produces or uses. It is always a question of the relative importance of the particular things with which he is concerned, and the causes which alter their relative importance are of no interest to him beyond the effect on those concrete things of his own environment.

It is in this connection that what I have called the "economic calcu-

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lus" (or the Pure Logic of Choice) helps us, at least by analogy, to see how this problem can be solved, and in fact is being solved, by the price system. Even the single controlling mind, in possession of all the data for some small, self-contained economic system, would not—every time some small adjustment in the allocation of resources had to be made—go explicitly through all the relations between ends and means which might possibly be affected. It is indeed the great contribution of the Pure Logic of Choice that it has demonstrated conclusively that even such a single mind could solve this kind of problem only by constructing and constantly using rates of equivalence (or "values," or "marginal rates of substitution"), that is, by attaching to each kind of scarce resource a numerical index which cannot be derived from any property possessed by that particular thing, but which reflects, or in which is condensed, its significance in view of the whole means-end structure. In any small change he will have to consider only these quantitative indices (or "values") in which all the relevant information is concentrated; and, by adjusting the quantities one by one, he can appropriately rearrange his dispositions without having to solve the whole puzzle *ab initio* or without needing at any stage to survey it at once in all its ramifications.

Fundamentally, in a system in which the knowledge of the relevant facts is dispersed among many people, prices can act to co-ordinate the separate actions of different people in the same way as subjective values help the individual to co-ordinate the parts of his plan. It is worth contemplating for a moment a very simple and commonplace instance of the action of the price system to see what precisely it accomplishes. Assume that somewhere in the world a new opportunity for the use of some raw material, say, tin, has arisen, or that one of the sources of supply of tin has been eliminated. It does not matter for our purpose—and it is significant that it does not matter—which of these two causes has made tin more scarce. All that the users of tin need to know is that some of the tin they used to consume is now more profitably employed elsewhere and that, in consequence, they must economize tin. There is no need for the great majority of them

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even to know where the more urgent need has arisen, or in favor of what other needs they ought to husband the supply. If only some of them know directly of the new demand, and switch resources over to it, and if the people who are aware of the new gap thus created in turn fill it from still other sources, the effect will rapidly spread throughout the whole economic system and influence not only all the uses of tin but also those of its substitutes and the substitutes of these substitutes, the supply of all the things made of tin, and their substitutes, and so on; and all this without the great majority of those instrumental in bringing about these substitutions knowing anything at all about the original cause of these changes. The whole acts as one market, not because any of its members survey the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all. The mere fact that there is one price for any commodity—or rather that local prices are connected in a manner determined by the cost of transport, etc.—brings about the solution which (it is just conceptually possible) might have been arrived at by one single mind possessing all the information which is in fact dispersed among all the people involved in the process.

## 6

We must look at the price system as such a mechanism for communicating information if we want to understand its real function—a function which, of course, it fulfils less perfectly as prices grow more rigid. (Even when quoted prices have become quite rigid, however, the forces which would operate through changes in price still operate to a considerable extent through changes in the other terms of the contract.) The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on and passed on only to those concerned. It is

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more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never know more than is reflected in the price movement.

Of course, these adjustments are probably never "perfect" in the sense in which the economist conceives of them in his equilibrium analysis. But I fear that our theoretical habits of approaching the problem with the assumption of more or less perfect knowledge on the part of almost everyone has made us somewhat blind to the true function of the price mechanism and led us to apply rather misleading standards in judging its efficiency. The marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; that is, they move in the right direction. This is enough of a marvel even if, in a constantly changing world, not all will hit it off so perfectly that their profit rates will always be maintained at the same even or "normal" level.

I have deliberately used the word "marvel" to shock the reader out of the complacency with which we often take the working of this mechanism for granted. I am convinced that if it were the result of deliberate human design, and if the people guided by the price changes understood that their decisions have significance far beyond their immediate aim, this mechanism would have been acclaimed as one of the greatest triumphs of the human mind. Its misfortune is the double one that it is not the product of human design and that the people guided by it usually do not know why they are made to do what they do. But those who clamor for "conscious direction"—and who cannot believe that anything which has evolved without design (and even without our understanding it) should solve problems which we should not be able to solve consciously—should remember

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this: The problem is precisely how to extend the span of our utilization of resources beyond the span of the control of any one mind; and, therefore, how to dispense with the need of conscious control and how to provide inducements which will make the individuals do the desirable things without anyone having to tell them what to do.

The problem which we meet here is by no means peculiar to economics but arises in connection with nearly all truly social phenomena, with language and with most of our cultural inheritance, and constitutes really the central theoretical problem of all social science. As Alfred Whitehead has said in another connection, "It is a profoundly erroneous truism, repeated by all copy-books and by eminent people when they are making speeches, that we should cultivate the habit of thinking what we are doing. The precise opposite is the case. Civilization advances by extending the number of important operations which we can perform without thinking about them." This is of profound significance in the social field. We make constant use of formulas, symbols, and rules whose meaning we do not understand and through the use of which we avail ourselves of the assistance of knowledge which individually we do not possess. We have developed these practices and institutions by building upon habits and institutions which have proved successful in their own sphere and which have in turn become the foundation of the civilization we have built up.

The price system is just one of those formations which man has learned to use (though he is still very far from having learned to make the best use of it) after he had stumbled upon it without understanding it. Through it not only a division of labor but also a co-ordinated utilization of resources based on an equally divided knowledge has become possible. The people who like to deride any suggestion that this may be so usually distort the argument by insinuating that it asserts that by some miracle just that sort of system has spontaneously grown up which is best suited to modern civilization. It is the other way round: man has been able to develop that division of labor on which our civilization is based because he happened to stumble upon

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a method which made it possible. Had he not done so, he might still have developed some other, altogether different, type of civilization, something like the "state" of the termite ants, or some other altogether unimaginable type. All that we can say is that nobody has yet succeeded in designing an alternative system in which certain features of the existing one can be preserved which are dear even to those who most violently assail it—such as particularly the extent to which the individual can choose his pursuits and consequently freely use his own knowledge and skill.

### 7

It is in many ways fortunate that the dispute about the indispensability of the price system for any rational calculation in a complex society is now no longer conducted entirely between camps holding different political views. The thesis that without the price system we could not preserve a society based on such extensive division of labor as ours was greeted with a howl of derision when it was first advanced by Von Mises twenty-five years ago. Today the difficulties which some still find in accepting it are no longer mainly political, and this makes for an atmosphere much more conducive to reasonable discussion. When we find Leon Trotsky arguing that "economic accounting is unthinkable without market relations"; when Professor Oscar Lange promises Professor von Mises a statue in the marble halls of the future Central Planning Board; and when Professor Abba P. Lerner rediscovers Adam Smith and emphasizes that the essential utility of the price system consists in inducing the individual, while seeking his own interest, to do what is in the general interest, the differences can indeed no longer be ascribed to political prejudice. The remaining dissent seems clearly to be due to purely intellectual, and more particularly methodological, differences.

A recent statement by Joseph Schumpeter in his *Capitalism, Socialism, and Democracy* provides a clear illustration of one of the methodological differences which I have in mind. Its author is pre-eminent

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among those economists who approach economic phenomena in the light of a certain branch of positivism. To him these phenomena accordingly appear as objectively given quantities of commodities impinging directly upon each other, almost, it would seem, without any intervention of human minds. Only against this background can I account for the following (to me startling) pronouncement. Professor Schumpeter argues that the possibility of a rational calculation in the absence of markets for the factors of production follows for the theorist "from the elementary proposition that consumers in evaluating ('demanding') consumers' goods *ipso facto* also evaluate the means of production which enter into the production of these goods."<sup>1</sup>

Taken literally, this statement is simply untrue. The consumers do nothing of the kind. What Professor Schumpeter's "*ipso facto*" presumably means is that the valuation of the factors of production is implied in, or follows necessarily from, the valuation of consumers' goods. But this, too, is not correct. Implication is a logical relationship which can be meaningfully asserted only of propositions simultaneously present to one and the same mind. It is evident, however, that the values of the factors of production do not depend solely on the valuation of the consumers' goods but also on the conditions of supply of the various factors of production. Only to a mind to which all these facts were simultaneously known would the answer necessarily follow from the facts given to it. The practical problem, however, arises precisely because these facts are never so given to a single mind, and

1. *Capitalism, Socialism, and Democracy* (New York: Harper & Bros., 1942), p. 175. Professor Schumpeter is, I believe, also the original author of the myth that Pareto and Barone have "solved" the problem of socialist calculation. What they, and many others, did was merely to state the conditions which a rational allocation of resources would have to satisfy and to point out that these were essentially the same as the conditions of equilibrium of a competitive market. This is something altogether different from showing how the allocation of resources satisfying these conditions can be found in practice. Pareto himself (from whom Barone has taken practically everything he has to say), far from claiming to have solved the practical problem, in fact explicitly denies that it can be solved without the help of the market. See his *Manuel d'économie pure* (2d ed., 1927), pp. 233-34. The relevant passage is quoted in an English translation at the beginning of my article on "Socialist Calculation: The Competitive 'Solution,'" in *Economica*, VIII, No. 26 (new ser., 1940), 125; reprinted below as chapter viii.

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because, in consequence, it is necessary that in the solution of the problem knowledge should be used that is dispersed among many people.

The problem is thus in no way solved if we can show that all the facts, *if* they were known to a single mind (as we hypothetically assume them to be given to the observing economist), would uniquely determine the solution; instead we must show how a solution is produced by the interactions of people each of whom possesses only partial knowledge. To assume all the knowledge to be given to a single mind in the same manner in which we assume it to be given to us as the explaining economists is to assume the problem away and to disregard everything that is important and significant in the real world.

That an economist of Professor Schumpeter's standing should thus have fallen into a trap which the ambiguity of the term "datum" sets to the unwary can hardly be explained as a simple error. It suggests rather that there is something fundamentally wrong with an approach which habitually disregards an essential part of the phenomena with which we have to deal: the unavoidable imperfection of man's knowledge and the consequent need for a process by which knowledge is constantly communicated and acquired. Any approach, such as that of much of mathematical economics with its simultaneous equations, which in effect starts from the assumption that people's *knowledge* corresponds with the objective *facts* of the situation, systematically leaves out what is our main task to explain. I am far from denying that in our system equilibrium analysis has a useful function to perform. But when it comes to the point where it misleads some of our leading thinkers into believing that the situation which it describes has direct relevance to the solution of practical problems, it is high time that we remember that it does not deal with the social process at all and that it is no more than a useful preliminary to the study of the main problem.



# THE BEST OF THE OLL #18

*Friedrich von Hayek, “Kinds of Order in  
Society” (1964)*

*“There exists in society orders of another kind which  
have not been designed by men but have resulted from  
the action of individuals without their intending to  
create such an order.”*



**Friedrich von Hayek (1899-1992)**

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*[March, 2013]*

## Editor's Introduction

Friedrich von Hayek (1899-1992) was one of the most important free market economists of the 20th century. He was a member of the "Austrian school of economics", taught at the London School of Economics, wrote extensively on banking and monetary theory, the socialist calculation debate, and the theory of spontaneous orders. He was instrumental in helping reinvigorate classical liberalism after the Second World War by helping to found the Mont Pelerin Society with Milton Friedman and others. Hayek won the Nobel Prize for Economics in 1974. Among his many important works are *The Road to Serfdom* (1944) his critique of government regulation during the Second World War, *The Constitution of Liberty* (1960) his vision of limited constitutional government, and the three volume *Law, Legislation, and Liberty* (1973-79) in which he develops his theory of spontaneous orders to encompass society as a whole. Hayek is now also famous for his then unheeded criticism of John Maynard Keynes during the 1930s.

One of the greatest contributions made by Hayek to social theory is his idea of 'spontaneous orders.' He distinguishes between the type of orders deliberately created by individuals to satisfy certain limited economic and social needs, such as the business firm, which he calls a "constructed" or "arranged" order or an organization; with other more complex types of orders which he terms "spontaneous" or "polycentric" orders. He describes the latter as "an order which, though it is the result of human action, has not been created by men deliberately arranging the elements in a preconceived pattern." Examples of such complex, undesigned orders include "language, morals, law, writing, or money" which were once thought to have been created by one wise person or "legislator" but which are now known to have evolved spontaneously over long periods of time. In the modern economy, the best example of such an order for Hayek is "the division of labor on which our economic system rests."

This very influential and important essay was published in 1964 in a graduate student run libertarian magazine at the University of Chicago, *The New Individualist Review*, edited by the historian Ralph Raico.

*"That division of labor on which our economic system rests is the best example of such a daily renewed order. In the order created by the market, the participants are constantly induced to respond to events of which they do not directly know, in a way which secures a continuous flow of production, a coordination of the quantities of the different things so that the even flow is not interrupted and everything is produced at least as cheaply as anybody can still provide the last quantities for which others are prepared to pay the costs. That it is an order which consists of the adaptation to the multitudinous circumstances which no single person can know completely is one reason why its existence is not perceived by simple inspection."*

## ***"Kinds of Order in Society" (1964)***<sup>1</sup>

WE CALL A MULTITUDE of men a society when their activities are mutually adjusted to one another. Men in society can successfully pursue their ends because they know what to expect from their fellows. Their relations, in other words, show a certain order. How such an order of the multifarious activities of millions of men is produced or can be achieved is the central problem of social theory and social policy. [1]

Sometimes the very existence of such an order is denied when it is asserted that society—or, more particularly, its economic activities—are “chaotic.” A complete absence of an order, however, cannot be seriously maintained. What presumably is meant by that complaint is that society is not as orderly as it should be. The orderliness of existing society may indeed be capable of great improvement; but the criticism is due mainly to the circumstance that both the order which exists and the manner in which it is formed are not readily perceived. The plain man will be aware of an order of social affairs only to the extent that such an order has been deliberately arranged; and he is inclined to blame the apparent absence of an order in much of what he sees on the fact that nobody has deliberately ordered those activities. Order, to the ordinary person, is the result of the ordering activity of an ordering mind. Much of the order of society of which we speak is, however, not of this kind; and the very recognition that there exists such an order requires a certain amount of reflection.

The chief difficulty is that the order of social events can generally not be perceived by our senses but can only be traced by our intellect. It is, as we shall say, an abstract and not a concrete order. It is also a very complex order. And it is an order which, though it is the result of human action, has not been created by men deliberately arranging the elements in a preconceived pattern. These peculiarities of the social order are closely connected, and it will be the task of this essay to make their interrelation clear. We shall see that, although there is no absolute necessity that a complex order must always be spontaneous and abstract, the more complex the order is at which we

aim, the more we shall have to rely on spontaneous forces to bring it about, and the more our power of control will be confined in consequence to the abstract features and not extend to the concrete manifestations of that order.[2]

***“The plain man will be aware of an order of social affairs only to the extent that such an order has been deliberately arranged; and he is inclined to blame the apparent absence of an order in much of what he sees on the fact that nobody has deliberately ordered those activities. Order, to the ordinary person, is the result of the ordering activity of an ordering mind. Much of the order of society of which we speak is, however, not of this kind; and the very recognition that there exists such an order requires a certain amount of reflection.”***

(The terms “concrete” and “abstract,” which we shall have to use frequently, are often used in a variety of meanings. It may be useful, therefore, to state here in which sense they will be used. As “concrete” we shall describe particular real objects given to observation by our senses, and regard as the distinguishing characteristic of such concrete objects that there are always still more properties of them to be discovered than we already know or have perceived. In comparison with any such determinate object, and the intuitive knowledge we can acquire of it, all images and concepts of it are abstract and possess a limited number of attributes. All thought is in this sense necessarily abstract, although there are degrees of abstractness and it is customary to describe the

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<sup>1</sup> *New Individualist Review*, editor-in-chief Ralph Raico, introduction by Milton Friedman (Indianapolis: Liberty Fund, 1981). Chapter: F. A. Hayek, Kinds of Order in Society. <[oll.libertyfund.org/title/2136/195376](http://oll.libertyfund.org/title/2136/195376)>.

relatively less abstract in contrast to the more abstract as (relatively) concrete. Strictly speaking, however, the contrast between the concrete and the abstract, as we shall use it, is the same as that between a fact of which we always know only abstract attributes but can always discover still more such attributes, and all those images, conceptions, and concepts which we retain when we no longer contemplate the particular object.[3]

The distinction between an abstract and a (relatively) concrete order is, of course, the same as that between a concept with a small connotation (intention) and a consequently wide denotation on the one hand, and a concept with a rich connotation and a correspondingly narrow denotation on the other. An abstract order of a certain kind may comprise many different manifestations of that order. The distinction becomes particularly important in the case of complex orders based on a hierarchy of ordering relations where several such orders may agree with respect to their more general ordering principles but differ in others. What is significant in the present context is that it may be important that an order possesses certain abstract features irrespective of its concrete manifestations, and that we may have it in our power to bring it about that an order which spontaneously forms itself will have those desirable characteristics, but not to determine the concrete manifestations or the position of the individual elements.)

THE SIMPLE CONCEPTION of an order of the kind which results when somebody puts the parts of an intended whole in their appropriate places applies in many parts of society. Such an order which is achieved by *arranging* the relations between the parts according to a preconceived plan we call in the social field an *organization*. The extent to which the power of many men can be increased by such deliberate co-ordination of their efforts is well-known and many of the achievements of man rest on the use of this technique. It is an order which we all understand because we know how it is made. But it is not the only nor even the chief kind of order on which the working of society rests; nor can the whole of the order of society be produced in this manner.

The *discovery* that there exist in society orders of another kind which have not been designed by men but have resulted from the action of individuals without their intending to create such an order, is the achievement of social theory—or, rather, it was this

discovery which has shown that there was an object for social theory. It shook the deeply-ingrained belief of men that where there was an order there must also have been a personal orderer. It had consequences far beyond the field of social theory since it provided the conceptions which made possible a theoretical explanation of the structures of biological phenomena. [4] And in the social field it provided the foundation for a systematic argument for individual liberty.

***“The discovery that there exist in society orders of another kind which have not been designed by men but have resulted from the action of individuals without their intending to create such an order, is the achievement of social theory ... And in the social field it provided the foundation for a systematic argument for individual liberty.”***

This kind of order which is characteristic not only of biological organisms (to which the originally much wider meaning of the term organism is now usually confined), is an order which is not made by anybody but which forms itself.

It is for this reason usually called a “spontaneous” or sometimes (for reasons we shall yet explain) a “polycentric” order. If we understand the forces which determine such an order, we can use them by creating the conditions under which such an order will form itself.

This indirect method of bringing about an order has the advantage that it can be used to produce orders which are far more complex than any order we can produce by putting the individual pieces in their appropriate places. But it has the drawback that it enables us to determine only the general character of the resulting order and not its detail. Its use in one sense thus extends our powers: it places us in a position to produce very complex orders which we could never produce by putting the individual elements in their places. Our power over the particular arrangement of

the elements in such an order is however much more limited than it is over an order which we produce by individually arranging the parts. All we can control are certain abstract features of such an order, but not its concrete detail.

All this is familiar in the physical and biological field. We could never produce a crystal by directly placing the individual molecules from which it is built up. But we can create the conditions under which such a crystal will form itself. If for that purpose we make use of known forces, we can, however, not determine the position an individual molecule will occupy within a crystal, or even the size or position of the several crystals. Similarly, we can create the conditions under which a biological organism will grow and develop. But all we can do is create conditions favorable to that growth, and we are able to determine the resulting shape and structure only within narrow limits. The same applies to spontaneous social orders.

IN THE CASE OF certain social phenomena, such as language, the fact that they possess an order which nobody has deliberately designed and which we have to discover, is now generally recognized. In these fields we have at last outgrown the naive belief that every orderly arrangement of parts which assist man in the pursuit of his ends must be due to a personal maker. There was a time when it was believed that all those useful institutions which serve the intercourse of men, such as language, morals, law, writing, or money, must be due to an individual inventor or legislator, or to an explicit agreement of wise men who consented to certain useful practices.[5] We understand now the process by which such institutions have gradually taken shape through men learning to act according to certain rules—rules which they long knew how to follow before there was any need to state them in words.

But if in those simpler instances we have overcome the belief that, wherever we find an order or a regular structure which serves a human purpose, there must also have been a mind which deliberately created it, the reluctance to recognize the existence of such spontaneous orders is still with us in many other fields. We still cling to a division, deeply embedded in Western thought since the classical antiquity, between things which owe their order to “nature” and those which owe it to “convention.”[6] It still seems strange and unbelievable to many people that an order may arise neither wholly independent of human action, nor

as the intended result of such action, but as the unforeseen effect of conduct which men have adopted with no such end in mind. Yet much of what we call culture is just such a spontaneously grown order which arose neither altogether independently of human action nor by design, but by a process which stands somewhere between these two possibilities which were long considered as exclusive alternatives.

Such spontaneous orders we find not only in the working of institutions like language or law (or, more conspicuously, the biological organisms) which show a recognizable permanent structure that is the result of slow evolution, but also in the relations of the market which must continuously form and reform themselves and where only the conditions conducive to their constant reconstitution have been shaped by evolution. The genetic and the functional aspects can never be fully separated.[7]

***“That division of labor on which our economic system rests is the best example of such a daily renewed order. In the order created by the market, the participants are constantly induced to respond to events of which they do not directly know ... (It) is an order which consists of the adaptation to the multitudinous circumstances which no single person can know completely.”***

That division of labor on which our economic system rests is the best example of such a daily renewed order. In the order created by the market, the participants are constantly induced to respond to events of which they do not directly know, in a way which secures a continuous flow of production, a coordination of the quantities of the different things so that the even flow is not interrupted and everything is produced at least as cheaply as anybody can still provide the last quantities for which others are prepared to pay the costs. That it is an order which consists of the adaptation to the multitudinous circumstances which no single person can know

completely is one reason why its existence is not perceived by simple inspection. It is embodied in such relations as those between prices and costs of commodities and the corresponding distribution of resources; and we can confirm that such an order in fact exists only after we have reconstructed its principles in our minds.

***“the spontaneous orders which form themselves in the biological and social sphere ... are composed of many different elements which will respond to the same circumstances alike in some respects but not in others. But they will form orderly wholes, because each element responds to its particular environment in accordance with definite rules. The order results thus from the separate responses of the different elements to the particular circumstances which act on them and for this reason we describe it as a ‘polycentric order’.”***

THE “ORDERING FORCES” of which we can make use in such instances are the rules governing the behavior of the elements of which the orders are formed. They determine that each element will respond to the particular circumstances which act on it in a manner which will result in an overall pattern. Each of the iron filings, for instance, which are magnetized by a magnet under the sheet of paper on which we have poured them, will so act on and react to all the others that they will arrange themselves in a characteristic figure of which we can predict the general shape but not the detail. In this simple instance the elements are all of the same kind and the known uniform rules which determine their behavior would enable us to predict the behavior of each in great detail

if we only knew all the facts and were able to deal with them in all their complexity.

Some order of a determinate general character may form itself also from various kinds of different elements, i.e., of elements whose response to given circumstances will be alike only in some but not in all respects. The formation of the molecules of highly complex organic compounds provides an example from the physical sciences. But the fact is especially significant for many of the spontaneous orders which form themselves in the biological and social sphere. They are composed of many different elements which will respond to the same circumstances alike in some respects but not in others. But they will form orderly wholes, because each element responds to its particular environment in accordance with definite rules. The order results thus from the separate responses of the different elements to the particular circumstances which act on them and for this reason we describe it as a “polycentric order.”[8]

The physical examples of spontaneous orders we have considered are instructive because they show that the rules which the elements follow need of course not be “known” to them. The same is true more often than not where living beings and particularly men are the elements of such an order. Man does not know most of the rules on which he acts;[9] and even what we call his intelligence is largely a system of rules which operate on him but which he does not know. In animal societies and in a great measure in primitive human society, the structure of social life is determined by rules of action which manifest themselves only in their being obeyed. It is only when individual intellects begin to differ sufficiently (or individual minds become more complex) that it becomes necessary to express the rules in communicable form so that they can be taught by example and deviant behavior can be corrected and differences of view expressed about what is to be decided.[10] Though man never existed without laws which he obeyed, he did exist for millennia without laws which he knew in the sense that he was able to articulate them.

Where the elements of the social order are individual men, the particular circumstances to which each of them reacts are those which are known to him. But it is only when the responses of the individuals show a certain similarity, or obey some common rules that this will result in an overall order. Even a limited similarity of their responses—common rules which

determine only some aspects of their behavior— suffice, however, for the formation of an order of a general kind. The important fact is that this order will be an adaptation to a multitude of circumstances which are known only to the individual members but not as a totality to any one of them; and that such an order will result only because, and in so far as, the different individuals follow similar rules in these responses to the particular circumstances known to them. This does not mean, nor is it necessary for the production of an order, that in similar circumstances different persons will do precisely the same thing. All that is meant and required is that in some respect they follow the same rule, that their responses are similar in some degree, or that they are limited to a certain range of actions which all have some attributes in common. This is true even of the iron filings in our former illustration which may not all move with the same speed because they will be different in shape, smoothness, or weight. Such differences will determine the particular manifestation of the resulting pattern which, in consequence of our ignorance of these particulars, will be unpredictable; but the general character of the pattern will be unaffected by them and will therefore be predictable.

Similarly, the responses of the human individuals to events in their environment need be similar only in certain abstract aspects in order that a definite overall pattern should result. There must be some regularity but not complete regularity in their actions: they must follow some common rules, but these common rules need not be sufficient to determine their action fully; and what action a particular individual will take will depend on further characteristics peculiar to him.

The question which is of central importance both for social theory and social policy is what rules the individuals must follow so that an order will result. Some such common rules the individuals will follow merely because of the similarity of their environment, or, rather, because of the similar manner in which this environment reflects itself in their minds. Others they will all follow spontaneously because they are part of the common cultural tradition of their society. But there are still others which it is necessary that they be made to obey, since it would be in the interest of each individual to disregard them, though the overall order will be formed only if the rule is generally obeyed.

The chief regularity in the conduct of individuals in a society based on division of labor and exchange

follows from their common situation: they all work to earn an income. This means that they will normally prefer a larger income for a given effort—and possibly increase their effort if its productivity increases. This is a rule which is sufficiently generally followed in fact for those who follow it to impress upon society an order of a certain kind. But the fact that most people follow this rule in their actions leaves the character of the resulting order yet very indeterminate, and it certainly does not by itself insure that this order will be of a beneficent character. For this it is necessary that people also obey certain conventional rules, i.e., rules which do not follow simply from the nature of their knowledge and aims but which have become habitual in their society. The common rules of morals and of law are the chief instance of this.

***“The chief regularity in the conduct of individuals in a society based on division of labor and exchange follows from their common situation: they all work to earn an income. This means that they will normally prefer a larger income for a given effort—and possibly increase their effort if its productivity increases. This is a rule which is sufficiently generally followed in fact for those who follow it to impress upon society an order of a certain kind.”***

It is not our task here to analyze the relation between the different kinds of rules which people in fact follow and the order which results from this. We are interested only in one particular class of rules which contribute to the nature of the order and which, because we can deliberately shape them, are the chief tool through which we can influence the general character of the order which will form itself: the rules of law.

These rules differ from the others which individuals follow chiefly by the circumstances that people are made to obey them by their fellows. They

are necessary because only if the individuals know what means are at their respective disposals, and are made to bear the consequences of their use of these means, will the resulting order possess certain desirable attributes. The appropriate delimitation of these individual spheres is the main function of the rules of law, and their desirable content one of the chief problems of social policy. This is not altered by the fact that their desirable form has been found largely by the accumulated experience of ages and that their further improvement is also to be expected more from slow experimental piecemeal evolution than from redesign of the whole.

THOUGH THE CONDUCT of the individuals which produces the social order is guided in part by deliberately enforced rules, the order is still a spontaneous order, corresponding to an organism rather than to an organization. It does not rest on the activities being fitted together according to a preconceived plan, but on their being adjusted to each other through the confinement of the action of each by certain general rules. And the enforcement of these general rules insures only the general character of the order and not its concrete realization. It also provides only general facilities which unknown individuals may use for their own ends, but does not insure the achievement of any particular results.

In order to enforce the rules required for the formation of this spontaneous order, an order of the other kind, an organization, is also required. Even if the rules themselves were given once and for all, their enforcement would demand the coordinated effort of many men. The task of changing and improving the rules may also, though it need not, be the object of organized effort. And in so far as the state, in addition to upholding the law, renders other services to the citizens, this also requires an organized apparatus.

The organization of the apparatus of government is also effected in some measure by means of rules. But these rules which serve the creation and direction of an organization are of a different character from those which make possible the formation of a spontaneous order. They are rules which apply only to particular people selected by government; and they have to be followed by them in most instances (i.e., except in the case of judges) in the pursuit of particular ends also determined by government.

Even where the type of order chosen is that of organization and not a spontaneous order, the organizer must largely rely on rules rather than specific commands to the members of the organization. This is due to the fundamental problem which all complex order encounters: the organizer wants the individuals who are to cooperate to make use of knowledge which he himself does not possess. In none but the most simple kinds of social order it is conceivable that all activities are governed by a single mind. And certainly nobody has yet succeeded in deliberately arranging all the activities of a complex society; there is no such thing as a fully planned society of any degree of complexity. If anyone did succeed in organizing such a society, it would not make use of many minds but would instead be altogether dependent on one mind; it would certainly not be complex but very primitive—and so would soon be the mind whose knowledge and will determined everything. The facts which enter into the design of such an order could be only those which could be perceived and digested by this mind; and as only he could decide on action and thus gain experience, there could not be that interplay of many minds in which a lone mind can grow.

***“Rules which are to enable individuals to find their own places in a spontaneous order of the whole society must be general; they must not assign to particular individuals a status, but rather leave the individual to create his own position.”***

The kind of rules which govern an organization are rules for the performance of assigned tasks. They presuppose that the place of each individual in a fixed skeleton order is decided by deliberate appointment, and that the rules which apply to him depend on the place he has been given in that order. The rules thus regulate only the detail of the action of appointed functionaries or agencies of government—or the functioning of an organization created by arrangement.

Rules which are to enable individuals to find their own places in a spontaneous order of the whole society

must be general; they must not assign to particular individuals a status, but rather leave the individual to create his own position. The rules which assist in the running of an organization, on the other hand, operate only within a framework of specific commands which designate the particular ends which the organization aims at and the particular functions which the several members are to perform. Though applicable only to particular, individually designated people, these rules of an organization look very much like the general rules underlying a spontaneous order, but they must not be confused with the latter. They enable those who have to carry out commands to fill in detail according to circumstances which they, but not the author of the command, know.

***“because it was not dependent on organization but grew as a spontaneous order, the structure of modern society has attained a degree of complexity which far exceeds that which it is possible to achieve by deliberate organization. Even the rules which made the growth of this complex order possible were not designed in anticipation of that result; but those peoples who happened to adopt suitable rules developed a complex civilization which prevailed over others.”***

In the terms we have used, this means that the general rules of law aim at an abstract order whose concrete or particular manifestation is unpredictable; while both the commands and the rules which enable those who obey commands to fill in the detail left open by the command, serve a concrete order or an organization. The more complex the order aimed at, the greater will be the part of the circumstances determining its concrete manifestation which cannot be known to those whose concern it is to secure the formation of the order, and the more they will be able

to control it only through rules and not through commands. In the most complex type of organizations little more than the assignment of particular functions to particular people will be determined by specific decisions, while the performance of these functions will be regulated only by rules. It is when we pass from the biggest organization, serving particular tasks, to the order of the whole of society which comprises the relations between those organizations as well as the relations between them and the individuals and among the individuals, that this overall order relies entirely on rules, i.e., is entirely of a spontaneous character, with not even its skeleton determined by commands. The situation is, of course, that, because it was not dependent on organization but grew as a spontaneous order, the structure of modern society has attained a degree of complexity which far exceeds that which it is possible to achieve by deliberate organization. Even the rules which made the growth of this complex order possible were not designed in anticipation of that result; but those peoples who happened to adopt suitable rules developed a complex civilization which prevailed over others. It is thus a paradox, based on a complete misunderstanding of these connections, when it is sometimes contended that we must deliberately plan modern society because it has grown so complex. The fact is rather that we can preserve an order of such complexity only if we control it not by the method of “planning,” i.e., by direct orders, but on the contrary aim at the formation of a spontaneous order based on general rules.

We shall presently have to consider how in such a complex system the different principles of order must be combined. At this stage it is necessary, however, at once to forestall a misunderstanding and to stress that there is one way in which it can never be sensible to mix the two principles. While in an organization it makes sense, and indeed will be the rule, to determine the skeleton by specific command and regulate the detail of the action of the different members only by rules, the reverse could never serve a rational purpose; if the overall character of an order is of the spontaneous kind, we cannot improve upon it by issuing to the elements of that order direct commands: because only these individuals and no central authority will know the circumstances which make them do what they do.

EVERY SOCIETY of any degree of complexity must make use of both ordering principles which we have discussed. But while they must be combined by being applied to different tasks and to the sectors of society corresponding to them, they cannot successfully be mixed in any manner we like. Lack of understanding of the difference between the two principles constantly leads to such confusion. It is the manner in which the two principles are combined which determines the character of the different social and economic systems. (The fact that these different “systems” which result from different combinations of the two ordering principles, are sometimes also referred to as different “orders” has added to the terminological confusion.)

We shall consider further only a free system which relies on spontaneous ordering forces not merely (as every system must) to fill in the interstices left by the commands determining its aim and structure, but also for its overall order. Such systems not only have many organizations (in particular, firms) as their elements but also require an organization to enforce obedience to (and modify and develop) the body of abstract rules which are required to secure the formation of the spontaneous overall order. The fact that government is itself an organization and employs rules as an instrument of its organization, and that beyond its task of enforcing the law this organization renders a multitude of other services, has led to a complete confusion between the nature of the different kinds of rules and the orders which they serve.

The abstract and general rules of law in the narrow sense (in which “the law” comprises the rules of civil and criminal law) aim not at the creation of an order by arrangement but at creating the conditions in which an order will form itself. But the conception of law as a means of order-creation (a term which, as a translation of the equally ambiguous German *Ordnungsgestaltung*, is now invading Anglo-American jurisprudence[11]) in the hands of public lawyers and civil servants who are primarily concerned with tasks of organization rather than with the conditions of the formation of a spontaneous order, is increasingly interpreted as meaning an instrument of arrangement. This conception of law, which is the conception prevailing in totalitarian states, has characteristically been given its clearest expression by the legal theorist who became Hitler’s chief legal apologist, as “concrete order formation” (*konkretes Ordnungsdenken*).[12] This

kind of law aims at creating a concrete preconceived order by putting each individual on a task assigned by authority.

But though this technique of creating an order is indispensable for organizing the institutions of government and all the enterprises and households which form the elements of the order of society as a whole, it is wholly inadequate for bringing about the infinitely more complex overall order.

***“We have it in our power to assure that such an overall order will form itself and will possess certain desirable general characteristics, but only if we do not attempt to control the detail of that order.”***

We have it in our power to assure that such an overall order will form itself and will possess certain desirable general characteristics, but only if we do not attempt to control the detail of that order. But we jettison that power and deprive ourselves of the possibility of achieving that abstract order of the whole, if we insist on placing particular pieces into the place we wish them to occupy. It is the condition of the formation of this abstract order that we leave the concrete and particular details to the separate individuals and bind them only by general and abstract rules. If we do not provide this condition but restrict the capacity of the individuals to adjust themselves to the particular circumstances known only to them, we destroy the forces making for a spontaneous overall order and are forced to replace them by deliberate arrangement which, though it gives us greater control over detail, restricts the range over which we can hope to achieve a coherent order.

IT IS NOT IRRELEVANT to our chief purpose if in conclusion we consider briefly the role which abstract rules play in the coordination not only of the actions of many different persons but also in the mutual adjustment of the successive decisions of a single individual or organization. Here, too, it is often not possible to make detailed plans for action in the more distant future (although what we should do now

depends on what we shall want to do in the future), simply because we do not yet know the particular facts which we shall face. The method through which we nevertheless succeed in giving some coherence to our actions is that we adopt a framework of rules for guidance which makes the general pattern though not the detail of our life predictable. It is these rules of which we are often not consciously aware—in many instances rules of a very abstract character—which make the course of our lives orderly. Many of these rules will be “customs” of the social group in which we have grown up and only some will be individual “habits” which we have accidentally or deliberately acquired. But they all serve to abbreviate the list of circumstances which we need to take into account in the particular instances, singling out certain classes of facts as alone determining the general kind of action which we should take. At the same time, this means that we systematically disregard certain facts which we know and which would be relevant to our decisions if we knew all such facts, but which it is rational to neglect because they are accidental partial information which does not alter the probability that, if we could know and digest all the facts, the balance of advantage would be in favor of following the rule.

It is, in other words, our restricted horizon of knowledge of the concrete facts which makes it necessary to coordinate our actions by submitting to abstract rules rather than to attempt to decide each particular case solely in view of the limited set of relevant particular facts which we happen to know. It may sound paradoxical that rationality should thus require that we deliberately disregard knowledge which we possess; but this is part of the necessity of coming to terms with our unalterable ignorance of much that would be relevant if we knew it. Where we know that the probability is that the unfavorable effects of a kind of action will overbalance the favorable ones, the decision should not be affected by the circumstance that in the particular case a few consequences which we happen to be able to foresee should all be favorable. The fact is that in an apparent striving after rationality in the sense of fuller taking into account all the foreseeable consequences, we may achieve greater irrationality, less effective taking into account of remote effects and an altogether less coherent result. It is the great lesson which science has taught us that we must resort to the abstract where we cannot master the concrete. The preference for the concrete is to

renounce the power which thought gives us. It is therefore also not really surprising that the consequence of modern democratic legislation which disdains submitting to general rules and attempts to solve each problem as it comes on its specific merits, is probably the most irrational and disorderly arrangement of affairs ever produced by the deliberate decisions of men.

***“The preference for the concrete is to renounce the power which thought gives us. It is therefore also not really surprising that the consequence of modern democratic legislation which disdains submitting to general rules and attempts to solve each problem as it comes on its specific merits, is probably the most irrational and disorderly arrangement of affairs ever produced by the deliberate decisions of men.”***

## Notes

[1] The concept of order has recently achieved a central position in the social sciences largely through the work of Walter Eucken and his friends and pupils, known as the Ordo-circle from the yearbook *Ordo* issued by them. For other instances of its use, see: J. J. Spengler, “The Problem of Order in Economic Affairs,” *Southern Economic Journal*, July, 1948, reprinted in J. J. Spengler and W. R. Allen, eds., *Essays on Economic Thought* (Chicago: Rand McNally, 1960); H. Barth, *Die Idee der Ordnung* (Zurich: E. Rentsch, 1958); R. Meimberg, *Alternativen der Ordnung* (Berlin: Duncker & Humblot, 1956); and, more remotely relevant as a treatment of some of the philosophical problems involved, W. D. Oliver, *Theory of Order* (Yellow Springs, Ohio: Antioch Press, 1951).

[2] For a more extensive treatment of the problem of the scientific treatment of complex phenomena, see my essay, "The Theory of Complex Phenomena," in Mario A. Bunge, ed.; *The Critical Approach: Essays in Honor of Karl Popper* (New York: The Free Press of Glencoe, Inc., 1963).

[3] For a helpful survey of the abstract/concrete relation and especially its significance in jurisprudence, see K. Englisch, *Die Idee der Konkretisierung in Rechtswissenschaft unserer Zeit* (Heidelberg: Abhandlungen der Heidelberger Akademie der Wissenschaften, Phil.-Hist. Klasse, I, 1953).

[4] All three independent discoverers of biological evolution, Darwin, Wallace, and Spencer, admittedly derived their ideas from the current concepts of social evolution.

[5] Cf., e.g., the examples given by Denys Hay, *Polydore Vergil* (Oxford: Clarendon Press, 1952), ch. 3.

[6] Cf. F. Heinemann, *Nomos und Physis* (Basel: F. Reinhardt, 1945).

[7] On the inseparability of the genetic and the functional aspects of these phenomena as well as the general relation between organisms and organizations, see Carl Menger, *Untersuchungen über die Methode der Sozialwissenschaften und der politischen Oekonomie insbesondere* (Leipzig: Duncker & Humblot, 1883), which is still the classical treatment of these topics.

[8] Cf. Michael Polanyi, *The Logic of Liberty* (London: Routledge and Kegan Paul, 1951), p. 159.

[9] On the whole issue of the relation of unconscious rules to human action, on which I can touch here only briefly, see my essay, "Rules, Perception, and Intelligibility," *Proceedings of the British Academy*, v. 48 (1962-63).

[10] There thus seems to be some truth in the alleged original state of goodness in which everybody spontaneously did right and could not do otherwise, and to the idea that only with increased knowledge came wrongdoing. It is only with the knowledge of other possibilities that the individual becomes able to deviate from the established rules; without such knowledge, no sin.

[11] Cf., e.g., E. Bodenheimer, *Jurisprudence, the Philosophy and Method of Law* (Cambridge: Harvard University Press, 1962), p. 211.

[12] See Carl Schmitt, *Die drei Arten des rechtswissenschaftlichen Denkens* (Hamburg: Schriften für Akademie für deutsches Recht, 1934).

## Further Information

### SOURCE

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### FURTHER READING

Other works by F.A. Hayek (1899-1992) <[oll.libertyfund.org/person/52](http://oll.libertyfund.org/person/52)>

School of Thought: Austrian School of Economics <[oll.libertyfund.org/collection/8](http://oll.libertyfund.org/collection/8)>

***“The distinctive principle of Western social philosophy is individualism. It aims at the creation of a sphere in which the individual is free to think, to choose, and to act without being restrained by the interference of the social apparatus of coercion and oppression, the State.”***  
***[Ludwig von Mises, “Liberty and Property” (1958)]***



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# ***Session II***

## ***Knowledge and Discovery***

F.A. Hayek, "Individualism and Economic Order," Chapter 2, *Economics and Knowledge*, Chicago: University of Chicago Press, 1948, pp. 33-56.

F.A. Hayek, "Competition as a Discovery Procedure," in *New Studies in Philosophy, Politics, Economics and the History of Ideas*, Chicago: University of Chicago Press, 1978.



## II. Economics and Knowledge\*

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### 1

THE ambiguity of the title of this paper is not accidental. Its main subject is, of course, the role which assumptions and propositions about the knowledge possessed by the different members of society play in economic analysis. But this is by no means unconnected with the other question which might be discussed under the same title—the question to what extent formal economic analysis conveys any knowledge about what happens in the real world. Indeed, my main contention will be that the tautologies, of which formal equilibrium analysis in economics essentially consists, can be turned into propositions which tell us anything about causation in the real world only in so far as we are able to fill those formal propositions with definite statements about how knowledge is acquired and communicated. In short, I shall contend that the empirical element in economic theory—the only part which is concerned not merely with implications but with causes and effects and which leads therefore to conclusions which, at any rate in principle, are capable of verification<sup>1</sup>—consists of propositions about the acquisition of knowledge.

Perhaps I should begin by reminding you of the interesting fact that in quite a number of the more recent attempts made in different fields to push theoretical investigation beyond the limits of traditional equilibrium analysis, the answer has soon proved to turn on the assumptions which we make with regard to a point which, if not identical with mine, is at least part of it, namely, with regard to foresight. I think that the field in which, as one would expect, the discus-

\* Presidential address delivered before the London Economic Club, November 10, 1936. Reprinted from *Economica*, IV (new ser., 1937), 33–54.

1. Or rather falsification (cf. K. R. Popper, *Logik der Forschung* [Vienna, 1935], *passim*).

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sion of the assumptions concerning foresight first attracted wider attention was the theory of risk.<sup>2</sup> The stimulus which was exercised in this connection by the work of Frank H. Knight may yet prove to have a profound influence far beyond its special field. Not much later the assumptions to be made concerning foresight proved to be of fundamental importance for the solution of the puzzles of the theory of imperfect competition, the questions of duopoly and oligopoly. Since then, it has become more and more obvious that, in the treatment of the more "dynamic" questions of money and industrial fluctuations, the assumptions to be made about foresight and "anticipations" play an equally central role and that in particular the concepts which were taken over into these fields from pure equilibrium analysis, like those of an equilibrium rate of interest, could be properly defined only in terms of assumptions concerning foresight. The situation seems here to be that, before we can explain why people commit mistakes, we must first explain why they should ever be right.

In general, it seems that we have come to a point where we all realize that the concept of equilibrium itself can be made definite and clear only in terms of assumptions concerning foresight, although we may not yet all agree what exactly these essential assumptions are. This question will occupy me later in this essay. At the moment I am concerned only to show that at the present juncture, whether we want to define the boundaries of economic statics or whether we want to go beyond it, we cannot escape the vexed problem of the exact position which assumptions about foresight are to have in our reasoning. Can this be merely an accident?

As I have already suggested, the reason for this seems to me to be that we have to deal here only with a special aspect of a much wider question which we ought to have faced at a much earlier stage. Questions essentially similar to those mentioned arise in fact as soon as we try to apply the system of tautologies—those series of propositions

2. A more complete survey of the process by which the significance of anticipations was gradually introduced into economic analysis would probably have to begin with Irving Fisher's *Appreciation and Interest* (1896).

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which are necessarily true because they are merely transformations of the assumptions from which we start and which constitute the main content of equilibrium analysis—to the situation of a society consisting of several independent persons. I have long felt that the concept of equilibrium itself and the methods which we employ in pure analysis have a clear meaning only when confined to the analysis of the action of a single person and that we are really passing into a different sphere and silently introducing a new element of altogether different character when we apply it to the explanation of the interactions of a number of different individuals.

I am certain that there are many who regard with impatience and distrust the whole tendency, which is inherent in all modern equilibrium analysis, to turn economics into a branch of pure logic, a set of self-evident propositions which, like mathematics or geometry, are subject to no other test but internal consistency. But it seems that, if only this process is carried far enough, it carries its own remedy with it. In distilling from our reasoning about the facts of economic life those parts which are truly *a priori*, we not only isolate one element of our reasoning as a sort of Pure Logic of Choice in all its purity but we also isolate, and emphasize the importance of, another element which has been too much neglected. My criticism of the recent tendencies to make economic theory more and more formal is not that they have gone too far but that they have not yet been carried far enough to complete the isolation of this branch of logic and to restore to its rightful place the investigation of causal processes, using formal economic theory as a tool in the same way as mathematics.

## 2

But before I can prove my contention that the tautological propositions of pure equilibrium analysis as such are not directly applicable to the explanation of social relations, I must first show that the concept of equilibrium *has* a clear meaning if applied to the actions of a single individual and what this meaning is. Against my contention it might

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be argued that it is precisely here that the concept of equilibrium is of no significance, because, if one wanted to apply it, all one could say would be that an isolated person was always in equilibrium. But this last statement, although a truism, shows nothing but the way in which the concept of equilibrium is typically misused. What is relevant is not whether a person as such is or is not in equilibrium but which of his actions stand in equilibrium relationships to each other. All propositions of equilibrium analysis, such as the proposition that relative values will correspond to relative costs, or that a person will equalize the marginal returns of any one factor in its different uses, are propositions about the relations between actions. Actions of a person can be said to be in equilibrium in so far as they can be understood as part of one plan. Only if this is the case, only if all these actions have been decided upon at one and the same moment, and in consideration of the same set of circumstances, have our statements about their interconnections, which we deduce from our assumptions about the knowledge and the preferences of the person, any application. It is important to remember that the so-called "data," from which we set out in this sort of analysis, are (apart from his tastes) all facts given to the person in question, the things as they are known to (or believed by) him to exist, and not, strictly speaking, objective facts. It is only because of this that the propositions we deduce are necessarily a priori valid and that we preserve the consistency of the argument.<sup>3</sup>

The two main conclusions from these considerations are, first, that, since equilibrium relations exist between the successive actions of a person only in so far as they are part of the execution of the same plan, any change in the relevant knowledge of the person, that is, any change which leads him to alter his plan, disrupts the equilibrium relation between his actions taken before and those taken after the change in his knowledge. In other words, the equilibrium relationship comprises only his actions during the period in which his anticipations prove correct. Second, that, since equilibrium is a relationship

3. Cf., on this point particularly, Ludwig von Mises, *Grundprobleme der Nationalökonomie* (Jena, 1933), pp. 22 ff., 160 ff.

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between actions, and since the actions of one person must necessarily take place successively in time, it is obvious that the passage of time is essential to give the concept of equilibrium any meaning. This deserves mention, since many economists appear to have been unable to find a place for time in equilibrium analysis and consequently have suggested that equilibrium must be conceived as timeless. This seems to me to be a meaningless statement.

### 3

Now, in spite of what I have said before about the doubtful meaning of equilibrium analysis in this sense if applied to the conditions of a competitive society, I do not, of course, want to deny that the concept was originally introduced precisely to describe the idea of some sort of balance between the actions of different individuals. All I have argued so far is that the sense in which we use the concept of equilibrium to describe the interdependence of the different actions of one person does not immediately admit of application to the relations between actions of different people. The question really is what use we make of it when we speak of equilibrium with reference to a competitive system.

The first answer which would seem to follow from our approach is that equilibrium in this connection exists if the actions of all members of the society over a period are all executions of their respective individual plans on which each decided at the beginning of the period. But, when we inquire further what exactly this implies, it appears that this answer raises more difficulties than it solves. There is no special difficulty about the concept of an isolated person (or a group of persons directed by one of them) acting over a period according to a preconceived plan. In this case, the plan need not satisfy any special criteria in order that its execution be conceivable. It may, of course, be based on wrong assumptions concerning the external facts and on this account may have to be changed. But there will always be a conceivable set of external events which would make it possible to execute the plan as originally conceived.

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The situation is, however, different with plans determined upon simultaneously but independently by a number of persons. In the first instance, in order that all these plans can be carried out, it is necessary for them to be based on the expectation of the same set of external events, since, if different people were to base their plans on conflicting expectations, no set of external events could make the execution of all these plans possible. And, second, in a society based on exchange their plans will to a considerable extent provide for actions which require corresponding actions on the part of other individuals. This means that the plans of different individuals must in a special sense be compatible if it is to be even conceivable that they should be able to carry all of them out.<sup>4</sup> Or, to put the same thing in different words, since some of the data on which any one person will base his plans will be the expectation that other people will act in a particular way, it is essential for the compatibility of the different plans that the plans of the one contain exactly those actions which form the data for the plans of the other.

In the traditional treatment of equilibrium analysis part of this difficulty is apparently avoided by the assumption that the data, in the form of demand schedules representing individual tastes and technical facts, are equally given to all individuals and that their acting on the same premises will somehow lead to their plans becoming adapted to each other. That this does not really overcome the difficulty created by the fact that one person's actions are the other person's data, and that it involves to some degree circular reasoning, has often been pointed out. What, however, seems so far to have escaped notice is that this whole procedure involves a confusion of a much more general character, of which the point just mentioned is merely a special instance, and which is due to an equivocation of the term "datum." The data which here are supposed to be objective facts and the same for all people are evidently no longer the same thing as the

4. It has long been a subject of wonder to me why there should, to my knowledge, have been no systematic attempts in sociology to analyze social relations in terms of correspondence and noncorrespondence, or compatibility and noncompatibility, of individual aims and desires.

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data which formed the starting-point for the tautological transformations of the Pure Logic of Choice. There "data" meant those facts, and only those facts, which were present in the mind of the acting person, and only this subjective interpretation of the term "datum" made those propositions necessary truths. "Datum" meant given, known, to the person under consideration. But in the transition from the analysis of the action of an individual to the analysis of the situation in a society the concept has undergone an insidious change of meaning.

### 4

The confusion about the concept of a datum is at the bottom of so many of our difficulties in this field that it is necessary to consider it in somewhat more detail. Datum means, of course, something given, but the question which is left open, and which in the social sciences is capable of two different answers, is to *whom* the facts are supposed to be given. Economists appear subconsciously always to have been somewhat uneasy about this point and to have reassured themselves against the feeling that they did not quite know to whom the facts were given by underlining the fact that they *were* given—even by using such pleonastic expressions as "given data." But this does not answer the question whether the facts referred to are supposed to be given to the observing economist or to the persons whose actions he wants to explain, and, if to the latter, whether it is assumed that the same facts are known to all the different persons in the system or whether the "data" for the different persons may be different.

There seems to be no possible doubt that these two concepts of "data," on the one hand, in the sense of the objective real facts, as the observing economist is supposed to know them, and, on the other, in the subjective sense, as things known to the persons whose behavior we try to explain, are really fundamentally different and ought to be carefully distinguished. And, as we shall see, the question why the data in the subjective sense of the term should ever come to correspond to the objective data is one of the main problems we have to answer.

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The usefulness of the distinction becomes immediately apparent when we apply it to the question of what we can mean by the concept of a society being at any one moment in a state of equilibrium. There are evidently two senses in which it can be said that the subjective data, given to the different persons, and the individual plans, which necessarily follow from them, are in agreement. We may mean merely that these plans are mutually compatible and that there is consequently a conceivable set of external events which will allow all people to carry out their plans and not cause any disappointments. If this mutual compatibility of intentions were not given, and if in consequence no set of external events could satisfy all expectations, we could clearly say that this is not a state of equilibrium. We have a situation where a revision of the plans on the part of at least some people is inevitable, or, to use a phrase which in the past has had a rather vague meaning, but which seems to fit this case perfectly, where "endogenous" disturbances are inevitable.

There still remains, however, the other question of whether the individual sets of subjective data correspond to the objective data and whether, in consequence, the expectations on which plans were based are borne out by the facts. If correspondence between data in this sense were required for equilibrium, it would never be possible to decide otherwise than retrospectively, at the end of the period for which people have planned, whether at the beginning the society has been in equilibrium. It seems to be more in conformity with established usage to say in such a case that the equilibrium, as defined in the first sense, may be disturbed by an unforeseen development of the (objective) data and to describe this as an exogenous disturbance. In fact, it seems hardly possible to attach any definite meaning to the much used concept of a change in the (objective) data unless we distinguish between external developments in conformity with, and those different from, what has been expected, and define as a "change" any divergence of the actual from the expected development, irrespective of whether it means a "change" in some absolute sense. If, for example, the alternations of the seasons suddenly ceased and the weather remained con-

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stant from a certain day onward, this would certainly represent a change of data in our sense, that is, a change relative to expectations, although in an absolute sense it would not represent a change but rather an absence of change. But all this means that we can speak of a change in data only if equilibrium in the first sense exists, that is, if expectations coincide. If they conflicted, any development of the external facts might bear out somebody's expectations and disappoint those of others, and there would be no possibility of deciding what was a change in the objective data.<sup>5</sup>

### 5

For a society, then, we *can* speak of a *state* of equilibrium at a point of time—but it means only that the different plans which the individuals composing it have made for action in time are mutually compatible. And equilibrium will continue, once it exists, so long as the external data correspond to the common expectations of all the members of the society. The continuance of a state of equilibrium in this sense is then not dependent on the objective data being constant in an absolute sense and is not necessarily confined to a stationary process. Equilibrium analysis becomes in principle applicable to a progressive society and to those intertemporal price relationships which have given us so much trouble in recent times.<sup>6</sup>

5. Cf. the present author's article, "The Maintenance of Capital," *Economica*, II (new ser., 1935), 265, reprinted in *Profits, Interest, and Investment* (London, 1939).

6. This separation of the concept of equilibrium from that of a stationary state seems to me to be no more than the necessary outcome of a process which has been going on for a fairly long time. That this association of the two concepts is not essential but only due to historical reasons is today probably generally felt. If complete separation has not yet been effected, it is apparently only because no alternative definition of a state of equilibrium has yet been suggested which has made it possible to state in a general form those propositions of equilibrium analysis which are essentially independent of the concept of a stationary state. Yet it is evident that most of the propositions of equilibrium analysis are not supposed to be applicable only in that stationary state which will probably never be reached. The process of separation seems to have begun with Marshall and his distinction between long- and short-run equilibriums. Cf. statements like this: "For the nature of equilibrium itself, and that of the causes by which it is determined, depend on the length of the period over which the market is taken to extend" (*Principles* [7th ed.], I, 330). The idea of a state of equilibrium which was

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These considerations seem to throw considerable light on the relationship between equilibrium and foresight, which has been somewhat hotly debated in recent times.<sup>7</sup> It appears that the concept of equilibrium merely means that the foresight of the different members of the society is in a special sense correct. It must be correct in the sense that every person's plan is based on the expectation of just those actions of other people which those other people intend to perform and that all these plans are based on the expectation of the same set of external facts, so that under certain conditions nobody will have any reason to change his plans. Correct foresight is then not, as it has sometimes been understood, a precondition which must exist in order that equilibrium may be arrived at. It is rather the defining characteristic of a state of equilibrium. Nor need foresight for this purpose be perfect in the sense that it need extend into the indefinite future or that everybody must foresee everything correctly. We should rather say that equilibrium will last so long as the anticipations prove correct and that they need to be correct only on those points which are relevant for the decisions of the individuals. But on this question of what is relevant foresight or knowledge, more later.

Before I proceed further I should probably stop for a moment to illustrate by a concrete example what I have just said about the meaning of a state of equilibrium and how it can be disturbed. Consider the preparations which will be going on at any moment for the production of houses. Brickmakers, plumbers, and others will all be producing materials which in each case will correspond to a certain

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not a stationary state was already inherent in my "Das intertemporale Gleichgewichtssystem der Preise und die Bewegungen des Geldwerters," *Weltwirtschaftliches Archiv*, Vol. XXVIII (June, 1928), and is, of course, essential if we want to use the equilibrium apparatus for the explanation of any of the phenomena connected with "investment." On the whole matter much historical information will be found in E. Schams, "Komparative Statik," *Zeitschrift für Nationalökonomie*, Vol. II, No. 1 (1930). See also F. H. Knight, *The Ethics of Competition* (London, 1935), p. 175 n.; and for some further developments since this essay was first published, the present author's *Pure Theory of Capital* (London, 1941), chap. ii.

7. Cf. particularly Oskar Morgenstern, "Vollkommene Voraussicht und wirtschaftliches Gleichgewicht," *Zeitschrift für Nationalökonomie*, VI (1934), 3.

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quantity of houses for which just this quantity of the particular material will be required. Similarly we may conceive of prospective buyers as accumulating savings which will enable them at certain dates to buy a certain number of houses. If all these activities represent preparations for the production (and acquisition) of the same amount of houses, we can say that there is equilibrium between them in the sense that all the people engaged in them may find that they can carry out their plans.<sup>8</sup> This need not be so, because other circumstances which are not part of their plan of action may turn out to be different from what they expected. Part of the materials may be destroyed by an accident, weather conditions may make building impossible, or an invention may alter the proportions in which the different factors are wanted. This is what we call a change in the (external) data, which disturbs the equilibrium which has existed. But if the different plans were from the beginning incompatible, it is inevitable, whatever happens, that somebody's plans will be upset and have to be altered and that in consequence the whole complex of actions over the period will not show those characteristics which apply if all the actions of each individual can be understood as part of a single individual plan, which he has made at the beginning.<sup>9</sup>

8. Another example of more general importance would, of course, be the correspondence between "investment" and "saving" in the sense of the proportion (in terms of relative cost) in which entrepreneurs provide producers' goods and consumers' goods for a particular date, and the proportion in which consumers in general will at this date distribute their resources between producers' goods and consumers' goods (cf. my essays, "Price Expectations, Monetary Disturbances, and Malinvestment" [1933], reprinted in *Profits, Interest, and Investment* [London, 1939], pp. 135-56, and "The Maintenance of Capital," in the same volume, pp. 83-134). It may be of interest in this connection to mention that in the course of investigations of the same field, which led the present author to these speculations, that of the theory of crises, the great French sociologist G. Tarde stressed the "contradiction de croyances" or "contradiction de jugements" or "contradictions de espérances" as the main cause of these phenomena (*Psychologie économique* [Paris, 1902], II, 128-29; cf. also N. Pinkus, *Das Problem des Normalen in der Nationalökonomie* [Leipzig, 1906], pp. 252 and 275).

9. It is an interesting question, but one which I cannot discuss here, whether, in order that we can speak of equilibrium, every single individual must be right, or whether it would not be sufficient if, in consequence of a compensation of errors in different directions, quantities of the different commodities coming on the market were the same as if every individual had been right. It seems to me as if equilibrium

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### 6

When in all this I emphasize the distinction between mere inter-compatibility of the individual plans<sup>10</sup> and the correspondence between them and the actual external facts or objective data, I do not, of course, mean to suggest that the subjective inter-agreement is not in some way brought about by the external facts. There would, of course, be no reason why the subjective data of different people should ever correspond unless they were due to the experience of the same objective facts. But the point is that pure equilibrium analysis is not concerned with the way in which this correspondence is brought about. In the description of an existing state of equilibrium which it provides, it is simply assumed that the subjective data coincide with the objective facts. The equilibrium relationships cannot be deduced merely from the objective facts, since the analysis of what people will do can start only from what is known to them. Nor can equilibrium analysis start merely from a given set of subjective data, since the subjective data of different people would be either compatible or incompatible, that is, they would already determine whether equilibrium did or did not exist.

We shall not get much further here unless we ask for the reasons for our concern with the admittedly fictitious state of equilibrium. Whatever may occasionally have been said by overpure economists, there seems to be no possible doubt that the only justification for this is the supposed existence of a tendency toward equilibrium. It is only by this assertion that such a tendency exists that economics ceases to be an exercise in pure logic and becomes an empirical science; and it is to economics as an empirical science that we must now turn.

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in the strict sense would require the first condition to be satisfied, but I can conceive that a wider concept, requiring only the second condition, might occasionally be useful. A fuller discussion of this problem would have to consider the whole question of the significance which some economists (including Pareto) attach to the law of great numbers in this connection. On the general point see P. N. Rosenstein-Rodan, "The Coordination of the General Theories of Money and Price," *Economica*, August, 1936.

10. Or, since in view of the tautological character of the Pure Logic of Choice "individual plans" and "subjective data" can be used interchangeably, the agreement between the subjective data of the different individuals.

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In the light of our analysis of the meaning of a state of equilibrium it should be easy to say what is the real content of the assertion that a tendency toward equilibrium exists. It can hardly mean anything but that, under certain conditions, the knowledge and intentions of the different members of society are supposed to come more and more into agreement or, to put the same thing in less general and less exact but more concrete terms, that the expectations of the people and particularly of the entrepreneurs will become more and more correct. In this form the assertion of the existence of a tendency toward equilibrium is clearly an empirical proposition, that is, an assertion about what happens in the real world which ought, at least in principle, to be capable of verification. And it gives our somewhat abstract statement a rather plausible common-sense meaning. The only trouble is that we are still pretty much in the dark about (a) the *conditions* under which this tendency is supposed to exist and (b) the nature of the *process* by which individual knowledge is changed.

### 7

In the usual presentations of equilibrium analysis it is generally made to appear as if these questions of how the equilibrium comes about were solved. But, if we look closer, it soon becomes evident that these apparent demonstrations amount to no more than the apparent proof of what is already assumed.<sup>11</sup> The device generally adopted for this purpose is the assumption of a perfect market where every event becomes known instantaneously to every member. It is necessary to remember here that the perfect market which is required to satisfy the assumptions of equilibrium analysis must not be confined to the particular markets of all the individual commodities; the whole economic system must be assumed to be one perfect market in which everybody knows everything. The assumption of a perfect market,

11. This seems to be implicitly admitted, although hardly consciously recognized, when in recent times it is frequently stressed that equilibrium analysis only describes the conditions of equilibrium without attempting to derive the position of equilibrium from the data. Equilibrium analysis in this sense would, of course, be pure logic and contain no assertions about the real world.

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then, means nothing less than that all the members of the community, even if they are not supposed to be strictly omniscient, are at least supposed to know automatically all that is relevant for their decisions. It seems that that skeleton in our cupboard, the "economic man," whom we have exorcised with prayer and fasting, has returned through the back door in the form of a quasi-omniscient individual.

The statement that, if people know everything, they are in equilibrium is true simply because that is how we define equilibrium. The assumption of a perfect market in this sense is just another way of saying that equilibrium exists but does not get us any nearer an explanation of when and how such a state will come about. It is clear that, if we want to make the assertion that, under certain conditions, people will approach that state, we must explain by what process they will acquire the necessary knowledge. Of course, any assumption about the actual acquisition of knowledge in the course of this process will also be of a hypothetical character. But this does not mean that all such assumptions are equally justified. We have to deal here with assumptions about causation, so that what we assume must not only be regarded as possible (which is certainly not the case if we just regard people as omniscient) but must also be regarded as likely to be true; and it must be possible, at least in principle, to demonstrate that it is true in particular cases.

The significant point here is that it is these apparently subsidiary hypotheses or assumptions that people do learn from experience, and about how they acquire knowledge, which constitute the empirical content of our propositions about what happens in the real world. They usually appear disguised and incomplete as a description of the type of market to which our proposition refers; but this is only one, though perhaps the most important, aspect of the more general problem of how knowledge is acquired and communicated. The important point of which economists frequently do not seem to be aware is that the nature of these hypotheses is in many respects rather different from the more general assumptions from which the Pure Logic of Choice starts. The main differences seem to me to be two:

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First, the assumptions from which the Pure Logic of Choice starts are facts which we know to be common to all human thought. They may be regarded as axioms which define or delimit the field within which we are able to understand or mentally to reconstruct the processes of thought of other people. They are therefore universally applicable to the field in which we are interested—although, of course, where *in concreto* the limits of this field are is an empirical question. They refer to a type of human action (what we commonly call “rational,” or even merely “conscious,” as distinguished from “instinctive” action) rather than to the particular conditions under which this action is undertaken. But the assumptions or hypotheses, which we have to introduce when we want to explain the social processes, concern the relation of the thought of an individual to the outside world, the question to what extent and how his knowledge corresponds to the external facts. And the hypotheses must necessarily run in terms of assertions about causal connections, about how experience creates knowledge.

Second, while in the field of the Pure Logic of Choice our analysis can be made exhaustive, that is, while we can here develop a formal apparatus which covers all conceivable situations, the supplementary hypotheses must of necessity be selective, that is, we must select from the infinite variety of possible situations such ideal types as for some reason we regard as specially relevant to conditions in the real world.<sup>12</sup> Of course, we could also develop a separate science, the subject matter of which was *per definitionem* confined to a “perfect market” or some similarly defined object, just as the Logic of Choice applies only to persons who have to allot limited means among a variety of ends. For

12. The distinction drawn here may help to solve the old difference between economists and sociologists about the role which “ideal types” play in the reasoning of economic theory. The sociologists used to emphasize that the usual procedure of economic theory involved the assumption of particular ideal types, while the economic theorist pointed out that his reasoning was of such generality that he need not make use of any “ideal types.” The truth seems to be that within the field of the Pure Logic of Choice, in which the economist was largely interested, he was right in his assertion but that, as soon as he wanted to use it for the explanation of a social process, he had to use “ideal types” of one sort or another.

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the field so defined our propositions would again become a priori true, but for such a procedure we should lack the justification which consists in the assumption that the situation in the real world is similar to what we assume it to be.

### 8

I must now turn to the question of what are the concrete hypotheses concerning the conditions under which people are supposed to acquire the relevant knowledge and the process by which they are supposed to acquire it. If it were at all clear what the hypotheses usually employed in this respect were, we should have to scrutinize them in two respects: we should have to investigate whether they were necessary and sufficient to explain a movement toward equilibrium, and we should have to show to what extent they were borne out by reality. But I am afraid that I am now getting to a stage where it becomes exceedingly difficult to say what exactly are the assumptions on the basis of which we assert that there will be a tendency toward equilibrium and to claim that our analysis has an application to the real world.<sup>13</sup> I cannot pretend that I have as yet got much further on this point. Consequently, all I can do is to ask a number of questions to which we shall have to find an answer if we want to be clear about the significance of our argument.

The only condition about the necessity of which for the establishment of an equilibrium economists seem to be fairly agreed is the "constancy of the data." But after what we have seen about the vagueness of the concept of "datum" we shall suspect, and rightly, that this does not get us much further. Even if we assume—as we probably

13. The older economists were often more explicit on this point than their successors. See, e.g., Adam Smith (*Wealth of Nations*, ed. Cannan, I, 116): "In order, however, that this equality [of wages] may take place in the whole of their advantages or disadvantages, three things are required even when there is perfect freedom. First, the employment must be well known and long established in the neighbourhood . . ."; or David Ricardo (*Letters to Malthus*, October 22, 1811, p. 18): "It would be no answer to me to say that men were ignorant of the best and cheapest mode of conducting their business and paying their debts, because that is a question of fact, not of science, and might be argued against almost every proposition in Political Economy."

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must—that here the term is used in its objective sense (which includes, it will be remembered, the preferences of the different individuals), it is by no means clear that this is either required or sufficient in order that people shall actually acquire the necessary knowledge or that it was meant as a statement of the conditions under which they will do so. It is rather significant that, at any rate, some authors feel it necessary to add “perfect knowledge” as an additional and separate condition.<sup>14</sup> Indeed, we shall see that constancy of the objective data is neither a necessary nor a sufficient condition. That it cannot be a necessary condition follows from the facts, first, that nobody would want to interpret it in the absolute sense that nothing must ever happen in the world, and, second, that, as we have seen, as soon as we want to include changes which occur periodically or perhaps even changes which proceed at a constant rate, the only way in which we can define constancy is with reference to expectations. All that this condition amounts to, then, is that there must be some discernible regularity in the world which makes it possible to predict events correctly. But, while this is clearly not sufficient to prove that people will learn to foresee events correctly, the same is true to a hardly less degree even about constancy of data in an absolute sense. For any one individual, constancy of the data does in no way mean constancy of all the facts independent of himself, since, of course, only the tastes and not the actions of the other people can in this sense be assumed to be constant. As all those other people will change their decisions as they gain experience about the external facts and about other people’s actions, there is no reason why these processes of successive changes should ever come to an end. These difficulties are well known,<sup>15</sup> and I mention them here only to remind you how little we actually know about the conditions under which an equilibrium will ever be reached. But I do not propose to follow this line of approach further, though not because this question of the empirical probability that people will learn (that is, that their subjective data will come to correspond with

14. See N. Kaldor, “A Classificatory Note on the Determinateness of Equilibrium,” *Review of Economic Studies*, I, No. 2 (1934), 123.

15. *Ibid.*, *passim*.

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each other and with the objective facts) is lacking in unsolved and highly interesting problems. The reason is rather that there seems to me to be another and more fruitful way of approach to the central problem.

### 9

The questions I have just discussed concerning the conditions under which people are likely to acquire the necessary knowledge, and the process by which they will acquire it, have at least received some attention in past discussions. But there is a further question which seems to me to be at least equally important but which appears to have received no attention at all, and that is how much knowledge and what sort of knowledge the different individuals must possess in order that we may be able to speak of equilibrium. It is clear that, if the concept is to have any empirical significance, it cannot presuppose that everybody knows everything. I have already had to use the undefined term "relevant knowledge," that is, the knowledge which is relevant to a particular person. But what is this relevant knowledge? It can hardly mean simply the knowledge which actually influenced his actions, because his decisions might have been different not only if, for instance, the knowledge he possessed had been correct instead of incorrect but also if he had possessed knowledge about altogether different fields.

Clearly there is here a problem of the *division of knowledge*<sup>16</sup> which is quite analogous to, and at least as important as, the problem of the division of labor. But, while the latter has been one of the main subjects of investigation ever since the beginning of our science, the former has been as completely neglected, although it seems to me to be the really central problem of economics as a social science. The problem which we pretend to solve is how the spontaneous interaction of a number of people, each possessing only bits of knowledge, brings

16. Cf. L. v. Mises, *Gemeinwirtschaft* (2d ed.; Jena, 1932), p. 96: "Die Verteilung der Verfügungsgewalt über die wirtschaftlichen Güter der arbeitsteilig wirtschaftenden Sozialwirtschaft auf viele Individuen bewirkt eine Art geistige Arbeitsteilung, ohne die Produktionsrechnung und Wirtschaft nicht möglich wäre."

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about a state of affairs in which prices correspond to costs, etc., and which could be brought about by deliberate direction only by somebody who possessed the combined knowledge of all those individuals. Experience shows us that something of this sort does happen, since the empirical observation that prices do tend to correspond to costs was the beginning of our science. But in our analysis, instead of showing what bits of information the different persons must possess in order to bring about that result, we fall in effect back on the assumption that everybody knows everything and so evade any real solution of the problem.

Before, however, I can proceed further to consider this division of knowledge among different persons, it is necessary to become more specific about the sort of knowledge which is relevant in this connection. It has become customary among economists to stress only the need of knowledge of prices, apparently because—as a consequence of the confusions between objective and subjective data—the complete knowledge of the objective facts was taken for granted. In recent times even the knowledge of current prices has been taken so much for granted that the only connection in which the question of knowledge has been regarded as problematic has been the anticipation of future prices. But, as I have already indicated at the beginning of this essay, price expectations and even the knowledge of current prices are only a very small section of the problem of knowledge as I see it. The wider aspect of the problem of knowledge with which I am concerned is the knowledge of the basic fact of how the different commodities can be obtained and used,<sup>17</sup> and under what conditions they are actually obtained and used, that is, the general question of why the subjective data to the different persons correspond to the objec-

17. Knowledge in this sense is more than what is usually described as skill, and the division of knowledge of which we here speak more than is meant by the division of labor. To put it shortly, "skill" refers only to the knowledge of which a person makes use in his trade, while the further knowledge about which we must know something in order to be able to say anything about the processes in society is the knowledge of alternative possibilities of action of which he makes no direct use. It may be added that knowledge, in the sense in which the term is here used, is identical with foresight only in the sense in which all knowledge is capacity to predict.

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tive facts. Our problem of knowledge here is just the existence of this correspondence which in much of current equilibrium analysis is simply assumed to exist, but which we have to explain if we want to show why the propositions, which are necessarily true about the attitude of a person toward things which he believes to have certain properties, should come to be true of the actions of society with regard to things which either do possess these properties, or which, for some reason which we shall have to explain, are commonly believed by the members of society to possess these properties.<sup>18</sup>

But, to revert to the special problem I have been discussing, the amount of knowledge different individuals must possess in order that equilibrium may prevail (or the "relevant" knowledge they must possess): we shall get nearer to an answer if we remember how it can become apparent either that equilibrium did not exist or that it is being disturbed. We have seen that the equilibrium connections will be severed if any person changes his plans, either because his tastes change (which does not concern us here) or because new facts become known to him. But there are evidently two different ways in which he may learn of new facts that make him change his plans, which for our purposes are of altogether different significance. He may learn of the new facts as it were by accident, that is, in a way which is not a necessary consequence of his attempt to execute his original plan, or it may be inevitable that in the course of his attempt he will find that the facts are different from what he expected. It is obvious that, in order that he may proceed according to plan, his knowledge needs to be correct

18. That all propositions of economic theory refer to things which are defined in terms of human attitudes toward them, that is, that the "sugar" about which economic theory may occasionally speak is defined not by its "objective" qualities but by the fact that people believe that it will serve certain needs of theirs in a certain way, is the source of all sorts of difficulties and confusions, particularly in connection with the problem of "verification." It is, of course, also in this connection that the contrast between the *verstehende* social science and the behaviorist approach becomes so glaring. I am not certain that the behaviorists in the social sciences are quite aware of *how* much of the traditional approach they would have to abandon if they wanted to be consistent or that they would want to adhere to it consistently if they were aware of this. It would, for instance, imply that propositions of the theory of money would have to refer exclusively to, say, "round disks of metal, bearing a certain stamp," or some similarly defined physical object or group of objects.

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only on the points on which it will necessarily be confirmed or corrected in the course of the execution of the plan. But he may have no knowledge of things which, if he possessed it, would certainly affect his plan.

The conclusion, then, which we must draw is that the relevant knowledge which he must possess in order that equilibrium may prevail is the knowledge which he is bound to acquire in view of the position in which he originally is, and the plans which he then makes. It is certainly not all the knowledge which, if he acquired it by accident, would be useful to him and lead to a change in his plan. We may therefore very well have a position of equilibrium only because some people have no chance of learning about facts which, if they knew them, would induce them to alter their plans. Or, in other words, it is only relative to the knowledge which a person is bound to acquire in the course of the attempt to carry out his original plan that an equilibrium is likely to be reached.

While such a position represents in one sense a position of equilibrium, it is clear that it is not an equilibrium in the special sense in which equilibrium is regarded as a sort of optimum position. In order that the results of the combination of individual bits of knowledge should be comparable to the results of direction by an omniscient dictator, further conditions must apparently be introduced.<sup>19</sup> While it should be possible to define the amount of knowledge which individuals must possess in order that his result should follow, I know of no real attempt in this direction. One condition would probably be that each of the alternative uses of any sort of resources is known to the owner of some such resources actually used for another purpose and that in this way all the different uses of these resources are connected, either directly or indirectly.<sup>20</sup> But I mention this condition

19. These conditions are usually described as absence of "frictions." In a recently published article ("Quantity of Capital and the Rate of Interest," *Journal of Political Economy*, XLIV, No. 5 [1936], 638) Frank H. Knight rightly points out that "'error' is the usual meaning of friction in economic discussion."

20. This would be one, but probably not yet a sufficient, condition to insure that, with a given state of demand, the marginal productivity of the different factors of production in their different uses should be equalized and that in this sense an equilibrium of production should be brought about. That it is not necessary, as one might

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only as an instance of how it will in most cases be sufficient that in each field there is a certain margin of people who possess among them all the relevant knowledge. To elaborate this further would be an interesting and a very important task but a task that would far exceed the limits of this paper.

Although what I have said on this point has been largely in the form of a criticism, I do not want to appear unduly despondent about what we have already achieved. Even if we have jumped over an essential link in our argument, I still believe that, by what is implicit in its reasoning, economics has come nearer than any other social science to an answer to that central question of all social sciences: How can the combination of fragments of knowledge existing in different minds bring about results which, if they were to be brought about deliberately, would require a knowledge on the part of the directing mind which no single person can possess? To show that in this sense the spontaneous actions of individuals will, under conditions which we can define, bring about a distribution of resources which can be understood as if it were made according to a single plan, although nobody has planned it, seems to me indeed an answer to the problem which has sometimes been metaphorically described as that of the "social mind." But we must not be surprised that such claims have usually been rejected, since we have not based them on the right grounds.

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think, that every possible alternative use of any kind of resources should be known to at least one among the owners of each group of such resources which are used for one particular purpose is due to the fact that the alternatives known to the owners of the resources in a particular use are reflected in the prices of these resources. In this way it may be a sufficient distribution of knowledge of the alternative uses,  $m, n, o, \dots, y, z$ , of a commodity, if A, who uses the quantity of these resources in his possession for  $m$ , knows of  $n$ , and B, who uses his for  $n$ , knows of  $m$ , while C, who uses his for  $o$ , knows of  $n$ , etc., until we get to L, who uses his for  $z$ , but knows only of  $y$ . I am not clear to what extent in addition to this a particular distribution of the knowledge of the different proportions is required in which different factors can be combined in the production of any one commodity. For complete equilibrium additional assumptions will be required about the knowledge which consumers possess about the serviceability of the commodities for the satisfaction of their wants.

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There is only one more point in this connection which I should like to mention. This is that, if the tendency toward equilibrium, which on empirical grounds we have reason to believe to exist, is only toward an equilibrium relative to that knowledge which people will acquire in the course of their economic activity, and if any other change of knowledge must be regarded as a "change in the data" in the usual sense of the term, which falls outside the sphere of equilibrium analysis, this would mean that equilibrium analysis can really tell us nothing about the significance of such changes in knowledge, and it would also go far to account for the fact that pure analysis seems to have so extraordinarily little to say about institutions, such as the press, the purpose of which is to communicate knowledge. It might even explain why the preoccupation with pure analysis should so frequently create a peculiar blindness to the role played in real life by such institutions as advertising.

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With these rather desultory remarks on topics which would deserve much more careful examination I must conclude my survey of these problems. There are only one or two further remarks which I want to add.

One is that, in stressing the nature of the empirical propositions of which we must make use if the formal apparatus of equilibrium analysis is to serve for an explanation of the real world, and in emphasizing that the propositions about how people will learn, which are relevant in this connection, are of a fundamentally different nature from those of formal analysis, I do not mean to suggest that there opens here and now a wide field for empirical research. I very much doubt whether such investigation would teach us anything new. The important point is rather that we should become aware of what the questions of fact are on which the applicability of our argument to the real world depends, or, to put the same thing in other words, at what point our argument, when it is applied to phenomena of the real world, becomes subject to verification.

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The second point is that I do of course not want to suggest that the sorts of problems I have been discussing were foreign to the arguments of the economists of the older generations. The only objection that can be made against them is that they have so mixed up the two sorts of propositions, the a priori and the empirical, of which every realistic economist makes constant use, that it is frequently quite impossible to see what sort of validity they claimed for a particular statement. More recent work has been free from this fault—but only at the price of leaving more and more obscure what sort of relevance their arguments had to the phenomena of the real world. All I have tried to do has been to find the way back to the common-sense meaning of our analysis, of which, I am afraid, we are likely to lose sight as our analysis becomes more elaborate. You may even feel that most of what I have said has been commonplace. But from time to time it is probably necessary to detach one's self from the technicalities of the argument and to ask quite naïvely what it is all about. If I have only shown not only that in some respects the answer to this question is not obvious but that occasionally we even do not quite know what it is, I have succeeded in my purpose.

# COMPETITION AS A DISCOVERY PROCEDURE

F.A. HAYEK

TRANSLATED BY MARCELLUS S. SNOW

## I.

It would not be easy to defend macroeconomists against the charge that for 40 or 50 years they have investigated competition primarily under assumptions which, if they were actually true, would make competition completely useless and uninteresting. If anyone actually knew everything that economic theory designated as “data,” competition would indeed be a highly wasteful method of securing adjustment to these facts. Hence it is also not surprising that some authors have concluded that we can either completely renounce the market, or that its outcomes are to be considered at most a first step toward creating a social product that we can then manipulate, correct, or redistribute in any way we please. Others, who apparently have taken their notion of competition exclusively from modern textbooks, have concluded that such competition does not exist at all.

By contrast, it is useful to recall that *wherever* we make use of competition, this can only be justified by our *not* knowing the essential circumstances that determine the behavior of the competitors. In sporting events, examinations, the awarding of government contracts, or the bestowal of prizes for poems, not to mention science, it would be patently absurd to sponsor a contest if we knew in advance who the winner would be. Therefore, as the title of this lecture suggests, I wish now to consider competition systematically as a procedure for discovering facts which, if the procedure did not exist, would remain unknown or at least would not be used.

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Marcellus S. Snow is professor emeritus at the University of Hawaii at Manoa; snow@hawaii.edu. This is a translation from German of F.A. Hayek’s “Der Wettbewerb als Entdeckungsverfahren,” a 1968 lecture sponsored by the Institut für Weltwirtschaft at the University of Kiel. It was published as No. 56 in the series Kieler Vorträge.

It might at first appear so obvious that competition always involves such a discovery procedure that this is hardly worth emphasizing. When this is explicitly underscored, however, conclusions are immediately obtained that are in no way so obvious. The first is that competition is important *only* because and insofar as its outcomes are unpredictable and on the whole different from those that anyone would have been able to consciously strive for; and that its salutary effects must manifest themselves by frustrating certain intentions and disappointing certain expectations.

The second conclusion, closely associated with the first, is methodological in nature. It is of particular interest in that it has reference to the principal reason why, during the last 20 or 30 years, microeconomic theory—the analysis of the fine details of the economy’s structure which alone can teach us to understand the role of competition—has lost so much of its reputation, and indeed as a result appears not at all to be understood anymore by those calling themselves economic theorists. For this reason I would like to begin here with a few words about the methodological particularity of every theory of competition that makes the conclusions drawn from it appear suspicious to all those who habitually decide, on the basis of an excessively simplified criterion, what they are prepared to recognize as scientific.

The only reason we use competition at all has as its necessary consequence the fact that the validity of the theory of competition can never be empirically verified *for those cases in which it is of interest*. It is of course possible to verify the theory on preconceived theoretical models; and in principle we could also conceivably verify the theory in artificially created situations in which all the facts that competition is to discover are known to the observer in advance. In such a situation, however, the outcome of the experiment would be of little interest, and it would probably not be worth the cost of conducting it. When, however, we do not know in advance the facts we wish to discover with the help of competition, we are also unable to determine how effectively competition leads to the discovery of all the relevant circumstances that could have been discovered. All that can be empirically verified is that societies making use of competition for this purpose realize this outcome to a greater extent than do others—a question which, it seems to me, the history of civilization answers emphatically in the affirmative.

The curious fact that the merits of competition cannot be empirically verified in precisely those cases in which it is of interest is also shared by the discovery procedures of science in general. The advantages of established scientific procedures cannot themselves be scientifically demonstrated; they are recognized only because they have actually provided better results than alternative procedures.<sup>1</sup>

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<sup>1</sup>See the interesting discussion of these problems in M. Polanyi, *The Logic of Liberty* (London, 1951), in which the author is led from a study of the methods of scientific research to that of economic competition. See also K.R. Popper, *Logik der Forschung*, 2d. ed. (Tübingen, 1966), p. 16.

The difference between economic competition and the successful procedure of science is that the former exhibits a method of discovering particular temporary circumstances, while science seeks to discover something often known as “general facts,” i.e., regularities in events, and is concerned with unique, particular facts only to the extent that they tend to refute or confirm its theories. Since this is a matter of general and permanent features of our world, scientific discoveries have ample time to demonstrate their value, whereas the usefulness of particular circumstances disclosed by economic competition is to a considerable extent transitory. It would be as easy to discredit the theory of scientific method by noting that it does not lead to verifiable predictions regarding what science will discover, as it has been to discredit the theory of the market by noting that it does not lead to predictions about particular outcomes of the market process. By the nature of things, however, the theory of the market is unable to accomplish this in all those cases in which it is reasonable to make use of competition. As we shall see, the predictive power of this theory is necessarily constrained to a prediction of the type of structure or abstract order that will result; it does not, however, extend to a prediction of particular events.<sup>2</sup>

## II.

Although this will lead me even further from my main topic, I should like to add a few words about the consequences of the disappointment in microeconomic theory caused by using fallacious methodological criteria of scientism. Most of all, this disappointment was probably the major reason why a great number of economists rejected it in favor of so-called macroeconomic theory, which, since it aims to predict concrete events, appears to correspond better with the criteria of scientism. In reality, however, it seems to me much less scientific—indeed, in the strictest sense, it can make no claim to the name of a theoretical science.

The basis for this point of view is the conviction that the coarse structure of the economy can exhibit no regularities that are not results of the fine structure, and that those aggregates or mean values, which alone can be grasped statistically, give us no information about what takes place in the fine structure. The notion that we must formulate our theories so that they can be *immediately* applied to observable statistical or other measurable quantities seems to me to be a methodological error which, had the natural sciences followed it, would have greatly obstructed their progress. All we can require of theories is that, after an input of relevant data, conclusions can be derived from them that can be checked against reality. The fact that these concrete data are so diverse

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<sup>2</sup>See my essay “The Theory of Complex Phenomena” in *The Critical Approach in Science and Philosophy*, M. Bunge, ed. (London and New York, 1964). Reprinted in my *Studies in Philosophy, Politics, and Economics* (Chicago and London, 1967).

and complex in our area of inquiry that we can never take them all into account is an unchangeable fact, but not a shortcoming of the theory. A result of this fact is that we can derive from our theories only very general statements, or “pattern predictions,” as I have called them elsewhere;<sup>3</sup> we cannot, however, derive any specific predictions of individual events from them. Certainly, however, this does not justify insisting that we derive unambiguous relationships among the immediately observable variables, or that this is the only way of obtaining scientific knowledge—particularly not if we know that, in that obscure image of reality we call statistics, in aggregates and averages we unavoidably summarize many things whose causal meaning is very diverse. It is a false epistemological principle to adapt the theory to the available information, so that the observed variables appear directly in the theory.

Statistical variables such as national income, investment, price levels, and production are variables that play no role in the process of their determination itself. We might be able to notice certain regularities (“empirical laws” in the specific sense in which Carl Menger contrasted them to theoretical laws) in the observed behavior of these variables. Often these regularities apply, but sometimes they do not. Yet using the means of macrotheory, we can never formulate the conditions under which they apply.

This should not mean that I regard so-called macrotheory as completely useless. About many important conditions we have only statistical information rather than data regarding changes in the fine structure. Macrotheory then often affords approximate values or, probably, predictions that we are unable to obtain in any other way. It might often be worthwhile, for example, to base our reasoning on the assumption that an increase of aggregate demand will in general lead to a greater increase in investment, although we know that under certain circumstances the opposite will be the case. These theorems of macrotheory are certainly valuable as rules of thumb for generating predictions in the presence of insufficient information. But they are not only not more scientific than is microtheory; in a strict sense they do not have the character of scientific theories at all.

In this regard I must confess that I still sympathize more with the views of the young Schumpeter than with those of the elder, the latter being responsible to so great an extent for the rise of macrotheory. Exactly 60 years ago, in his brilliant first publication,<sup>4</sup> a few pages after having introduced the concept of “methodological individualism” to designate the method of economic theory, he wrote:

If one erects the edifice of our theory uninfluenced by prejudices and outside demands, one does not encounter these concepts [namely “national income,” “national wealth,” “social capital”] at all. Thus we will not be further concerned with them. If we wanted to do so, however, we would see

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<sup>3</sup>See my above-cited essay, “The Theory of Complex Phenomena.”

<sup>4</sup>J. Schumpeter, *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (Leipzig, 1908), p. 97.

how greatly they are afflicted with obscurities and difficulties, and how closely they are associated with numerous false notions, without yielding a *single* truly valuable theorem.

### III.

Returning now to my actual topic after having shared my concerns with you on this matter, I should like to begin with the observation that market theory often prevents access to a true understanding of competition by proceeding from the assumption of a “given” quantity of scarce goods. Which goods are scarce, however, or which things are goods, or how scarce or valuable they are, is precisely one of the conditions that competition should discover: in each case it is the preliminary outcomes of the market process that inform individuals where it is worthwhile to search. Utilizing the widely diffused knowledge in a society with an advanced division of labor cannot be based on the condition that individuals know all the concrete uses that can be made of the objects in their environment. Their attention will be directed by the prices the market offers for various goods and services. This means, among other things, that each individual’s particular combination of skills and abilities—which in many regards is always unique—will not only (and not even primarily) be skills that the person in question can recite in detail or report to a government agency. Rather, the knowledge of which I am speaking consists to a great extent of the ability to detect certain conditions—an ability that individuals can use effectively only when the market tells them what kinds of goods and services are demanded, and how urgently.

This suggestion must suffice here to clarify the kind of knowledge I am speaking of when I call competition a discovery procedure. Much more would have to be added if I wanted to formulate this outline so concretely that the meaning of this process emerged clearly. What I have said, however, should be sufficient to point out the absurdity of the conventional approach proceeding from a state in which all essential conditions are assumed to be known—a *state* that theory curiously designates as perfect competition, even though the opportunity for the *activity* we call competition no longer exists. Indeed, it is assumed that such activity has already performed its function. Nonetheless, I must now turn to another question about which even more confusion still exists, namely the meaning of the claim that the market spontaneously *adjusts* the plans of individuals to the facts thus discovered; in other words, the question of the purpose for which the information thus discovered is used.

The confusion that prevails here can be ascribed above all to the false idea that the order which the market brings about can be regarded as an *economy* in the strict sense of the word, and that the outcome must therefore be judged according to criteria that in reality are appropriate only for such an individual economy. But these criteria, which hold for a true economy in which all

effort is directed toward a uniform order of objectives, are to an extent completely irrelevant for the complex structure consisting of the many individual economies that we unfortunately designate with the same word “economy.” An economy in the strong sense of the word is an organization or an arrangement in which someone consciously uses means in the service of a uniform hierarchy of ends. The spontaneous order brought about by the market is something entirely different. But the fact that this market order does not in many ways behave like an economy in the proper sense of the word—in particular, the fact that it does not in general ensure that what most people regard as more important ends are always satisfied before less important ones—is one of the major reasons people rebel against it. It can be said, indeed, that all socialism has no other aim than to transform catallaxy (as I am pleased to call market order, to avoid using the expression “economy”) into a true economy in which a uniform scale of values determines which needs are satisfied and which are not.

This widely shared wish raises two problems, though. First, as far as the management decisions of a genuine economy or of any other organization are concerned, it is only the knowledge of the organizers or managers alone that can have any impact. Second, all members of such a genuine economy—conceived of as a consciously managed organization—must serve the uniform hierarchy of objectives in all their actions. Contrast this with the two advantages of a spontaneous market order or catallaxy: it can use the knowledge of all participants, and the objectives it serves are the particular objectives of all its participants in all their diversity and polarity.

The fact that catallaxy serves no uniform system of objectives gives rise to all the familiar difficulties that disturb not only socialists, but all economists endeavoring to evaluate the performance of the market order. For if the market order does not serve a particular rank ordering of objectives, and indeed if, like any spontaneously created order, it cannot legitimately be said to have definite objectives, neither is it then possible to represent the value of its outcome as a sum of individual outputs. What do we mean, then, when we claim that the market order in some sense produces a maximum or an optimum?

The point of departure for an answer must be the insight that, although the spontaneous order was not created for any particular individual objective, and in this sense cannot be said to serve a particular concrete objective, it can nonetheless contribute to the realization of a number of individual objectives which no one knows in their totality. Rational, successful action by an individual is possible only in a world that is to some extent orderly; and it obviously makes sense to try to create conditions under which any randomly selected individual has prospects of pursuing his goals as effectively as possible, even if we cannot predict which particular individuals will benefit thereby and which will not. As we have seen, the results of a discovery procedure are necessarily unpredictable, and all we can expect by employing an appropriate discovery procedure is that it will increase the prospects of unspecified persons, but not the prospects of any particular outcome for any

particular persons. The only common objective we can pursue in choosing this technique for the ordering of social reality is the abstract structure or order that will be created as a consequence.

#### IV.

We are accustomed to calling the order brought about by competition an equilibrium—a none-too-felicitous expression, since a true equilibrium presupposes that the relevant facts have already been discovered and that the process of competition has thus come to an end. The concept of order, which I prefer to that of equilibrium, at least in discussions of economic policy, has the advantage of allowing us to speak meaningfully about the fact that order can be realized to a greater or lesser degree, and that order can also be preserved as things change. Whereas an equilibrium never really exists, one can nonetheless justifiably claim that the kind of order of which the “equilibrium” of theory represents a sort of ideal type is realized to a great extent.

This order manifests itself first of all by virtue of the fact that the expectations of particular transactions with other persons, upon which the plans of all the economy’s participants are based, are to a considerable extent realized. This mutual adjustment of individual plans is brought about by a process that we have learned to call negative feedback ever since the natural sciences have also begun to concern themselves with spontaneous orders or “self-organizing systems.” Indeed, as even well-informed biologists are now aware,

long before Claude Bernard, Clark Maxwell, Walter B. Cannon or Norbert Wiener developed cybernetics, Adam Smith perceived the idea just as clearly in his *Wealth of Nations*. The “invisible hand” that regulates prices appears to express this idea. Smith says in essence that in a free market, prices are determined by negative feedback.<sup>5</sup>

It is precisely through the disappointment of expectations that a high degree of agreement of expectations is brought about. This fact, as we shall see later, is of fundamental importance in understanding the functioning of the market order. But the market’s accomplishments are not exhausted in bringing about a mutual adjustment of individual plans. It also provides that every product is produced by those who can produce it more cheaply (or at least as cheaply) as anyone who does not in fact produce it, and that goods are sold at prices that are lower than those at which anyone could offer the goods who does not offer them. This does not of course prevent some people from extracting large profits above their costs, as long as these costs are considerably lower than those of the next best potential producer of the good. It

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<sup>5</sup>G. Hardin, *Nature and Man’s Fate* (New York and London, 1959). Mentor Edition, 1961, p. 54.

means, however, that of the combination of different goods that is actually being produced, as much is produced as we can manufacture by any method that is known to us. That is of course not as much as we could produce if in fact all the knowledge that anyone possessed or could acquire were available at a central point and from there could be entered into a computer. The cost of the discovery procedure that we use is considerable. But it is unfair to judge the performance of the market in a certain sense “from the top down,” namely by comparing it with an ideal standard that we are unable to attain in any known way. If we judge the market’s performance “from the bottom up” (which seems to be the only permissible way), i.e., by comparison with what we could attain by means of any other method available to us, and in particular by comparison with what would be produced if competition were prevented—for example, if a good could be produced only by those the authorities allowed to do so—the market’s performance must be judged as most considerable. We need only recall how difficult it is in an economy with effective competition to discover ways of providing consumers with better or cheaper goods than is presently the case. If, for a moment, we believe we have discovered such unrealized opportunities, we generally find that government authority or a highly undesirable exercise of private power have hitherto prevented their exploitation.

Of course, we must also not forget that the market can provide no more than an approximation of any point on the n-dimensional surface by which pure theory describes the range of possibilities that could conceivably be attained in the production of any combination of goods and services; but the market allows the particular combination of various goods and their distribution among individuals to be decided essentially by unforeseeable circumstances and in this sense by chance. As Adam Smith realized,<sup>6</sup> the situation is somewhat like agreeing to play a game based partly on skill and partly on luck. The rules of the game ensure that at the price such that each individual’s share is left more or less to chance, the real equivalent of each individual’s share, depending partly on chance, becomes as large as possible. In modern terminology we can say that we are playing a non-zero-sum game whose rules have the objective of increasing the payoff but leave the share of the individuals partly to chance. A mind endowed with full information could of course choose every point on the n-dimensional surface that appeared desirable to him and then distribute as he saw fit the product of the combination he chose. But the only point on (or at least somewhere near) that surface we can reach using a procedure known to us is the one we reach when we leave its determination up to the market. The so-called “maximum” we achieve in this manner cannot of course be defined as a sum of certain quantities of goods, but only by the opportunity it affords unspecified persons to receive as large an equivalent as

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<sup>6</sup>See A. Smith, *Theorie der ethischen Gefühle*, W. Eckstein, trans. (Leipzig, 1926), vol. 2, pp. 396, 467.

possible for a share determined partly by chance. The fact that this outcome cannot be evaluated on the basis of a uniform value scale of desired concrete objectives is one of the main reasons it seems so misleading to me to consider the outcome of the market order or catallaxy as if it had anything to do with an economy in the proper sense.

## V.

The consequences of this erroneous interpretation of the market order as an economy whose task is to satisfy the various needs according to a given rank ordering are reflected in political efforts to correct prices and income in the service of so-called “social justice.” Notwithstanding the various meanings with which social philosophers attempted to invest this concept, in practice it has had virtually only one: protecting some groups of people from having to descend from the absolute or relative lifestyle they have heretofore enjoyed. Yet this is a principle that cannot be implemented in general without destroying the foundations of the market order. Not only continuous growth, but under certain circumstances even the preservation of the average income level attained depends on processes of adjustment that require a change not only of the relative shares but also of the absolute shares of individual persons and groups, even though such persons and groups are not responsible for the necessity of that change.

It is useful to recall at this point that all economic decisions are made necessary by unanticipated changes, and that the justification for using the price mechanism is solely that it shows individuals that what they have previously done, or can do now, has become more or less important, for reasons with which they have nothing to do. The adaptation of the total order of human action to changing circumstances is based on the fact that the compensation of the various services changes without taking into account of the merits or defects of those involved.

In this connection the term “incentives” is often used in a way that easily lends itself to misunderstanding, namely as though their primary purpose were to induce individuals to exert themselves sufficiently. The most important function of prices, however, is that they tell us *what* we should accomplish, *not how much*. In a constantly changing world, merely maintaining a given level of welfare requires constant adjustments in how the efforts of many individuals are directed; and these will only occur when the relative compensation of these activities changes. Under relatively stationary conditions, however, these adjustments—which are needed simply to maintain the income stream at its previous level—will not generate a surplus that could be used to compensate those who are disadvantaged by the price changes. Only in a rapidly growing economy can we hope to prevent an absolute decline in the material level of particular groups.

Today, customary treatments of these problems often overlook the fact that even the relative stability of the various aggregates that macroeconomics treats

as data is the result of microeconomic processes in which relative price changes play a decisive role. It is an outcome of the market mechanism that someone is induced to fill the gap that arises when someone else does not fulfill the expectations on the basis of which a third party has made plans. In this sense all the collective supply and demand curves that we use so happily are not really data, but rather outcomes of the constantly ongoing process of competition. Thus, statistical information can never disclose to us what price or income changes will be needed to bring about the necessary adjustment to an unavoidable change of the data.

The decisive point, however, is that in a democratic society it would be completely impossible, using commands that could not be regarded as just, to bring about those changes that are undoubtedly necessary, but the necessity of which could not be strictly demonstrated in a particular case. In such a system, a conscious direction of the economy would always have to aim for prices that are considered fair, and in practice that can only mean preservation of the existing price and income structure. An economic system in which everyone received what others felt he deserved could not help but be a highly inefficient system, quite apart from the fact that it would also be an unbearably tyrannical one. For the same reason, it is also to be feared that any "incomes policy" would tend more to prevent than to facilitate those adjustments in the price and income structure required by the adaptation to unanticipated changes in conditions.

It is one of the paradoxes of our age that the communist countries, in this regard, are probably less burdened by ideas of "social justice" than are the "capitalistic" and democratic countries, and are thereby more prone to allow those who are disadvantaged by development to suffer. In at least some of the Western countries the situation is as hopeless as it is precisely because the ideology that determines policy renders impossible those changes that would be necessary to improve the situation of the working class quickly enough to make that ideology disappear.

## VI.

If even in highly developed economies competition is important primarily as a discovery procedure whereby entrepreneurs constantly search for unexploited opportunities that can also be taken advantage of by others, then this is true of course to an even greater extent as far as underdeveloped societies are concerned. I have intentionally begun by considering the problems of maintaining an order in societies in which most techniques and productive forces are generally known, but also an order that requires continuous adjustment of activities to unavoidable small changes simply to maintain the previously attained level. At this point I do not wish to inquire into the role played by competition in the progress of available technology. I would like to emphasize, however, how much more important competition must be wherever the primary objective is to discover the still unknown possibilities in a society where

competition was previously limited. While for the most part false, it might not be completely absurd to expect that we can predict and control the development of the structure of a society that is already highly developed. But it seems incredible to me to hold that we can determine in advance the future structure of a society in which the major problem is still to find out what kinds of material and human productive forces are present, or that we should be in a position, in such a country, to predict the particular consequences of a given measure.

Quite apart from the fact that there is still so much more to discover in such a country, it seems to me that there is another consideration making the greatest possible freedom of competition much more important here than in more highly developed countries. The fact I have in mind is that the necessary changes in habits and customs will occur only when those who are ready and able to experiment with new procedures can make it necessary for the others to imitate them, with the former thereby showing the way; but if the majority is in a position to prevent the few from conducting experiments, the necessary discovery procedure will be frustrated. The fact that competition not only shows how things can be improved, but also forces all those whose income depends on the market to imitate the improvements, is of course one of the major reasons for the disinclination to compete. Competition represents a kind of impersonal coercion that will cause many individuals to change their behavior in a way that could not be brought about by any kind of instructions or commands. Central planning in the service of any some “social justice” may be a luxury that rich countries can afford, but it is certainly no method for poor countries to bring about the adjustment to rapidly changing circumstances on which growth depends.

It might also be worth mentioning in this connection that the more the available opportunities of a country remain unexploited, the greater its opportunities for growth; this often means that a high growth rate is more a sign of bad policies in the past than of good policies in the present. It also seems that one cannot in general expect a country that is already highly developed to have as high a growth rate as a country whose full use of its resources has long been rendered impossible by legal and institutional barriers.

Having seen what I have of the world, it appears to me that the proportion of people who are prepared to try out new possibilities that promise to improve their situation—as long as others do not prevent them from doing so—is more or less the same everywhere. It seems to me that the much-lamented lack of entrepreneurial spirit in many young countries is not an unchangeable attribute of individuals, but the consequence of limitations placed on individuals by the prevailing point of view. For precisely this reason, the effect would be fatal if, in such countries, the collective will of the majority were to control the efforts of individuals, rather than that public power limits itself to protecting the individual from the pressure of society—and only the institution of private property, and all the liberal institutions of the rule of law associated with it, can bring about the latter.

## VII.

Although competition is by and large a quite resilient specimen as far as private firms are concerned—one that continues to resurface in the most unexpected manner after efforts to suppress it—its usefulness with respect to the one omnipresent factor of production, namely human labor, has been rendered more or less ineffective throughout the entire Western world. It is a generally known fact that the most difficult and indeed the apparently insoluble problems of present-day economic policy, which have occupied economists more than all other problems, are the result of the so-called rigidity of wages. This means in essence that the wage structure as well as the wage level has become increasingly independent of market conditions. Most economists consider this situation as an irrevocable development that we cannot change and to which we must adapt our policies. It is hardly an exaggeration to say that for the past 30 years, discussions of monetary policy in particular have dealt almost exclusively with problems of circumventing the difficulties created by inflexible wages. I have long since had the impression that this was a mere treatment of symptoms. For the moment, we might thereby cover up the fundamental difficulties, but this is not only a mere postponement of the moment at which we must directly confront the primary problem, but it also makes the eventual solution of the latter increasingly difficult. This is because accepting these rigidities as unavoidable facts not only results in increasing them, but also confers an aura of legitimacy on the antisocial and destructive practices that they cause. I must confess that as a result, I myself have lost all interest in the ongoing discussions of monetary policy, which was once one of my major areas of research, because this avoidance of the central issue seems to me to load the burden onto the shoulders of our successors in a most irresponsible manner. In a certain sense, of course, we are harvesting here only what the founder of this fashion has sown, since we are naturally already in that “long run” in which he knew he would be dead.

It was a great misfortune for the world that these theories arose from the very unusual and, indeed, perhaps unique situation of Great Britain in the 1920s—a situation in which it appeared obvious that unemployment was the result of too high a real wage *level*, and that the problem of rigidity of the wage structure thus had limited significance. As a result of Great Britain’s return to the gold standard after years of war inflation at the parity of 1914, it could be claimed with some justification that all real wages in that country were too high relative to the rest of the world to achieve the necessary volume of exports. I am not convinced that this was really true even then. Even at that time, to be sure, Great Britain had the oldest, most deeply rooted, and most all-encompassing trade union movement, which through its wage policy had succeeded in conserving a wage structure that was determined much more by considerations of “justice” than of economic appropriateness. This meant by and large that the time-honored relationships between the different wages were maintained, and that any such change in the relative wages of the various groups as was required by changed circumstances had become effectively

impossible. As things stood then, full employment could doubtless have been attained only by bringing some real wages—possibly those of numerous groups of workers—down from the level they had reached as a result of deflation. It is not certain, however, that this would necessarily have meant a decrease in the average level of real wages. Perhaps the adjustment of the structure of the entire economy brought about by the wage changes would have made this unnecessary. In any event, the emphasis that was customary, then as now, on the average real wage *level* of all a country's workers prevented this possibility from even being considered seriously.

It is perhaps useful to consider the problem from a broader perspective. It seems to me impossible to doubt that the productivity of a country's labor, and thereby the wage level at which full employment is possible, depend on the distribution of workers among the various branches of industry, and that this distribution is in turn determined by the wage structure. But if this wage structure has become more or less rigid, this will prevent or delay the economy's adjustment to altered circumstances. It is thus to be assumed that, in a country where the relationships between the various wages have been kept rigid for a long period of time, the real wage level at which full employment can be attained will be considerably below what it would be if wages were flexible.

It appears to me that a completely rigid wage structure would prevent adjustment to changes in other conditions, particularly without the rapid technological progress we are used to today. This also concerns especially the adjustment to those changes that must occur simply in order to keep the income level constant. A completely rigid wage structure is therefore liable to lead to a gradual decrease in the level of real wages at which full employment can be realized. Unfortunately, I am not familiar with any empirical investigations of the relationship between wage flexibility and growth. I would expect such investigations to disclose a high positive correlation between these two variables—not so much because growth leads to changes in relative wages, but above all because such changes are the necessary preconditions for that adjustment to changed conditions that is required by growth.

But the main point, I believe, is that if it is correct that the real wage level at which full employment is possible depends on the wage structure, and if the ratios among the various wages remain unchanged as conditions change, then the real wage level at which full employment comes into existence will either fall continuously or will not rise as rapidly as would otherwise be possible. This means that manipulating the real wage level by monetary policy offers no way out of the difficulties caused by the rigidity of the wage *structure*. Nor can a way out be offered by any practically possible "incomes policy." Rather, as things turn out, it is precisely the rigidity of the wage structure brought about by the wage policy of the trade unions in the supposed interest of their members (or of any notion of "social justice") that has become one of the greatest obstacles to an increase in the real income of workers as a whole; in other words, if the real wages of individuals are prevented from

falling absolutely or at least relatively, the real wage level of workers as a whole will not rise as quickly as would otherwise be possible.

The classical ideal that John Stuart Mill described in his autobiography as “full employment at high wages to the whole labouring population” can be realized only by an economic use of labor, which in turn presupposes freely fluctuating relative wages. In the place of this ideal, the great man whose name will probably go down in history as the gravedigger of the British economy has popularized decreasing the level of real wages through a decrease of the value of money as a method of attaining full employment while recognizing the rigidity of the nominal wage structure. In my view, however, the experience of recent years clearly shows that this method offers only temporary relief. I believe we should no longer delay attacking the root cause of the problem. We cannot go on much longer closing our eyes to the fact that the interest of labor as a whole demands that the power of individual trade unions to maintain the relative position of their members against other workers be removed. The most important task at present appears to be convincing labor as a whole that removing the protection of the relative position of individual groups not only does not threaten the prospects for a rapid increase in the real wages of labor as a whole, but in fact enhances those prospects.

I will certainly not dispute here that for the foreseeable future it will remain politically impossible to restore a truly free labor market. Any such attempt would probably lead to such great conflicts that it could not be seriously considered—at least as long as employers do not collectively guarantee to maintain their employees’ average real income. But precisely such a guarantee, I believe, is the only way of restoring the market to its function of determining the relative wages of the various groups. Only in this way, it seems to me, could we hope to induce individual groups of workers to give up the security of their particular wage rates, which has become the main obstacle to a flexible wage structure. Such a collective agreement between employers as a whole and employees as a whole seems to me a transitional measure deserving serious consideration, because the outcome would probably show workers how much they could gain from a truly functioning labor market. This would in turn create the prospect of subsequently eliminating the tedious and complicated apparatus that would initially have to be created.

What I have in mind is a general contract in which employers as a whole would promise workers as a whole, initially for a year, their previous real wage total plus a share of increased profits. Each individual group or individual worker, however, would receive in his monthly paycheck only a certain part, say five-sixths, of his previous wage. The rest (together with the agreed-upon share of the increased total profits of all enterprises) would be distributed in two additional monthly payments—at the end of the year and after the books are closed—to the employees of the various firms and branches of the economy, in proportion to the change in profits that results on the basis on the five-sixths of wages distributed. I have proposed five-sixths as the share of continuous payments, since this would make possible the payment of a Christmas

bonus at the average level of a month's income on the basis of a preliminary estimate of profits, and of a second vacation bonus of approximately the same amount when the books are closed for the calendar year. For the subsequent year the average wages of the first year would again be guaranteed, but by the end of the year every group would be paid only five-sixths of the total amount paid in the previous year, plus a supplement at the end of the year for each group based on profits realized in the corresponding industry or firm, and so on.

Such a procedure would have somewhat the same effect as a restoration of the free labor market, except that labor would know that its average real wages could not decrease, but only increase. I would expect that such an indirect re-introduction of the market mechanism for determining the distribution of workers among industries and firms would bring with it a considerable acceleration of the increase of the level of average real wages, along with a stepwise decrease in the real wages of individual groups.

You will believe me when I say that I do not make so unusual a proposal lightly. But some measure of this kind, I believe, is today the only remaining way out of the increasing rigidity of the wage structure. This rigidity seems to me not only the major cause of the increasing economic difficulties of countries like Great Britain. It also drives such countries deeper and deeper into a planned and thereby still more rigid economic structure by misleading them into dabbling with the symptoms through "incomes policies" and the like. It seems that labor can only gain from such a solution, but I realize of course that trade union officials would lose through it a large part of their power and would therefore reject it completely.



# ***Session III***

## ***Hayek's Influence***

F.A. Hayek, "Law, Legislation, and Liberty", Vol. 2, "The Mirage of Social Justice", pp. 62-100.

F.A. Hayek, "Why I Am Not A Conservative," from *The Constitution of Liberty*, Chicago: University of Chicago Press, 1960.

David B. Skarbek, "F.A. Hayek's Influence on Nobel Prize Winners", *Review of Austrian Economics* 22(1) 2009: 109-112.



# Law Legislation and Liberty

VOLUME 2  
The Mirage of Social Justice



Friedrich A. Hayek



## 'SOCIAL' OR DISTRIBUTIVE JUSTICE

So great is the uncertainty of merit, both from its natural obscurity, and from the self-conceit of each individual, that no determinate rule of conduct could ever follow from it.

David Hume\*

Welfare, however, has no principle, neither for him who receives it, nor for him who distributes it (one will place it here and another there); because it depends on the material content of the will, which is dependent upon particular facts and therefore incapable of a general rule.

Immanuel Kant\*

### *The concept of 'social justice'*

While in the preceding chapter I had to defend the conception of justice as the indispensable foundation and limitation of all law, I must now turn against an abuse of the word which threatens to destroy the conception of law which made it the safeguard of individual freedom. It is perhaps not surprising that men should have applied to the joint effects of the actions of many people, even where these were never foreseen or intended, the conception of justice which they had developed with respect to the conduct of individuals towards each other. 'Social' justice (or sometimes 'economic' justice) came to be regarded as an attribute which the 'actions' of society, or the 'treatment' of individuals and groups by society, ought to possess. As primitive thinking usually does when first noticing some regular processes, the results of the spontaneous ordering of the market were interpreted as if some thinking being deliberately directed them, or as if the particular benefits or harm different persons derived from them were determined by deliberate acts of will, and could therefore be guided by moral rules. This conception of 'social' justice is thus a direct consequence of that anthropomorphism or personification by which naive thinking tries

to account for all self-ordering processes. It is a sign of the immaturity of our minds that we have not yet outgrown these primitive concepts and still demand from an impersonal process which brings about a greater satisfaction of human desires than any deliberate human organization could achieve, that it conform to the moral precepts men have evolved for the guidance of their individual actions.<sup>1</sup>

The use of the term 'social justice' in this sense is of comparatively recent date, apparently not much older than a hundred years. The expression was occasionally used earlier to describe the organized efforts to enforce the rules of just individual conduct,<sup>2</sup> and it is to the present day sometimes employed in learned discussion to evaluate the effects of the existing institutions of society.<sup>3</sup> But the sense in which it is now generally used and constantly appealed to in public discussion, and in which it will be examined in this chapter, is essentially the same as that in which the expression 'distributive justice' had long been employed. It seems to have become generally current in this sense at the time when (and perhaps partly because) John Stuart Mill explicitly treated the two terms as equivalent in such statements as that

society should treat all equally well who have deserved equally well of it, that is, who have deserved equally well absolutely.

This is the highest abstract standard of social and distributive justice; towards which all institutions, and the efforts of all virtuous citizens should be made in the utmost degree to converge<sup>4</sup>

or that

it is universally considered just that each person should obtain that (whether good or evil) which he deserves; and unjust that he should obtain a good, or be made to undergo an evil, which he does not deserve. This is perhaps the clearest and most emphatic form in which the idea of justice is conceived by the general mind. As it involves the idea of desert, the question arises of what constitutes desert.<sup>5</sup>

It is significant that the first of these two passages occurs in the description of one of five meanings of justice which Mill distinguishes, of which four refer to rules of just individual conduct while this one defines a factual state of affairs which may but need

not have been brought about by deliberate human decision. Yet Mill appears to have been wholly unaware of the circumstance that in this meaning it refers to situations entirely different from those to which the four other meanings apply, or that this conception of 'social justice' leads straight to full-fledged socialism.

Such statements which explicitly connect 'social and distributive justice' with the 'treatment' by society of the individuals according to their 'deserts' bring out most clearly its difference from plain justice, and at the same time the cause of the vacuity of the concept: the demand for 'social justice' is addressed not to the individual but to society—yet society, in the strict sense in which it must be distinguished from the apparatus of government, is incapable of acting for a specific purpose, and the demand for 'social justice' therefore becomes a demand that the members of society should organize themselves in a manner which makes it possible to assign particular shares of the product of society to the different individuals or groups. The primary question then becomes whether there exists a moral duty to submit to a power which can co-ordinate the efforts of the members of society with the aim of achieving a particular pattern of distribution regarded as just.

If the existence of such a power is taken for granted, the question of how the available means for the satisfaction of needs ought to be shared out becomes indeed a question of justice—though not a question to which prevailing morals provide an answer. Even the assumption from which most of the modern theorists of 'social justice' start, namely that it would require equal shares for all in so far as special considerations do not demand a departure from this principle, would then appear to be justified.<sup>6</sup> But the prior question is whether it is moral that men be subjected to the powers of direction that would have to be exercised in order that the benefits derived by the individuals could be meaningfully described as just or unjust.

It has of course to be admitted that the manner in which the benefits and burdens are apportioned by the market mechanism would in many instances have to be regarded as very unjust if it were the result of a deliberate allocation to particular people. But this is not the case. Those shares are the outcome of a process the effect of which on particular people was neither intended nor foreseen by anyone when the institutions first appeared—institutions which were then permitted to continue because it was found that they improve for all or most the prospects of having their needs

satisfied. To demand justice from such a process is clearly absurd, and to single out some people in such a society as entitled to a particular share evidently unjust.

*The conquest of public imagination by 'social justice'*

The appeal to 'social justice' has nevertheless by now become the most widely used and most effective argument in political discussion. Almost every claim for government action on behalf of particular groups is advanced in its name, and if it can be made to appear that a certain measure is demanded by 'social justice', opposition to it will rapidly weaken. People may dispute whether or not the particular measure is required by 'social justice'. But that this is the standard which ought to guide political action, and that the expression has a definite meaning, is hardly ever questioned. In consequence, there are today probably no political movements or politicians who do not readily appeal to 'social justice' in support of the particular measures which they advocate.

It also can scarcely be denied that the demand for 'social justice' has already in a great measure transformed the social order and is continuing to transform it in a direction which those who called for it never foresaw. Though the phrase has undoubtedly helped occasionally to make the law more equal for all, whether the demand for justice in distribution has in any sense made society juster or reduced discontent must remain doubtful.

The expression of course described from the beginning the aspirations which were at the heart of socialism. Although classical socialism has usually been defined by its demand for the socialization of the means of production, this was for it chiefly a means thought to be essential in order to bring about a 'just' distribution of wealth; and since socialists have later discovered that this redistribution could in a great measure, and against less resistance, be brought about by taxation (and government services financed by it), and have in practice often shelved their earlier demands, the realization of 'social justice' has become their chief promise. It might indeed be said that the main difference between the order of society at which classical liberalism aimed and the sort of society into which it is now being transformed is that the former was governed by principles of just individual conduct while the new society is to satisfy the demands for 'social justice'—or, in other words, that the former demanded just action by the individuals while the latter

more and more places the duty of justice on authorities with power to command people what to do.

The phrase could exercise this effect because it has gradually been taken over from the socialist not only by all the other political movements but also by most teachers and preachers of morality. It seems in particular to have been embraced by a large section of the clergy of all Christian denominations, who, while increasingly losing their faith in a supernatural revelation, appear to have sought a refuge and consolation in a new 'social' religion which substitutes a temporal for a celestial promise of justice, and who hope that they can thus continue their striving to do good. The Roman Catholic church especially has made the aim of 'social justice' part of its official doctrine;<sup>7</sup> but the ministers of most Christian denominations appear to vie with each other with such offers of more mundane aims—which also seem to provide the chief foundation for renewed ecumenical efforts.

The various modern authoritarian or dictatorial governments have of course no less proclaimed 'social justice' as their chief aim. We have it on the authority of Mr Andrei Sakharov that millions of men in Russia are the victims of a terror that 'attempts to conceal itself behind the slogan of social justice'.

The commitment to 'social justice' has in fact become the chief outlet for moral emotion, the distinguishing attribute of the good man, and the recognized sign of the possession of a moral conscience. Though people may occasionally be perplexed to say which of the conflicting claims advanced in its name are valid, scarcely anyone doubts that the expression has a definite meaning, describes a high ideal, and points to grave defects of the existing social order which urgently call for correction. Even though until recently one would have vainly sought in the extensive literature for an intelligible definition of the term,<sup>8</sup> there still seems to exist little doubt, either among ordinary people or among the learned, that the expression has a definite and well understood sense.

But the near-universal acceptance of a belief does not prove that it is valid or even meaningful any more than the general belief in witches or ghosts proved the validity of these concepts. What we have to deal with in the case of 'social justice' is simply a quasi-religious superstition of the kind which we should respectfully leave in peace so long as it merely makes those happy who hold it, but which we must fight when it becomes the pretext of coercing other men. And the prevailing belief in 'social justice' is at present prob-

ably the gravest threat to most other values of a free civilization.

Whether Edward Gibbon was wrong or not, there can be no doubt that moral and religious beliefs can destroy a civilization and that, where such doctrines prevail, not only the most cherished beliefs but also the most revered moral leaders, sometimes saintly figures whose unselfishness is beyond question, may become grave dangers to the values which the same people regard as unshakable. Against this threat we can protect ourselves only by subjecting even our dearest dreams of a better world to ruthless rational dissection.

It seems to be widely believed that 'social justice' is just a new moral value which we must add to those that were recognized in the past, and that it can be fitted within the existing framework of moral rules. What is not sufficiently recognized is that in order to give this phrase meaning a complete change of the whole character of the social order will have to be effected, and that some of the values which used to govern it will have to be sacrificed. It is such a transformation of society into one of a fundamentally different type which is currently occurring piecemeal and without awareness of the outcome to which it must lead. It was in the belief that something like 'social justice' could thereby be achieved, that people have placed in the hands of government powers which it can now not refuse to employ in order to satisfy the claims of the ever increasing number of special interests who have learnt to employ the open sesame of 'social justice'.

I believe that 'social justice' will ultimately be recognized as a will-o'-the-wisp which has lured men to abandon many of the values which in the past have inspired the development of civilization—an attempt to satisfy a craving inherited from the traditions of the small group but which is meaningless in the Great Society of free men. Unfortunately, this vague desire which has become one of the strongest bonds spurring people of good will to action, not only is bound to be disappointed. This would be sad enough. But, like most attempts to pursue an unattainable goal, the striving for it will also produce highly undesirable consequences, and in particular lead to the destruction of the indispensable environment in which the traditional moral values alone can flourish, namely personal freedom.

*The inapplicability of the concept of justice to the results of a spontaneous process*

It is now necessary clearly to distinguish between two wholly

different problems which the demand for 'social justice' raises in a market order.

The first is whether within an economic order based on the market the concept of 'social justice' has any meaning or content whatever.

The second is whether it is possible to preserve a market order while imposing upon it (in the name of 'social justice' or any other pretext) some pattern of remuneration based on the assessment of the performance or the needs of different individuals or groups by an authority possessing the power to enforce it.

The answer to each of these questions is a clear no.

Yet it is the general belief in the validity of the concept of 'social justice' which drives all contemporary societies into greater and greater efforts of the second kind and which has a peculiar self-accelerating tendency: the more dependent the position of the individuals or groups is seen to become on the actions of government, the more they will insist that the governments aim at some recognizable scheme of distributive justice; and the more governments try to realize some preconceived pattern of desirable distribution, the more they must subject the position of the different individuals and groups to their control. So long as the belief in 'social justice' governs political action, this process must progressively approach nearer and nearer to a totalitarian system.

We shall at first concentrate on the problem of the meaning, or rather lack of meaning, of the term 'social justice', and only later consider the effects which the efforts to impose *any* preconceived pattern of distribution must have on the structure of the society subjected to them.

The contention that in a society of free men (as distinct from any compulsory organization) the concept of social justice is strictly empty and meaningless will probably appear as quite unbelievable to most people. Are we not all constantly disquieted by watching how unjustly life treats different people and by seeing the deserving suffer and the unworthy prosper? And do we not all have a sense of fitness, and watch it with satisfaction, when we recognize a reward to be appropriate to effort or sacrifice?

The first insight which should shake this certainty is that we experience the same feelings also with respect to differences in human fates for which clearly no human agency is responsible and which it would therefore clearly be absurd to call injustice. Yet we do cry out against the injustice when a succession of calamities

befalls one family while another steadily prospers, when a meritorious effort is frustrated by some unforeseeable accident, and particularly if of many people whose endeavours seem equally great, some succeed brilliantly while others utterly fail. It is certainly tragic to see the failure of the most meritorious efforts of parents to bring up their children, of young men to build a career, or of an explorer or scientist pursuing a brilliant idea. And we will protest against such a fate although we do not know anyone who is to blame for it, or any way in which such disappointments can be prevented.

It is no different with regard to the general feeling of injustice about the distribution of material goods in a society of free men. Though we are in this case less ready to admit it, our complaints about the outcome of the market as unjust do not really assert that somebody has been unjust; and there is no answer to the question of *who* has been unjust. Society has simply become the new deity to which we complain and clamour for redress if it does not fulfil the expectations it has created. There is no individual and no co-operating group of people against which the sufferer would have a just complaint, and there are no conceivable rules of just individual conduct which would at the same time secure a functioning order and prevent such disappointments.

The only blame implicit in those complaints is that we tolerate a system in which each is allowed to choose his occupation and therefore nobody can have the power and the duty to see that the results correspond to our wishes. For in such a system in which each is allowed to use his knowledge for his own purposes<sup>9</sup> the concept of 'social justice' is necessarily empty and meaningless, because in it nobody's will can determine the relative incomes of the different people, or prevent that they be partly dependent on accident. 'Social justice' can be given a meaning only in a directed or 'command' economy (such as an army) in which the individuals are ordered what to do; and any particular conception of 'social justice' could be realized only in such a centrally directed system. It presupposes that people are guided by specific directions and not by rules of just individual conduct. Indeed, no system of rules of just individual conduct, and therefore no free action of the individuals, could produce results satisfying any principle of distributive justice.

We are of course not wrong in perceiving that the effects of the processes of a free society on the fates of the different individuals are not distributed according to some recognizable principle of

justice. Where we go wrong is in concluding from this that they are unjust and that somebody is to be blamed for this. In a free society in which the position of the different individuals and groups is not the result of anybody's design—or could, within such a society, be altered in accordance with a generally applicable principle—the differences in reward simply cannot meaningfully be described as just or unjust. There are, no doubt, many kinds of individual action which are aimed at affecting particular remunerations and which might be called just or unjust. But there are no principles of individual conduct which would produce a pattern of distribution which as such could be called just, and therefore also no possibility for the individual to know what he would have to do to secure a just remuneration of his fellows.

*The rationale of the economic game in which only the conduct of the players but not the result can be just*

We have seen earlier that justice is an attribute of human conduct which we have learnt to exact because a certain kind of conduct is required to secure the formation and maintenance of a beneficial order of actions. The attribute of justice may thus be predicated about the intended results of human action but not about circumstances which have not deliberately been brought about by men. Justice requires that in the 'treatment' of another person or persons, i.e. in the intentional actions affecting the well-being of other persons, certain uniform rules of conduct be observed. It clearly has no application to the manner in which the impersonal process of the market allocates command over goods and services to particular people: this can be neither just nor unjust, because the results are not intended or foreseen, and depend on a multitude of circumstances not known in their totality to anybody. The conduct of the individuals in that process may well be just or unjust; but since their wholly just actions will have consequences for others which were neither intended nor foreseen, these effects do not thereby become just or unjust.

The fact is simply that we consent to retain, and agree to enforce, uniform rules for a procedure which has greatly improved the chances of all to have their wants satisfied, but at the price of all individuals and groups incurring the risk of unmerited failure. With the acceptance of this procedure the recompense of different groups and individuals becomes exempt from deliberate control. It is the

only procedure yet discovered in which information widely dispersed among millions of men can be effectively utilized for the benefit of all—and used by assuring to all an individual liberty desirable for itself on ethical grounds. It is a procedure which of course has never been 'designed' but which we have learnt gradually to improve after we had discovered how it increased the efficiency of men in the groups who had evolved it.

It is a procedure which, as Adam Smith (and apparently before him the ancient Stoics) understood,<sup>10</sup> in all important respects (except that normally it is not pursued solely as a diversion) is wholly analogous to a game, namely a game partly of skill and partly of chance. We shall later describe it as the game of catallaxy. It proceeds, like all games, according to rules guiding the actions of individual participants whose aims, skills, and knowledge are different, with the consequence that the outcome will be unpredictable and that there will regularly be winners and losers. And while, as in a game, we are right in insisting that it be fair and that nobody cheat, it would be nonsensical to demand that the results for the different players be just. Their will of necessity be determined partly by skill and partly by luck. Some of the circumstances which make the services of a person more or less valuable to his fellows, or which may make it desirable that he change the direction of his efforts, are not of human design or foreseeable by men.

We shall in the next chapter have to return to the rationale of the discovery procedure which the game of competition in a market in effect constitutes. Here we must content ourselves with emphasizing that the results for the different individuals and groups of a procedure for utilizing more information than any one person or agency can possess, must themselves be unpredictable, and must often be different from the hopes and intentions which determined the direction and intensity of their striving; and that we can make effective use of that dispersed knowledge only if (as Adam Smith was also one of the first to see clearly)<sup>11</sup> we allow the principle of negative feedback to operate, which means that some must suffer unmerited disappointment.

We shall also see later that the importance for the functioning of the market order of particular prices or wages, and therefore of the incomes of the different groups and individuals, is not due chiefly to the effects of the prices on all of those who receive them, but to the effects of the prices on those for whom they act as signals to change the direction of their efforts. Their function is not so much

to reward people for what they *have* done as to tell them what in their own as well as in general interest they *ought* to do. We shall then also see that, to hold out a sufficient incentive for those movements which are required to maintain a market order, it will often be necessary that the return of people's efforts do *not* correspond to recognizable merit, but should show that, in spite of the best efforts of which they were capable, and for reasons they could not have known, their efforts were either more or less successful than they had reason to expect. In a spontaneous order the question of whether or not someone has done the 'right' thing cannot always be a matter of merit, but must be determined independently of whether the persons concerned ought or could have known what was required.

The long and the short of it all is that men can be allowed to decide what work to do only if the remuneration they can expect to get for it corresponds to the value their services have to those of their fellows who receive them; and that *these values which their services will have to their fellows will often have no relations to their individual merits or needs*. Reward for merit earned and indication of what a person should do, both in his own and in his fellows' interest, are different things. It is not good intentions or needs but doing what in fact most benefits others, irrespective of motive, which will secure the best reward. Among those who try to climb Mount Everest or to reach the Moon, we also honour not those who made the greatest efforts, but those who got there first.

The general failure to see that in this connection we cannot meaningfully speak of the justice or injustice of the results is partly due to the misleading use of the term 'distribution' which inevitably suggests a personal distributing agent whose will or choice determines the relative position of the different persons or groups.<sup>12</sup> There is of course no such agent, and we use an impersonal process to determine the allocation of benefits precisely because through its operation we can bring about a structure of relative prices and remunerations that will determine a size and composition of the total output which assures that the real equivalent of each individual's share that accident or skill assigns to him will be as large as we know to make it.

It would serve little purpose to enquire here at greater length into the relative importance of skill and luck in actually determining relative incomes. This will clearly differ a great deal between different trades, localities and times, and in particular between highly

competitive and less enterprising societies. I am on the whole inclined to believe that within any one trade or profession the correspondence between individual ability and industry is higher than is commonly admitted, but that the relative position of all the members of a particular trade or profession compared with others will more often be affected by circumstances beyond their control and knowledge. (This may also be one reason why what is called 'social' injustice is generally regarded as a graver fault of the existing order than the corresponding misfortunes of individuals.)<sup>13</sup> But the decisive point is not that the price mechanism does on the whole bring it about that rewards are proportioned to skill and effort, but that even where it is clear to us that luck plays a great part, and we have no idea why some are regularly luckier in guessing than others, it is still in the general interest to proceed on the presumption that the past success of some people in picking winners makes it probable that they will also do so in the future, and that it is therefore worthwhile to induce them to continue their attempts.

#### *The alleged necessity of a belief in the justice of rewards*

It has been argued persuasively that people will tolerate major inequalities of the material positions only if they believe that the different individuals get on the whole what they deserve, that they did in fact support the market order only because (and so long as) they thought that the differences of remuneration corresponded roughly to differences of merit, and that in consequence the maintenance of a free society presupposes the belief that some sort of 'social justice' is being done.<sup>14</sup> The market order, however, does not in fact owe its origin to such beliefs, nor was originally justified in this manner. This order could develop, after its earlier beginnings had decayed during the middle ages and to some extent been destroyed by the restrictions imposed by authority, when a thousand years of vain efforts to discover substantively just prices or wages were abandoned and the late schoolmen recognized them to be empty formulae and taught instead that the prices determined by just conduct of the parties in the market, i.e. the competitive prices arrived at without fraud, monopoly and violence, was all that justice required.<sup>15</sup> It was from this tradition that John Locke and his contemporaries derived the classical liberal conception of justice for which, as has been rightly said, it was only 'the way in which

competition was carried on, not its results',<sup>16</sup> that could be just or unjust.

It is unquestionably true that, particularly among those who were very successful in the market order, a belief in a much stronger moral justification of individual success developed, and that, long after the basic principles of such an order had been fully elaborated and approved by catholic moral philosophers, it had in the Anglo-Saxon world received strong support from Calvinist teaching. It certainly is important in the market order (or free enterprise society, misleadingly called 'capitalism') that the individuals believe that their well-being depends primarily on their own efforts and decisions. Indeed, few circumstances will do more to make a person energetic and efficient than the belief that it depends chiefly on him whether he will reach the goals he has set himself. For this reason this belief is often encouraged by education and governing opinion—it seems to me, generally much to the benefit of most of the members of the society in which it prevails, who will owe many important material and moral improvements to persons guided by it. But it leads no doubt also to an exaggerated confidence in the truth of this generalization which to those who regard themselves (and perhaps are) equally able but have failed must appear as a bitter irony and severe provocation.

It is probably a misfortune that, especially in the USA, popular writers like Samuel Smiles and Horatio Alger, and later the sociologist W. G. Sumner, have defended free enterprise on the ground that it regularly rewards the deserving, and it bodes ill for the future of the market order that this seems to have become the only defence of it which is understood by the general public. That it has largely become the basis of the self-esteem of the businessman often gives him an air of self-righteousness which does not make him more popular.

It is therefore a real dilemma to what extent we ought to encourage in the young the belief that when they really try they will succeed, or should rather emphasize that inevitably some unworthy will succeed and some worthy fail—whether we ought to allow the views of those groups to prevail with whom the over-confidence in the appropriate reward of the able and industrious is strong and who in consequence will do much that benefits the rest, and whether without such partly erroneous beliefs the large numbers will tolerate actual differences in rewards which will be based only partly on achievement and partly on mere chance.

*There is no 'value to society'*

The futile medieval search for the just price and just wage, finally abandoned when it was recognized that only that 'natural' price could be regarded as just which would be arrived at in a competitive market where it would be determined not by any human laws or decrees but would depend on so many circumstances that it could be known beforehand only by God,<sup>17</sup> was not the end of the search for that philosophers' stone. It was revived in modern times, not only by the general demand for 'social justice', but also by the long and equally abortive efforts to discover criteria of justice in connection with the procedures for reconciliation or arbitration in wage disputes. Nearly a century of endeavours by public spirited men and women in many parts of the world to discover principles by which just wage rates could be determined have, as more and more of them acknowledge, produced not a single rule which would do this.<sup>18</sup> It is somewhat surprising in view of this when we find an experienced arbitrator like Lady Wootton, after admitting that arbitrators are 'engaged in the impossible task of attempting to do justice in an ethical vacuum', because 'nobody knows in this context what justice is', drawing from it the conclusion that the criteria should be determined by legislation, and explicitly demand a political determination of all wages and incomes.<sup>19</sup> One can hardly carry any further the illusion that Parliament can determine what is just, and I don't suppose the writer would really wish to defend the atrocious principle implied that all rewards should be determined by political power.

Another source of the conception that the categories of just and unjust can be meaningfully applied to the remunerations determined by the market is the idea that the different services have a determined and ascertainable 'value to society', and that the actual remuneration frequently differs from the value. But though the conception of a 'value to society' is sometimes carelessly used even by economists, there is strictly no such thing and the expression implies the same sort of anthropomorphism or personification of society as the term 'social justice'. Services can have value only to particular people (or an organization), and any particular service will have very different values for different members of the same society. To regard them differently is to treat society not as a spontaneous order of free men but as an organization whose members are all made to serve a single hierarchy of ends. This would

necessarily be a totalitarian system in which personal freedom would be absent.

Although it is tempting to speak of a 'value to society' instead of a man's value to his fellows, it is in fact highly misleading if we say, e.g., that a man who supplies matches to millions and thereby earns \$200,000 a year is worth more 'to society' than a man who supplies great wisdom or exquisite pleasure to a few thousand and thereby earns \$20,000 a year. Even the performance of a Beethoven sonata, a painting by Leonardo or a play by Shakespeare have no 'value to society' but a value only to those who know and appreciate them. And it has little meaning to assert that a boxer or a crooner is worth more to society than a violin virtuoso or a ballet dancer if the former renders services to millions and the latter to a much smaller group. The point is not that the true values are different, but that the values attached to the different services by different groups of people are incommensurable; all that these expressions mean is merely that one in fact receives a larger aggregate sum from a larger number of people than the other.<sup>20</sup>

Incomes earned in the market by different persons will normally not correspond to the relative values of their services to any one person. Although, in so far as any one of a given group of different commodities is consumed by any one person, he or she will buy so much of each that the relative values to them of the last units bought will correspond to their relative prices, many pairs of commodities will never be consumed by the same person: the relative price of articles consumed only by men and of articles consumed only by women will not correspond to the relative values of these articles to anybody.

The remunerations which the individuals and groups receive in the market are thus determined by what these services are worth to those who receive them (or, strictly speaking, to the last pressing demand for them which can still be satisfied by the available supply) and not by some fictitious 'value to society'.

Another source of the complaint about the alleged injustice of this principle of remuneration is that the remuneration thus determined will often be much higher than would be necessary to induce the recipient to render those services. This is perfectly true but necessary if all who render the same service are to receive the same remuneration, if the kind of service in question is to be increased so long as the price still exceeds costs, and if anyone who wishes to buy or sell it at the current price is to be able to do so.

The consequence must be that all but the marginal sellers make a gain in excess of what was necessary to induce them to render the services in question—just as all but the marginal buyers will get what they buy for less than they were prepared to pay. The remuneration of the market will therefore hardly ever seem just in the sense in which somebody might endeavour justly to compensate others for the efforts and sacrifice incurred for his benefit.

The consideration of the different attitudes which different groups will take to the remuneration of different services incidentally also shows that the large numbers by no means grudge all the incomes higher than theirs, but generally only those earned by activities the functions of which they do not understand or which they even regard as harmful. I have never known ordinary people grudge the very high earnings of the boxer or torero, the football idol or the cinema star or the jazz king—they seem often even to revel vicariously in the display of extreme luxury and waste of such figures compared with which those of industrial magnates or financial tycoons pale. It is where most people do not comprehend the usefulness of an activity, and frequently because they erroneously regard it as harmful (the 'speculator'—often combined with the belief that only dishonest activities can bring so much money), and especially where the large earnings are used to accumulate a fortune (again out of the erroneous belief that it would be desirable that it should be spent rather than invested) that the outcry about the injustice of it arises. Yet the complex structure of the modern Great Society would clearly not work if the remunerations of all the different activities were determined by the opinion which the majority holds of their value—or indeed if they were dependent on any one person's understanding or knowledge of the importance of all the different activities required for the functioning of the system.

The main point is not that the masses have in most instances no idea of the values which a man's activities have to his fellows, and that it is necessarily their prejudices which would determine the use of the government's power. It is that nobody knows except in so far as the market tells him. It is true enough that our esteem of particular activities often differs from the value given to them by the market; and we express this feeling by an outcry about the injustice of it. But when we ask what ought to be the relative remunerations of a nurse and a butcher, of a coal miner and a judge at a high court, of the deep sea diver or the cleaner of sewers, of the organizer of a new industry and a jockey, of the

inspector of taxes and the inventor of a life-saving drug, of the jet pilot or the professor of mathematics, the appeal to 'social justice' does not give us the slightest help in deciding—and if we use it is no more than an insinuation that the others ought to agree with our view without giving any reason for it.

It might be objected that, although we cannot give the term 'social justice' a precise meaning, this need not be a fatal objection because the position may be similar to that which I have earlier contended exists with regard to justice proper: we might not know what is 'socially just' yet know quite well what is 'socially unjust'; and by persistently eliminating 'social injustice' whenever we encounter it, gradually approach 'social justice'. This, however, does not provide a way out of the basic difficulty. There can be no test by which we can discover what is 'socially unjust' because there is no subject by which such an injustice can be committed, and there are no rules of individual conduct the observance of which in the market order would secure to the individuals and groups the position which as such (as distinguished from the procedure by which it is determined) would appear just to us.<sup>21</sup> It does not belong to the category of error but to that of nonsense, like the term 'a moral stone'.

#### *The meaning of 'social'*

One might hope to get some help in the search for the meaning of 'social justice' by examining the meaning of the attribute 'social'; but the attempt to do so soon leads into a quagmire of confusion nearly as bad as that which surrounds 'social justice' itself.<sup>22</sup> Originally 'social' had of course a clear meaning (analogous to formations like 'national', 'tribal', or 'organizational'), namely that of pertaining to, or characteristic of the structure and operations of society. In this sense justice clearly is a social phenomenon and the addition of 'social' to the noun a pleonasm<sup>23</sup> such as if we spoke of 'social language'—though in occasional early uses it might have been intended to distinguish the generally prevailing views of justice from that held by particular persons or groups.

But 'social justice' as used today is not 'social' in the sense of 'social norms', i.e. something which has developed as a practice of individual action in the course of social evolution, not a product of society or of a social process, but a conception to be imposed upon society. It was the reference of 'social' to the whole of society, or to

the interests of all its members, which led to its gradually acquiring a predominant meaning of moral approbation. When it came into general use during the third quarter of the last century it was meant to convey an appeal to the still ruling classes to concern themselves more with the welfare of the much more numerous poor whose interests had not received adequate consideration.<sup>24</sup> The 'social question' was posed as an appeal to the conscience of the upper classes to recognize their responsibility for the welfare of the neglected sections of society whose voices had till then carried little weight in the councils of government. 'Social policy' (or *Sozialpolitik* in the language of the country then leading in the movement) became the order of the day, the chief concern of all progressive and good people, and 'social' came increasingly to displace such terms as 'ethical' or simply 'good'.

But from such an appeal to the conscience of the public to concern themselves with the unfortunate ones and recognize them as members of the same society, the conception gradually came to mean that 'society' ought to hold itself responsible for the particular material position of all its members, and for assuring that each received what was 'due' to him. It implied that the processes of society should be deliberately directed to particular results and, by personifying society, represented it as a subject endowed with a conscious mind, capable of being guided in its operation by moral principles.<sup>25</sup> 'Social' became more and more the description of the pre-eminent virtue, the attribute in which the good man excelled and the ideal by which communal action was to be guided.

But while this development indefinitely extended the field of application of the term 'social', it did not give it the required new meaning. It even so much deprived it of its original descriptive meaning that American sociologists have found it necessary to coin the new term 'societal' in its place. Indeed, it has produced a situation in which 'social' can be used to describe almost any action as publicly desirable and has at the same time the effect of depriving any terms with which it is combined of clear meaning. Not only 'social justice' but also 'social democracy', 'social market economy'<sup>26</sup> or the 'social state of law' (or rule of law—in German *sozialer Rechtsstaat*) are expressions which, though justice, democracy, the market economy or the *Rechtsstaat* have by themselves perfectly good meanings, the addition of the adjective 'social' makes them capable of meaning almost anything one likes. The word has indeed become one of the chief sources of confusion of political discourse

and can probably no longer be reclaimed for a useful purpose.

There is apparently no end to the violence that will be done to language to further some ideal and the example of 'social justice' has recently given rise to the expression 'global justice'! Its negative, 'global injustice', was defined by an ecumenical gathering of American religious leaders as 'characterized by a dimension of sin in the economic, political, social, sexual, and class structures and systems of global society'<sup>27</sup> It would seem as if the conviction that one is arguing in a good cause produced more sloppy thinking and even intellectual dishonesty than perhaps any other cause.

#### *'Social justice' and equality*

The most common attempts to give meaning to the concept of 'social justice' resort to egalitarian considerations and argue that every departure from equality of material benefits enjoyed has to be justified by some recognizable common interest which these differences serve.<sup>28</sup> This is based on a specious analogy with the situation in which some human agency has to distribute rewards, in which case indeed justice would require that these rewards be determined in accordance with some recognizable rule of general applicability. But earnings in a market system, though people tend to regard them as rewards, do not serve such a function. Their rationale (if one may use this term for a role which was not designed but developed because it assisted human endeavour without people understanding how), is rather to indicate to people what they ought to do if the order is to be maintained on which they all rely. The prices which must be paid in a market economy for different kinds of labour and other factors of production if individual efforts are to match, although they will be affected by effort, diligence, skill, need, etc., cannot conform to any one of these magnitudes; and considerations of justice just do not make sense<sup>29</sup> with respect to the determination of a magnitude which does not depend on anyone's will or desire, but on circumstances which nobody knows in their totality.

The contention that all differences in earnings must be justified by some corresponding difference in deserts is one which would certainly not have been thought to be obvious in a community of farmers or merchants or artisans, that is, in a society in which success or failure were clearly seen to depend only in part on skill and industry, and in part on pure accident which might hit any-

one—although even in such societies individuals were known to complain to God or fortune about the injustice of their fate. But, though people resent that their remuneration should in part depend on pure accident, that is in fact precisely what it must if the market order is to adjust itself promptly to the unavoidable and unforeseen changes in circumstances, and the individual is to be allowed to decide what to do. The now prevalent attitude could arise only in a society in which large numbers worked as members of organizations in which they were remunerated at stipulated rates for time worked. Such communities will not ascribe the different fortunes of its members to the operation of an impersonal mechanism which serves to guide the directions of efforts, but to some human power that ought to allocate shares according to merit.

The postulate of material equality would be a natural starting point only if it were a necessary circumstance that the shares of the different individuals or groups were in such a manner determined by deliberate human decision. In a society in which this were an unquestioned fact, justice would indeed demand that the allocation of the means for the satisfaction of human needs were effected according to some uniform principle such as merit or need (or some combination of these), and that, where the principle adopted did not justify a difference, the shares of the different individuals should be equal. The prevalent demand for material equality is probably often based on the belief that the existing inequalities are the effect of somebody's decision—a belief which would be wholly mistaken in a genuine market order and has still only very limited validity in the highly interventionist 'mixed' economy existing in most countries today. This now prevalent form of economic order has in fact attained its character largely as a result of governmental measures aiming at what was thought to be required by 'social justice'.

When the choice, however, is between a genuine market order, which does not and cannot achieve a distribution corresponding to any standard of material justice, and a system in which government uses its powers to put some such standard into effect, the question is not whether government ought to exercise, justly or unjustly, powers it must exercise in any case, but whether government should possess and exercise additional powers which can be used to determine the shares of the different members of society. The demand for 'social justice', in other words, does not merely require government to observe some principle of action according to

uniform rules in those actions which it must perform in any case, but demands that it undertake additional activities, and thereby assume new responsibilities—tasks which are not necessary for maintaining law and order and providing for certain collective needs which the market could not satisfy.

The great problem is whether this new demand for equality does not conflict with the equality of the rules of conduct which government must enforce on all in a free society. There is, of course, a great difference between government treating all citizens according to the same rules in all the activities it undertakes for other purposes, and government doing what is required in order to place the different citizens in equal (or less unequal) material positions. Indeed, there may arise a sharp conflict between these two aims. Since people will differ in many attributes which government cannot alter, to secure for them the same material position would require that government treat them very differently. Indeed, to assure the same material position to people who differ greatly in strength, intelligence, skill, knowledge and perseverance as well as in their physical and social environment, government would clearly have to treat them very differently to compensate for those disadvantages and deficiencies it could not directly alter. Strict equality of those benefits which government could provide for all, on the other hand, would clearly lead to inequality of the material positions.

This, however, is not the only and not even the chief reason why a government aiming to secure for its citizens equal material positions (or any determined pattern of material welfare) would have to treat them very unequally. It would have to do so because under such a system it would have to undertake to tell people what to do. Once the rewards the individual can expect are no longer an appropriate indication of how to direct their efforts to where they are most needed, because these rewards correspond not to the value which their services have for their fellows, but to the moral merit or desert the persons are deemed to have earned, they lose the guiding function they have in the market order and would have to be replaced by the commands of the directing authority. A central planning office would, however, have to decide on the tasks to be allotted to the different groups or individuals wholly on grounds of expediency or efficiency and, in order to achieve its ends, would have to impose upon them very different duties and burdens. The individuals might be treated according to uniform rules so far as

their rewards were concerned, but certainly not with respect to the different kinds of work they would have to be made to do. In assigning people to their different tasks, the central planning authority would have to be guided by considerations of efficiency and expediency and not by principles of justice or equality. No less than in the market order would the individuals in the common interest have to submit to great inequality—only these inequalities would be determined not by the interaction of individual skills in an impersonal process, but by the uncontradictable decision of authority.

As is becoming clear in ever increasing fields of welfare policy, an authority instructed to achieve particular results for the individuals must be given essentially arbitrary powers to make the individuals do what seems necessary to achieve the required result. Full equality for most cannot but mean the equal submission of the great masses under the command of some élite who manages their affairs. While an equality of rights under a limited government is possible and an essential condition of individual freedom, a claim for equality of material position can be met only by a government with totalitarian powers.<sup>30</sup>

We are of course not wrong when we perceive that the effects on the different individuals and groups of the economic processes of a free society are not distributed according to some recognizable principle of justice. Where we go wrong is in concluding from this that they are unjust and that somebody is responsible and to be blamed for this. In a free society in which the position of the different individuals and groups is not the result of anybody's design—or could within such a society not be altered in accordance with a principle of general applicability—the differences in rewards cannot meaningfully be described as just or unjust. There are, no doubt, many kinds of individual actions which are aimed at affecting particular remunerations and which might be regarded as unjust. But there are no principles of individual conduct which would produce a pattern of distribution which as such could be called just, and therefore also no possibility for the individual to know what he would have to do to secure a just remuneration of his fellows.

Our whole system of morals is a system of rules of individual conduct, and in a Great Society no conduct guided by such rules, or by decisions of the individuals guided by such rules, could produce for the individuals results which would appear to us as just

in the sense in which we regard designed rewards as just or unjust: simply because in such a society nobody has the power or the knowledge which would enable him to ensure that those affected by his actions will get what he thinks right for them to get. Nor could anyone who is assured remuneration according to some principle which is accepted as constituting 'social justice' be allowed to decide what he is to do; remuneration indicating how urgent it was that a certain work should be done could not be just in this sense, because the need for work of a particular kind would often depend on unforeseeable accidents and certainly not on the good intentions or efforts of those able to perform it. And an authority that fixed remunerations with the intention of thereby reducing the kind and number of people thought necessary in each occupation could not make these remunerations 'just', i.e. proportionate to desert, or need, or the merits of any other claim of the persons concerned, but would have to offer what was necessary to attract or retain the number of people wanted in each kind of activity.

*'Equality of opportunity'*

It is of course not to be denied that in the existing market order not only the results but also the initial chances of different individuals are often very different; they are affected by circumstances of their physical and social environment which are beyond their control but in many particular respects might be altered by some governmental action. The demand for equality of opportunity or equal starting conditions (*Startgerechtigkeit*) appeals to, and has been supported by, many who in general favour the free market order. So far as this refers to such facilities and opportunities as are of necessity affected by governmental decisions (such as appointments to public office and the like), the demand was indeed one of the central points of classical liberalism, usually expressed by the French phrase 'la carrière ouverte aux talents'. There is also much to be said in favour of the government providing on an equal basis the means for the schooling of minors who are not yet fully responsible citizens, even though there are grave doubts whether we ought to allow government to administer them.

But all this would still be very far from creating real equality of opportunity, even for persons possessing the same abilities. To achieve this government would have to control the whole physical

and human environment of all persons, and have to endeavour to provide at least equivalent chances for each; and the more government succeeded in these endeavours, the stronger would become the legitimate demand that, on the same principle, any still remaining handicaps must be removed—or compensated for by putting extra burden on the still relatively favoured. This would have to go on until government literally controlled every circumstance which could affect any person's well-being. Attractive as the phrase of equality of opportunity at first sounds, once the idea is extended beyond the facilities which for other reasons have to be provided by government, it becomes a wholly illusory ideal, and any attempt concretely to realize it apt to produce a nightmare.

*'Social justice' and freedom under the law*

The idea that men ought to be rewarded in accordance with the assessed merits or deserts of their services 'to society' presupposes an authority which not only distributes these rewards but also assigns to the individuals the tasks for the performance of which they will be rewarded. In other words, if 'social justice' is to be brought about, the individuals must be required to obey not merely general rules but specific demands directed to them only. The type of social order in which the individuals are directed to serve a single system of ends is the organization and not the spontaneous order of the market, that is, not a system in which the individual is free because bound only by general rules of just conduct, but a system in which all are subject to specific directions by authority.

It appears sometimes to be imagined that a mere alteration of the rules of individual conduct could bring about the realization of 'social justice'. But there can be no set of such rules, no principles by which the individuals could so govern their conduct that in a Great Society the joint effect of their activities would be a distribution of benefits which could be described as materially just, or any other specific and intended allocation of advantages and disadvantages among particular people or groups. In order to achieve any particular pattern of distribution through the market process, each producer would have to know, not only whom his efforts will benefit (or harm), but also how well off all the other people (actually or potentially) affected by his activities will be as the result of the services they are receiving from other members of the society. As we have seen earlier, appropriate rules of conduct can determine

only the formal character of the order of activities that will form itself, but not the specific advantages particular groups or individuals will derive from it.

This rather obvious fact still needs to be stressed since even eminent jurists have contended that the substitution of 'social' or distributive for individual or commutative justice need not destroy the freedom under the law of the individual. Thus the distinguished German legal philosopher Gustav Radbruch explicitly maintained that 'the socialist community would also be a *Rechtsstaat* [i.e., the Rule of Law would prevail there], although a *Rechtsstaat* governed not by commutative but by distributive justice.'<sup>31</sup> And of France it is reported that 'it has been suggested that some highly placed administrators should be given the permanent task of "pronouncing" on the distribution of national income, as judges pronounce on legal matters.'<sup>32</sup> Such beliefs, however, overlook the fact that no specific pattern of distribution can be achieved by making the individuals obey rules of conduct, but that the achievement of such particular pre-determined results requires deliberate co-ordination of all the different activities in accordance with the concrete circumstances of time and place. It precludes, in other words, that the several individuals act on the basis of their own knowledge and in the service of their own ends, which is the essence of freedom, but requires that they be made to act in the manner which according to the knowledge of the directing authority is required for the realization of the ends chosen by that authority.

The distributive justice at which socialism aims is thus irreconcilable with the rule of law, and with that freedom under the law which the rule of law is intended to secure. The rules of distributive justice cannot be rules for the conduct towards equals, but must be rules for the conduct of superiors towards their subordinates. Yet though some socialists have long ago themselves drawn the inevitable conclusion that 'the fundamental principles of formal law by which every case must be judged according to general rational principles . . . obtains only for the competitive phase of capitalism,'<sup>33</sup> and the communists, so long as they took socialism seriously, had even proclaimed that 'communism means not the victory of socialist law, but the victory of socialism over any law, since with the abolition of classes with antagonistic interests, law will disappear altogether',<sup>34</sup> when, more than thirty years ago, the present author made this the central point of a discussion of the political effects of socialist economic policies,<sup>35</sup> it evoked great

indignation and violent protests. But the crucial point is implied even in Radbruch's own emphasis on the fact that the transition from commutative to distributive justice means a progressive displacement of private by public law,<sup>36</sup> since public law consists not of rules of conduct for private citizens but of rules of organization for public officials. It is, as Radbruch himself stresses, a law that subordinates the citizens to authority.<sup>37</sup> Only if one understands by law not the general rules of just conduct only but any command issued by authority (or any authorization of such commands by a legislature), can the measures aimed at distributive justice be represented as compatible with the rule of law. But this concept is thereby made to mean mere legality and ceases to offer the protection of individual freedom which it was originally intended to serve.

There is no reason why in a free society government should not assure to all protection against severe deprivation in the form of an assured minimum income, or a floor below which nobody need to descend. To enter into such an insurance against extreme misfortune may well be in the interest of all; or it may be felt to be a clear moral duty of all to assist, within the organized community, those who cannot help themselves. So long as such a uniform minimum income is provided outside the market to all those who, for any reason, are unable to earn in the market an adequate maintenance, this need not lead to a restriction of freedom, or conflict with the Rule of Law. The problems with which we are here concerned arise only when the remuneration for services rendered is determined by authority, and the impersonal mechanism of the market which guides the direction of individual efforts is thus suspended.

Perhaps the acutest sense of grievance about injustice inflicted on one, not by particular persons but by the 'system', is that about being deprived of opportunities for developing one's abilities which others enjoy. For this any difference of environment, social or physical, may be responsible, and at least some of them may be unavoidable. The most important of these is clearly inseparable from the institution of the family. This not only satisfies a strong psychological need but in general serves as an instrument for the transmission of important cultural values. There can be no doubt that those who are either wholly deprived of this benefit, or grow up in unfavourable conditions, are gravely handicapped; and few will question that it would be desirable that some public institution so far as possible should assist such unfortunate children when

relatives and neighbours fail. Yet few will seriously believe (although Plato did) that we can fully make up for such a deficiency, and I trust even fewer that, because this benefit cannot be assured to all, it should, in the interest of equality, be taken from those who now enjoy it. Nor does it seem to me that even material equality could compensate for those differences in the capacity of enjoyment and of experiencing a lively interest in the cultural surroundings which a suitable upbringing confers.

There are of course many other irremediable inequalities which must seem as unreasonable as economic inequalities but which are less resented than the latter only because they do not appear to be man-made or the consequence of institutions which could be altered.

#### *The spatial range of 'social justice'*

There can be little doubt that the moral feelings which express themselves in the demand for 'social justice' derive from an attitude which in more primitive conditions the individual developed towards the fellow members of the small group to which he belonged. Towards the personally known member of one's own group it may well have been a recognized duty to assist him and to adjust one's actions to his needs. This is made possible by the knowledge of his person and his circumstances. The situation is wholly different in the Great or Open Society. Here the products and services of each benefit mostly persons he does not know. The greater productivity of such a society rests on a division of labour extending far beyond the range any one person can survey. This extension of the process of exchange beyond relatively small groups, and including large numbers of persons not known to each other, has been made possible by conceding to the stranger and even the foreigner the same protection of rules of just conduct which apply to the relations to the known members of one's own small group.

This application of the same rules of just conduct to the relations to all other men is rightly regarded as one of the great achievements of a liberal society. What is usually not understood is that this extension of the same rules to the relations to all other men (beyond the most intimate group such as the family and personal friends) requires an attenuation at least of some of the rules which are enforced in the relations to other members of the smaller group. If the legal duties towards strangers or foreigners are to be the same

as those towards the neighbours or inhabitants of the same village or town, the latter duties will have to be reduced to such as can also be applied to the stranger. No doubt men will always wish to belong also to smaller groups and be willing voluntarily to assume greater obligations towards self-chosen friends or companions. But such moral obligations towards some can never become enforced duties in a system of freedom under the law, because in such a system the selection of those towards whom a man wishes to assume special moral obligations must be left to him and cannot be determined by law. A system of rules intended for an Open Society and, at least in principle, meant to be applicable to all others, must have a somewhat smaller content than one to be applied in a small group.

Especially a common agreement on what is the due status or material position of the different members is likely to develop only in the relatively small group in which the members will be familiar with the character and importance of each other's activities. In such small communities the opinion about appropriate status will also still be associated with a feeling about what one self owes to the other, and not be merely a demand that somebody provide the appropriate reward. Demands for the realization of 'social justice' are usually as a matter of course, though often only tacitly, addressed to national governments as the agencies which possess the necessary powers. But it is doubtful whether in any but the smallest countries standards can be applied nationally which are derived from the condition of the particular locality with which the individual is familiar, and fairly certain that few men would be willing to concede to foreigners the same right to a particular income that they tend to recognize in their fellow citizens.

It is true that in recent years concern about the suffering of large numbers in the poor countries has induced the electorates of the wealthier nations to approve substantial material aid to the former; but it can hardly be said that in this considerations of justice played a significant role. It is indeed doubtful whether any substantial help would have been rendered if competing power groups had not striven to draw as many as possible of the developing countries into their orbit. And it deserves notice that the modern technology which has made such assistance possible could develop only because some countries were able to build up great wealth while most of the world saw little change.

Yet the chief point is that, if we look beyond the limits of our national states, and certainly if we go beyond the limits of what we

regard as our civilization, we no longer even deceive ourselves that we know what would be 'socially just', and that those very groups within the existing states which are loudest in their demands for 'social justice', such as the trade unions, are regularly the first to reject such claims raised on behalf of foreigners. Applied to the international sphere, the complete lack of a recognized standard of 'social justice', or of any known principles on which such a standard could be based, becomes at once obvious; while on a national scale most people still think that what on the level of the face-to-face society is to them a familiar idea must also have some validity for national politics or the use of the powers of government. In fact, it becomes on this level a humbug—the effectiveness of which with well-meaning people the agents of organized interests have learnt successfully to exploit.

There is in this respect a fundamental difference between what is possible in the small group and in the Great Society. In the small group the individual can know the effects of his actions on his several fellows, and the rules may effectively forbid him to harm them in any manner and even require him to assist them in specific ways. In the Great Society many of the effects of a person's actions on various fellows must be unknown to him. It can, therefore, not be the specific effects in the particular case, but only rules which define kinds of actions as prohibited or required, which must serve as guides to the individual. In particular, he will often not know who the individual people will be who will benefit by what he does, and therefore not know whether he is satisfying a great need or adding to abundance. He cannot aim at just results if he does not know who will be affected.

Indeed the transition from the small group to the Great or Open Society—and the treatment of every other person as a human being rather than as either a known friend or an enemy—requires a reduction of the range of duties we owe to all others.

If a person's legal duties are to be the same towards all, including the stranger and even the foreigner (and greater only where he has voluntarily entered into obligations, or is connected by physical ties as between parents and children), the legally enforceable duties to neighbour and friend must not be more than those towards the stranger. That is, all those duties which are based on personal acquaintance and familiarity with individual circumstances must cease to be enforceable. The extension of the obligation to obey certain rules of just conduct to wider circles and ultimately to all

men must thus lead to an attenuation of the obligation towards fellow members of the same small group. Our inherited or perhaps in part even innate moral emotions are in part inapplicable to Open Society (which is an abstract society), and the kind of 'moral socialism' that is possible in the small group and often satisfies a deeply ingrained instinct may well be impossible in the Great Society. Some altruistic conduct aimed at the benefit of some known friend that in the small group might be highly desirable, need not be so in the Open Society, and may there even be harmful (as e.g. the requirement that members of the same trade refrain from competing with each other).<sup>38</sup>

It may at first seem paradoxical that the advance of morals should lead to a reduction of specific obligations towards others: yet whoever believes that the principle of equal treatment of all men, which is probably the only chance for peace, is more important than special help to visible suffering, must wish it. It admittedly means that we make our rational insight dominate over our inherited instincts. But the great moral adventure on which modern man has embarked when he launched into the Open Society is threatened when he is required to apply to all his fellow-men rules which are appropriate only to the fellow members of a tribal group.

#### *Claims for compensation for distasteful jobs*

The reader will probably expect me now to examine in greater detail the particular claims usually justified by the appeal to 'social justice'. But this, as bitter experience has taught me, would be not only an endless but also a bootless task. After what has been said already, it should be obvious that there are no practicable standards of merit, deserts, or needs, on which in a market order the distribution of material benefits could be based, and still less any principle by which these different claims could be reconciled. I shall therefore confine myself to considering two arguments in which the appeal to 'social justice' is very commonly used. The first case is usually quoted in theoretical argument to illustrate the injustice of the distribution by the market process, though little is done about it in practice, while the second is probably the most frequent type of situation in which the appeal to social justice leads to government action.

The circumstance which is usually pointed out to demonstrate

the injustice of the existing market order is that the most unpleasant jobs are commonly also the worst paid. In a just society, it is contended, those who have to dig coal underground or to clean chimneys or sewers, or who perform other unclean or menial tasks, should be remunerated more highly than those whose work is pleasurable.

It is of course true that it would be unjust if persons, although equally able as others to perform other tasks, were without special compensation assigned by a superior to such distasteful duties. If, e.g., in such an organization as an army, two men of equal capacity were made to perform different tasks, one of which was attractive and the other very unpleasant, justice would clearly require that the one who had regularly to perform the unpleasant duty should in some way be specially compensated for it.

The situation is entirely different, however, where people earn their living by selling their services to whoever pays best for them. Here the sacrifice brought by a particular person in rendering the service is wholly irrelevant and all that counts is the (marginal) value the services have to those to whom they are rendered. The reason for this is not only that the sacrifices different people bring in rendering the same kind of service will often be very different, or that it will not be possible to take account of the reason why some will be capable of rendering only less valuable services than others. But those whose aptitudes, and therefore also remunerations, will be small in the more attractive occupations will often find that they can earn more than they could otherwise by undertaking unpleasant tasks that are scorned by their more fortunate fellows. The very fact that the more unpleasant occupations will be avoided by those who can render services that are valued more highly by the buyers, will open to those whose skills are little valued opportunities to earn more than they otherwise could.

That those who have to offer to their fellows little that is valuable may have to incur more pain and effort to earn even a pittance than others who perhaps actually enjoy rendering services for which they are well paid, is a necessary concomitant of any system in which remuneration is based on the values the services have to the user and not on an assessment of merit earned. It must therefore prevail in any social order in which the individual is free to choose whatever occupation he can find and is not assigned to one by authority.

The only assumption on which it could be represented as just that the miner working underground, or the scavenger, or slaughter-

house workers, should be paid more highly than those engaged in more pleasant occupations, would thus be that this was necessary to induce a sufficient number of persons to perform these tasks, or that they are by some human agency deliberately assigned to these tasks. But while in a market order it may be a misfortune to have been born and bred in a village where for most the only chance of making a living is fishing (or for the women the cleaning of fish), it does not make sense to describe this as unjust. Who is supposed to have been unjust?—especially when it is considered that, if these local opportunities had not existed, the people in question would probably never have been born at all, as most of the population of such a village will probably owe its existence to the opportunities which enabled their ancestors to produce and rear children.

#### *The resentment of the loss of accustomed positions*

The appeal to 'social justice' which in practice has probably had the greatest influence is not one which has been much considered in literary discussion. The considerations of a supposed 'social injustice' which have led to the most far-reaching interference with the functioning of the market order are based on the idea that people are to be protected against an unmerited descent from the material position to which they have become accustomed. No other consideration of 'social justice' has probably exercised as widespread an influence as the 'strong and almost universal belief that it is unjust to disappoint legitimate expectations of wealth. When differences of opinion arise, it is always on the question of what expectations are legitimate.' It is believed, as the same author says, 'that it is legitimate even for the largest classes to expect that no very great and sudden changes will be made to their detriment.'<sup>89</sup>

The opinion that long established positions create a just expectation that they will continue serves often as a substitute for more substantial criteria of 'social justice'. Where expectations are disappointed, and in consequence the rewards of effort often disproportionate to the sacrifice incurred, this will be regarded as an injustice without any attempt to show that those affected had a claim in justice to the particular income which they expected. At least when a large group of people find their income reduced as a result of circumstances which they could not have altered or foreseen, this is commonly regarded as unjust.

The frequent recurrence of such undeserved strokes of misfortune affecting some group is, however, an inseparable part of the steering mechanism of the market: it is in the manner in which the cybernetic principle of negative feedback operates to maintain the order of the market. It is only through such changes which indicate that some activities ought to be reduced, that the efforts of all can be continuously adjusted to a greater variety of facts than can be known to any one person or agency, and that that utilization of dispersed knowledge is achieved on which the well-being of the Great Society rests. We cannot rely on a system in which the individuals are induced to respond to events of which they do not and cannot know without changes of the values of the services of different groups occurring which are wholly unrelated to the merits of their members. It is a necessary part of that process of constant adaptation to changing circumstances on which the mere maintenance of the existing level of wealth depends that some people should have to discover by bitter experience that they have misdirected their efforts and are forced to look elsewhere for a remunerative occupation. And the same applies to the resentment of the corresponding undeserved gains that will accrue to others for whom things have turned out better than they had reason to expect.

The sense of injury which people feel when an accustomed income is reduced or altogether lost is largely the result of a belief that they have morally deserved that income and that, therefore, so long as they work as industriously and honestly as they did before, they are in justice entitled to the continuance of that income. But the idea that we have morally deserved what we have honestly earned in the past is largely an illusion. What is true is only that it would have been unjust if anybody had taken from us what we have in fact acquired while observing the rules of the game.

It is precisely because in the cosmos of the market we all constantly receive benefits which we have not deserved in any moral sense that we are under an obligation also to accept equally undeserved diminutions of our incomes. Our only moral title to what the market gives us we have earned by submitting to those rules which makes the formation of the market order possible. These rules imply that nobody is under an obligation to supply us with a particular income unless he has specifically contracted to do so. If we were all to be consistently deprived, as the socialists propose to do, of all 'unearned benefits' which the market confers upon us, we would have to be deprived of most of the benefits of civilization.

It is clearly meaningless to reply, as is often done, that, since we owe these benefits to 'society', 'society' should also be entitled to allocate these benefits to those who in its opinion deserve them. Society, once more, is not an acting person but an orderly structure of actions resulting from the observation of certain abstract rules by its members. We all owe the benefits we receive from the operation of this structure not to anyone's intention to confer them on us, but to the members of society generally obeying certain rules in the pursuit of their interests, rules which include the rule that nobody is to coerce others in order to secure for himself (or for third persons) a particular income. This imposes upon us the obligation to abide by the results of the market also when it turns against us.

The chance which any individual in our society has of earning an income approximating that which he has now is the consequence of most individuals obeying the rules which secure the formation of that order. And though this order provides for most good prospects for the successful employment of their skills, this success must remain dependent also on what from the point of view of the individual must appear as mere luck. The magnitude of the chances open to him are not of his making but the result of others submitting to the same rules of the game. To ask for protection against being displaced from a position one has long enjoyed, by others who are now favoured by new circumstances, means to deny to them the chances to which one's own present position is due.

Any protection of an accustomed position is thus necessarily a privilege which cannot be granted to all and which, if it had always been recognized, would have prevented those who now claim it from ever reaching the position for which they now demand protection. There can, in particular, be no right to share equally in a general increase of incomes if this increase (or perhaps even their maintenance at the existing level) is dependent on the continuous adjustment of the whole structure of activities to new and unforeseen circumstances that will alter and often reduce the contribution some groups can make to the needs of their fellows. There can thus be in justice no such claims as, e.g., those of the American farmer for 'parity', or of any other group to the preservation of their relative or absolute position.

The satisfaction of such claims by particular groups would thus not be just but eminently unjust, because it would involve the denial to some of the chances to which those who make this claim owe their position. For this reason it has always been conceded only

to some powerfully organized groups who were in the position to enforce their demands. Much of what is today done in the name of 'social justice' is thus not only unjust but also highly unsocial in the true sense of the word: it amounts simply to the protection of entrenched interests. Though it has come to be regarded as a 'social problem' when sufficiently large numbers clamour for protection of their accustomed position, it becomes a serious problem chiefly because, camouflaged as a demand for 'social justice', it can engage the sympathy of the public. We shall see in volume 3 why, under the existing type of democratic institutions, it is in practice inevitable that legislatures with unlimited powers yield to such demands when made by sufficiently large groups. This does not alter the fact that to represent such measures as satisfying 'social justice' is little more than a pretext for making the interest of the particular groups prevail over the general interest of all. Though, it is now usual to regard every claim of an organized group as a 'social problem', it would be more correct to say that, though the long run interests of the several individuals mostly agree with the general interest, the interests of the organized groups almost invariably are in conflict with it. Yet it is the latter which are commonly represented as 'social'.

#### Conclusions

The basic contention of this chapter, namely that in a society of free men whose members are allowed to use their own knowledge for their own purposes the term 'social justice' is wholly devoid of meaning or content, is one which by its very nature cannot be proved. A negative assertion never can. One may demonstrate for any number of particular instances that the appeal to 'social justice' in no way assists the choices we have to make. But the contention that in a society of free men the term has no meaning whatever can only be issued as a challenge which will make it necessary for others to reflect on the meaning of the words they use, and as an appeal not to use phrases the meaning of which they do not know.

So long as one assumes that a phrase so widely used must have some recognizable meaning one may endeavour to prove that attempts to enforce it in a society of free individuals must make that society unworkable. But such efforts become redundant once it is recognized that such a society lacks the fundamental precondition for the application of the concept of justice to the manner in which

material benefits are shared among its members, namely that this is determined by a human will—or that the determination of rewards by human will could produce a viable market order. One does not have to prove that something is impracticable which cannot exist.

What I hope to have made clear is that the phrase 'social justice' is not, as most people probably feel, an innocent expression of good will towards the less fortunate, but that it has become a dishonest insinuation that one ought to agree to a demand of some special interest which can give no real reason for it. If political discussion is to become honest it is necessary that people should recognize that the term is intellectually disreputable, the mark of demagoguery or cheap journalism which responsible thinkers ought to be ashamed to use because, once its vacuity is recognized, its use is dishonest. I may, as a result of long endeavours to trace the destructive effect which the invocation of 'social justice' has had on our moral sensitivity, and of again and again finding even eminent thinkers thoughtlessly using the phrase,<sup>40</sup> have become unduly allergic to it, but I have come to feel strongly that the greatest service I can still render to my fellow men would be that I could make the speakers and writers among them thoroughly ashamed ever again to employ the term 'social justice'.

That in the present state of the discussion the continued use of the term is not only dishonest and the source of constant political confusion, but destructive of moral feeling, is shown by the fact that again and again thinkers, including distinguished philosophers,<sup>41</sup> after rightly recognizing that the term justice in its now predominant meaning of distributive (or retributive) justice is meaningless, draw from this the conclusion that the concept of justice itself is empty, and who in consequence jettison one of the basic moral conceptions on which the working of a society of free men rests. But it is justice in this sense which courts of justice administer and which is the original meaning of justice and must govern men's conduct if peaceful coexistence of free men is to be possible. While the appeal to 'social justice' is indeed merely an invitation to give moral approval to demands that have no moral justification, and which are in conflict with that basic rule of a free society that only such rules as can be applied equally to all should be enforced, justice in the sense of rules of just conduct is indispensable for the intercourse of free men.

We are touching here upon a problem which with all its ramifications is much too big to try to be examined here systematically, but

which must at least be mentioned briefly. It is that we can't have any morals we like or dream of. Morals, to be viable, must satisfy certain requirements, requirements which we may not be able to specify but may only be able to find out by trial and error. What is required is not merely consistency, or compatibility of the rules as well as the acts demanded by them. A system of morals also must produce a functioning order, capable of maintaining the apparatus of civilization which it presupposes.

We are not familiar with the concept of non-viable systems of morals and certainly cannot observe them anywhere in practice since societies which try them rapidly disappear. But they are being preached, often by widely revered saintly figures, and the societies in decay which we can observe are often societies which have been listening to the teaching of such moral reformers and still reverse the destroyers of their society as good men. More often, however, the gospel of 'social justice' aims at much more sordid sentiments: the dislike of people who are better off than oneself, or simply envy, that 'most anti-social and evil of all passions' as John Stuart Mill called it,<sup>42</sup> that animosity towards great wealth which represents it as a 'scandal' that some should enjoy riches while others have basic needs unsatisfied, and camouflages under the name of justice what has nothing to do with justice. At least all those who wish to despoil the rich, not because they expect that some more deserving might enjoy that wealth, but because they regard the very existence of the rich as an outrage, not only cannot claim any moral justification for their demands, but indulge in a wholly irrational passion and in fact harm those to whose rapacious instincts they appeal.

There can be no moral claim to something that would not exist but for the decision of others to risk their resources on its creation. What those who attack great private wealth do not understand is that it is neither by physical effort nor by the mere act of saving and investing, but by directing resources to the most productive uses that wealth is chiefly created. And there can be no doubt that most of those who have built up great fortunes in the form of new industrial plants and the like have thereby benefited more people through creating opportunities for more rewarding employment than if they had given their superfluity away to the poor. The suggestion that in these cases those to whom in fact the workers are most indebted do wrong rather than greatly benefit them is an absurdity. Though there are undoubtedly also other and less meritorious ways of acquiring large fortunes (which we can hope to

control by improving the rules of the game), the most effective and important is by directing investment to points where they most enhance the productivity of labour—a task in which governments notoriously fail, for reasons inherent in non-competitive bureaucratic organizations.

But it is not only by encouraging malevolent and harmful prejudices that the cult of 'social justice' tends to destroy genuine moral feelings. It also comes, particularly in its more egalitarian forms, into constant conflict with some of the basic moral principles on which any community of free men must rest. This becomes evident when we reflect that the demand that we should equally esteem all our fellow men is irreconcilable with the fact that our whole moral code rests on the approval or disapproval of the conduct of others; and that similarly the traditional postulate that each capable adult is primarily responsible for his own and his dependants' welfare, meaning that he must not through his own fault become a charge to his friends or fellows, is incompatible with the idea that 'society' or government owes each person an appropriate income.

Though all these moral principles have also been seriously weakened by some pseudo-scientific fashions of our time which tend to destroy all morals—and with them the basis of individual freedom—the ubiquitous dependence on other people's power, which the enforcement of any image of 'social justice' creates, inevitably destroys that freedom of personal decisions on which all morals must rest.<sup>43</sup> In fact, that systematic pursuit of the *ignis fatuus* of 'social justice' which we call socialism is based throughout on the atrocious idea that political power ought to determine the material position of the different individuals and groups—an idea defended by the false assertion that this must always be so and socialism merely wishes to transfer this power from the privileged to the most numerous class. It was the great merit of the market order as it has spread during the last two centuries that it deprived everyone of such power which can be used only in arbitrary fashion. It had indeed brought about the greatest reduction of arbitrary power ever achieved. This greatest triumph of personal freedom the seduction of 'social justice' threatens again to take from us. And it will not be long before the holders of the power to enforce 'social justice' will entrench themselves in their position by awarding the benefits of 'social justice' as the remuneration for the conferment of that power and in order to secure to themselves the support of a praetorian

## 'SOCIAL' OR DISTRIBUTIVE JUSTICE

guard which will make it certain that their view of what is 'social justice' will prevail.

Before leaving the subject I want to point out once more that the recognition that in such combinations as 'social', 'economic', 'distributive' or 'retributive' justice the term 'justice' is wholly empty should not lead us to throw the baby out with the bath water. Not only as the basis of the legal rules of just conduct is the justice which the courts of justice administer exceedingly important; there unquestionably also exists a genuine problem of justice in connection with the deliberate design of political institutions, the problem to which Professor John Rawls has recently devoted an important book. The fact which I regret and regard as confusing is merely that in this connection he employs the term 'social justice'. But I have no basic quarrel with an author who, before he proceeds to that problem, acknowledges that the task of selecting specific systems or distributions of desired things as just must be 'abandoned as mistaken in principle, and it is, in any case, not capable of a definite answer. Rather, the principles of justice define the crucial constraints which institutions and joint activities must satisfy if persons engaging in them are to have no complaints against them. If these constraints are satisfied, the resulting distribution, whatever it is, may be accepted as just (or at least not unjust).'<sup>44</sup> This is more or less what I have been trying to argue in this chapter.

## Why I Am Not a Conservative

By Nobel laureate F. A. Hayek

In *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960)

"At all times sincere friends of freedom have been rare, and its triumphs have been due to minorities, that have prevailed by associating themselves with auxiliaries whose objects often differed from their own; and this association, which is always dangerous, has sometimes been disastrous, by giving to opponents just grounds of opposition." - Lord Acton

1. At a time when most movements that are thought to be progressive advocate further encroachments on individual liberty,[1] those who cherish freedom are likely to expend their energies in opposition. In this they find themselves much of the time on the same side as those who habitually resist change. In matters of current politics today they generally have little choice but to support the conservative parties. But, though the position I have tried to define is also often described as "conservative," it is very different from that to which this name has been traditionally attached. There is danger in the confused condition which brings the defenders of liberty and the true conservatives together in common opposition to developments which threaten their ideals equally. It is therefore important to distinguish clearly the position taken here from that which has long been known - perhaps more appropriately - as conservatism.

Conservatism proper is a legitimate, probably necessary, and certainly widespread attitude of opposition to drastic change. It has, since the French Revolution, for a century and a half played an important role in European politics. Until the rise of socialism its opposite was liberalism. There is nothing corresponding to this conflict in the history of the United States, because what in Europe was called "liberalism" was here the common tradition on which the American polity had been built: thus the defender of the American tradition was a liberal in the European sense.[2] This already existing confusion was made worse by the recent attempt to transplant to America the European type of conservatism, which, being alien to the American tradition, has acquired a somewhat odd character. And some time before this, American radicals and socialists began calling themselves "liberals." I will nevertheless continue for the moment to describe as liberal the position which I hold and which I believe differs as much from true conservatism as from socialism. Let me say at once, however, that I do so with increasing misgivings, and I shall later have to consider what would be the appropriate name for the party of liberty. The reason for this is not only that the term "liberal" in the United States is the cause of constant misunderstandings today, but also that in Europe the predominant type of rationalistic liberalism has long been one of the pacemakers of socialism.

Let me now state what seems to me the decisive objection to any conservatism which deserves to be called such. It is that by its very nature it cannot offer an alternative to the direction in which we are moving. It may succeed by its resistance to current tendencies in slowing down undesirable developments, but, since it does not indicate another

direction, it cannot prevent their continuance. It has, for this reason, invariably been the fate of conservatism to be dragged along a path not of its own choosing. The tug of war between conservatives and progressives can only affect the speed, not the direction, of contemporary developments. But, though there is a need for a "brake on the vehicle of progress,"[3] I personally cannot be content with simply helping to apply the brake. What the liberal must ask, first of all, is not how fast or how far we should move, but where we should move. In fact, he differs much more from the collectivist radical of today than does the conservative. While the last generally holds merely a mild and moderate version of the prejudices of his time, the liberal today must more positively oppose some of the basic conceptions which most conservatives share with the socialists.

2. The picture generally given of the relative position of the three parties does more to obscure than to elucidate their true relations. They are usually represented as different positions on a line, with the socialists on the left, the conservatives on the right, and the liberals somewhere in the middle. Nothing could be more misleading. If we want a diagram, it would be more appropriate to arrange them in a triangle with the conservatives occupying one corner, with the socialists pulling toward the second and the liberals toward the third. But, as the socialists have for a long time been able to pull harder, the conservatives have tended to follow the socialist rather than the liberal direction and have adopted at appropriate intervals of time those ideas made respectable by radical propaganda. It has been regularly the conservatives who have compromised with socialism and stolen its thunder. Advocates of the Middle Way[4] with no goal of their own, conservatives have been guided by the belief that the truth must lie somewhere between the extremes - with the result that they have shifted their position every time a more extreme movement appeared on either wing.

The position which can be rightly described as conservative at any time depends, therefore, on the direction of existing tendencies. Since the development during the last decades has been generally in a socialist direction, it may seem that both conservatives and liberals have been mainly intent on retarding that movement. But the main point about liberalism is that it wants to go elsewhere, not to stand still. Though today the contrary impression may sometimes be caused by the fact that there was a time when liberalism was more widely accepted and some of its objectives closer to being achieved, it has never been a backward-looking doctrine. There has never been a time when liberal ideals were fully realized and when liberalism did not look forward to further improvement of institutions. Liberalism is not averse to evolution and change; and where spontaneous change has been smothered by government control, it wants a great deal of change of policy. So far as much of current governmental action is concerned, there is in the present world very little reason for the liberal to wish to preserve things as they are. It would seem to the liberal, indeed, that what is most urgently needed in most parts of the world is a thorough sweeping away of the obstacles to free growth.

This difference between liberalism and conservatism must not be obscured by the fact that in the United States it is still possible to defend individual liberty by defending long-established institutions. To the liberal they are valuable not mainly because they are long established or because they are American but because they correspond to the ideals which

he cherishes.

3. Before I consider the main points on which the liberal attitude is sharply opposed to the conservative one, I ought to stress that there is much that the liberal might with advantage have learned from the work of some conservative thinkers. To their loving and reverential study of the value of grown institutions we owe (at least outside the field of economics) some profound insights which are real contributions to our understanding of a free society. However reactionary in politics such figures as Coleridge, Bonald, De Maistre, Justus Möser, or Donoso Cortès may have been, they did show an understanding of the meaning of spontaneously grown institutions such as language, law, morals, and conventions that anticipated modern scientific approaches and from which the liberals might have profited. But the admiration of the conservatives for free growth generally applies only to the past. They typically lack the courage to welcome the same undesigned change from which new tools of human endeavors will emerge.

This brings me to the first point on which the conservative and the liberal dispositions differ radically. As has often been acknowledged by conservative writers, one of the fundamental traits of the conservative attitude is a fear of change, a timid distrust of the new as such,[5] while the liberal position is based on courage and confidence, on a preparedness to let change run its course even if we cannot predict where it will lead. There would not be much to object to if the conservatives merely disliked too rapid change in institutions and public policy; here the case for caution and slow process is indeed strong. But the conservatives are inclined to use the powers of government to prevent change or to limit its rate to whatever appeals to the more timid mind. In looking forward, they lack the faith in the spontaneous forces of adjustment which makes the liberal accept changes without apprehension, even though he does not know how the necessary adaptations will be brought about. It is, indeed, part of the liberal attitude to assume that, especially in the economic field, the self-regulating forces of the market will somehow bring about the required adjustments to new conditions, although no one can foretell how they will do this in a particular instance. There is perhaps no single factor contributing so much to people's frequent reluctance to let the market work as their inability to conceive how some necessary balance, between demand and supply, between exports and imports, or the like, will be brought about without deliberate control. The conservative feels safe and content only if he is assured that some higher wisdom watches and supervises change, only if he knows that some authority is charged with keeping the change "orderly."

This fear of trusting uncontrolled social forces is closely related to two other characteristics of conservatism: its fondness for authority and its lack of understanding of economic forces. Since it distrusts both abstract theories and general principles,[6] it neither understands those spontaneous forces on which a policy of freedom relies nor possesses a basis for formulating principles of policy. Order appears to the conservative as the result of the continuous attention of authority, which, for this purpose, must be allowed to do what is required by the particular circumstances and not be tied to rigid rule. A commitment to principles presupposes an understanding of the general forces by which the efforts of society are co-ordinated, but it is such a theory of society and

especially of the economic mechanism that conservatism conspicuously lacks. So unproductive has conservatism been in producing a general conception of how a social order is maintained that its modern votaries, in trying to construct a theoretical foundation, invariably find themselves appealing almost exclusively to authors who regarded themselves as liberal. Macaulay, Tocqueville, Lord Acton, and Lecky certainly considered themselves liberals, and with justice; and even Edmund Burke remained an Old Whig to the end and would have shuddered at the thought of being regarded as a Tory.

Let me return, however, to the main point, which is the characteristic complacency of the conservative toward the action of established authority and his prime concern that this authority be not weakened rather than that its power be kept within bounds. This is difficult to reconcile with the preservation of liberty. In general, it can probably be said that the conservative does not object to coercion or arbitrary power so long as it is used for what he regards as the right purposes. He believes that if government is in the hands of decent men, it ought not to be too much restricted by rigid rules. Since he is essentially opportunist and lacks principles, his main hope must be that the wise and the good will rule - not merely by example, as we all must wish, but by authority given to them and enforced by them.[7] Like the socialist, he is less concerned with the problem of how the powers of government should be limited than with that of who wields them; and, like the socialist, he regards himself as entitled to force the value he holds on other people.

When I say that the conservative lacks principles, I do not mean to suggest that he lacks moral conviction. The typical conservative is indeed usually a man of very strong moral convictions. What I mean is that he has no political principles which enable him to work with people whose moral values differ from his own for a political order in which both can obey their convictions. It is the recognition of such principles that permits the coexistence of different sets of values that makes it possible to build a peaceful society with a minimum of force. The acceptance of such principles means that we agree to tolerate much that we dislike. There are many values of the conservative which appeal to me more than those of the socialists; yet for a liberal the importance he personally attaches to specific goals is no sufficient justification for forcing others to serve them. I have little doubt that some of my conservative friends will be shocked by what they will regard as "concessions" to modern views that I have made in Part III of this book. But, though I may dislike some of the measures concerned as much as they do and might vote against them, I know of no general principles to which I could appeal to persuade those of a different view that those measures are not permissible in the general kind of society which we both desire. To live and work successfully with others requires more than faithfulness to one's concrete aims. It requires an intellectual commitment to a type of order in which, even on issues which to one are fundamental, others are allowed to pursue different ends.

It is for this reason that to the liberal neither moral nor religious ideals are proper objects of coercion, while both conservatives and socialists recognize no such limits. I sometimes feel that the most conspicuous attribute of liberalism that distinguishes it as much from conservatism as from socialism is the view that moral beliefs concerning matters of

conduct which do not directly interfere with the protected sphere of other persons do not justify coercion. This may also explain why it seems to be so much easier for the repentant socialist to find a new spiritual home in the conservative fold than in the liberal.

In the last resort, the conservative position rests on the belief that in any society there are recognizably superior persons whose inherited standards and values and position ought to be protected and who should have a greater influence on public affairs than others. The liberal, of course, does not deny that there are some superior people - he is not an egalitarian - but he denies that anyone has authority to decide who these superior people are. While the conservative inclines to defend a particular established hierarchy and wishes authority to protect the status of those whom he values, the liberal feels that no respect for established values can justify the resort to privilege or monopoly or any other coercive power of the state in order to shelter such people against the forces of economic change. Though he is fully aware of the important role that cultural and intellectual elites have played in the evolution of civilization, he also believes that these elites have to prove themselves by their capacity to maintain their position under the same rules that apply to all others.

Closely connected with this is the usual attitude of the conservative to democracy. I have made it clear earlier that I do not regard majority rule as an end but merely as a means, or perhaps even as the least evil of those forms of government from which we have to choose. But I believe that the conservatives deceive themselves when they blame the evils of our time on democracy. The chief evil is unlimited government, and nobody is qualified to wield unlimited power.[8] The powers which modern democracy possesses would be even more intolerable in the hands of some small elite.

Admittedly, it was only when power came into the hands of the majority that further limitations of the power of government was thought unnecessary. In this sense democracy and unlimited government are connected. But it is not democracy but unlimited government that is objectionable, and I do not see why the people should not learn to limit the scope of majority rule as well as that of any other form of government. At any rate, the advantages of democracy as a method of peaceful change and of political education seem to be so great compared with those of any other system that I can have no sympathy with the antidemocratic strain of conservatism. It is not who governs but what government is entitled to do that seems to me the essential problem.

That the conservative opposition to too much government control is not a matter of principle but is concerned with the particular aims of government is clearly shown in the economic sphere. Conservatives usually oppose collectivist and directivist measures in the industrial field, and here the liberals will often find allies in them. But at the same time conservatives are usually protectionists and have frequently supported socialist measures in agriculture. Indeed, though the restrictions which exist today in industry and commerce are mainly the result of socialist views, the equally important restrictions in agriculture were usually introduced by conservatives at an even earlier date. And in their efforts to discredit free enterprise many conservative leaders have vied with the socialists.[9]

4. I have already referred to the differences between conservatism and liberalism in the purely intellectual field, but I must return to them because the characteristic conservative attitude here not only is a serious weakness of conservatism but tends to harm any cause which allies itself with it. Conservatives feel instinctively that it is new ideas more than anything else that cause change. But, from its point of view rightly, conservatism fears new ideas because it has no distinctive principles of its own to oppose them; and, by its distrust of theory and its lack of imagination concerning anything except that which experience has already proved, it deprives itself of the weapons needed in the struggle of ideas. Unlike liberalism, with its fundamental belief in the long-range power of ideas, conservatism is bound by the stock of ideas inherited at a given time. And since it does not really believe in the power of argument, its last resort is generally a claim to superior wisdom, based on some self-arrogated superior quality.

The difference shows itself most clearly in the different attitudes of the two traditions to the advance of knowledge. Though the liberal certainly does not regard all change as progress, he does regard the advance of knowledge as one of the chief aims of human effort and expects from it the gradual solution of such problems and difficulties as we can hope to solve. Without preferring the new merely because it is new, the liberal is aware that it is of the essence of human achievement that it produces something new; and he is prepared to come to terms with new knowledge, whether he likes its immediate effects or not.

Personally, I find that the most objectionable feature of the conservative attitude is its propensity to reject well-substantiated new knowledge because it dislikes some of the consequences which seem to follow from it - or, to put it bluntly, its obscurantism. I will not deny that scientists as much as others are given to fads and fashions and that we have much reason to be cautious in accepting the conclusions that they draw from their latest theories. But the reasons for our reluctance must themselves be rational and must be kept separate from our regret that the new theories upset our cherished beliefs. I can have little patience with those who oppose, for instance, the theory of evolution or what are called "mechanistic" explanations of the phenomena of life because of certain moral consequences which at first seem to follow from these theories, and still less with those who regard it as irrelevant or impious to ask certain questions at all. By refusing to face the facts, the conservative only weakens his own position. Frequently the conclusions which rationalist presumption draws from new scientific insights do not at all follow from them. But only by actively taking part in the elaboration of the consequences of new discoveries do we learn whether or not they fit into our world picture and, if so, how. Should our moral beliefs really prove to be dependent on factual assumptions shown to be incorrect, it would hardly be moral to defend them by refusing to acknowledge facts.

Connected with the conservative distrust of the new and the strange is its hostility to internationalism and its proneness to a strident nationalism. Here is another source of its weakness in the struggle of ideas. It cannot alter the fact that the ideas which are changing our civilization respect no boundaries. But refusal to acquaint one's self with new ideas merely deprives one of the power of effectively countering them when

necessary. The growth of ideas is an international process, and only those who fully take part in the discussion will be able to exercise a significant influence. It is no real argument to say that an idea is un-American, or un-German, nor is a mistaken or vicious ideal better for having been conceived by one of our compatriots.

A great deal more might be said about the close connection between conservatism and nationalism, but I shall not dwell on this point because it might be felt that my personal position makes me unable to sympathize with any form of nationalism. I will merely add that it is this nationalistic bias which frequently provides the bridge from conservatism to collectivism: to think in terms of "our" industry or resource is only a short step away from demanding that these national assets be directed in the national interest. But in this respect the Continental liberalism which derives from the French Revolution is little better than conservatism. I need hardly say that nationalism of this sort is something very different from patriotism and that an aversion to nationalism is fully compatible with a deep attachment to national traditions. But the fact that I prefer and feel reverence for some of the traditions of my society need not be the cause of hostility to what is strange and different.

Only at first does it seem paradoxical that the anti-internationalism of conservatism is so frequently associated with imperialism. But the more a person dislikes the strange and thinks his own ways superior, the more he tends to regard it as his mission to "civilize" other[10] - not by the voluntary and unhampered intercourse which the liberal favors, but by bringing them the blessings of efficient government. It is significant that here again we frequently find the conservatives joining hands with the socialists against the liberals - not only in England, where the Webbs and their Fabians were outspoken imperialists, or in Germany, where state socialism and colonial expansionism went together and found the support of the same group of "socialists of the chair," but also in the United States, where even at the time of the first Roosevelt it could be observed: "the Jingoism and the Social Reformers have gotten together; and have formed a political party, which threatened to capture the Government and use it for their program of Caesaristic paternalism, a danger which now seems to have been averted only by the other parties having adopted their program in a somewhat milder degree and form." [11]

5. There is one respect, however, in which there is justification for saying that the liberal occupies a position midway between the socialist and the conservative: he is as far from the crude rationalism of the socialist, who wants to reconstruct all social institutions according to a pattern prescribed by his individual reason, as from the mysticism to which the conservative so frequently has to resort. What I have described as the liberal position shares with conservatism a distrust of reason to the extent that the liberal is very much aware that we do not know all the answers and that he is not sure that the answers he has are certainly the right ones or even that we can find all the answers. He also does not disdain to seek assistance from whatever non-rational institutions or habits have proved their worth. The liberal differs from the conservative in his willingness to face this ignorance and to admit how little we know, without claiming the authority of supernatural forces of knowledge where his reason fails him. It has to be admitted that in some respects the liberal is fundamentally a skeptic[12] - but it seems to require a certain

degree of diffidence to let others seek their happiness in their own fashion and to adhere consistently to that tolerance which is an essential characteristic of liberalism.

There is no reason why this need mean an absence of religious belief on the part of the liberal. Unlike the rationalism of the French Revolution, true liberalism has no quarrel with religion, and I can only deplore the militant and essentially illiberal antireligionism which animated so much of nineteenth-century Continental liberalism. That this is not essential to liberalism is clearly shown by its English ancestors, the Old Whigs, who, if anything, were much too closely allied with a particular religious belief. What distinguishes the liberal from the conservative here is that, however profound his own spiritual beliefs, he will never regard himself as entitled to impose them on others and that for him the spiritual and the temporal are different sphere which ought not to be confused.

6. What I have said should suffice to explain why I do not regard myself as a conservative. Many people will feel, however, that the position which emerges is hardly what they used to call "liberal." I must, therefore, now face the question of whether this name is today the appropriate name for the party of liberty. I have already indicated that, though I have all my life described myself as a liberal, I have done so recently with increasing misgivings - not only because in the United States this term constantly gives rise to misunderstandings, but also because I have become more and more aware of the great gulf that exists between my position and the rationalistic Continental liberalism or even the English liberalism of the utilitarians.

If liberalism still meant what it meant to an English historian who in 1827 could speak of the revolution of 1688 as "the triumph of those principles which in the language of the present day are denominated liberal or constitutional" [13] or if one could still, with Lord Acton, speak of Burke, Macaulay, and Gladstone as the three greatest liberals, or if one could still, with Harold Laske, regard Tocqueville and Lord Acton as "the essential liberals of the nineteenth century,"[14] I should indeed be only too proud to describe myself by that name. But, much as I am tempted to call their liberalism true liberalism, I must recognize that the majority of Continental liberals stood for ideas to which these men were strongly opposed, and that they were led more by a desire to impose upon the world a preconceived rational pattern than to provide opportunity for free growth. The same is largely true of what has called itself Liberalism in England at least since the time of Lloyd George.

It is thus necessary to recognize that what I have called "liberalism" has little to do with any political movement that goes under that name today. It is also questionable whether the historical associations which that name carries today are conducive to the success of any movement. Whether in these circumstances one ought to make an effort to rescue the term from what one feels is its misuse is a question on which opinions may well differ. I myself feel more and more that to use it without long explanations causes too much confusion and that as a label it has become more of a ballast than a source of strength.

In the United States, where it has become almost impossible to use "liberal" in the sense

in which I have used it, the term "libertarian" has been used instead. It may be the answer; but for my part I find it singularly unattractive. For my taste it carries too much the flavor of a manufactured term and of a substitute. What I should want is a word which describes the party of life, the party that favors free growth and spontaneous evolution. But I have racked my brain unsuccessfully to find a descriptive term which commends itself.

7. We should remember, however, that when the ideals which I have been trying to restate first began to spread through the Western world, the party which represented them had a generally recognized name. It was the ideals of the English Whigs that inspired what later came to be known as the liberal movement in the whole of Europe[15] and that provided the conceptions that the American colonists carried with them and which guided them in their struggle for independence and in the establishment of their constitution.[16] Indeed, until the character of this tradition was altered by the accretions due to the French Revolution, with its totalitarian democracy and socialist leanings, "Whig" was the name by which the party of liberty was generally known.

The name died in the country of its birth partly because for a time the principles for which it stood were no longer distinctive of a particular party, and partly because the men who bore the name did not remain true to those principles. The Whig parties of the nineteenth century, in both Britain and the United States, finally brought discredit to the name among the radicals. But it is still true that, since liberalism took the place of Whiggism only after the movement for liberty had absorbed the crude and militant rationalism of the French Revolution, and since our task must largely be to free that tradition from the overrationalistic, nationalistic, and socialistic influences which have intruded into it, Whiggism is historically the correct name for the ideas in which I believe. The more I learn about the evolution of ideas, the more I have become aware that I am simply an unrepentant Old Whig - with the stress on the "old."

To confess one's self as an Old Whig does not mean, of course, that one wants to go back to where we were at the end of the seventeenth century. It has been one of the purposes of this book to show that the doctrines then first stated continued to grow and develop until about seventy or eighty years ago, even though they were no longer the chief aim of a distinct party. We have since learned much that should enable us to restate them in a more satisfactory and effective form. But, though they require restatement in the light of our present knowledge, the basic principles are still those of the Old Whigs. True, the later history of the party that bore that name has made some historians doubt where there was a distinct body of Whig principles; but I can but agree with Lord Acton that, though some of "the patriarchs of the doctrine were the most infamous of men, the notion of a higher law above municipal codes, with which Whiggism began, is the supreme achievement of Englishmen and their bequest to the nation"[17] - and, we may add, to the world. It is the doctrine which is at the basis of the common tradition of the Anglo-Saxon countries. It is the doctrine from which Continental liberalism took what is valuable in it. It is the doctrine on which the American system of government is based. In its pure form it is represented in the United States, not by the radicalism of Jefferson, nor by the conservatism of Hamilton or even of John Adams, but by the ideas of James Madison, the

"father of the Constitution." [18]

I do not know whether to revive that old name is practical politics. That to the mass of people, both in the Anglo-Saxon world and elsewhere, it is today probably a term without definite associations is perhaps more an advantage than a drawback. To those familiar with the history of ideas it is probably the only name that quite expresses what the tradition means. That, both for the genuine conservative and still more for the many socialists turned conservative, Whiggism is the name for their pet aversion shows a sound instinct on their part. It has been the name for the only set of ideals that has consistently opposed all arbitrary power.

8. It may well be asked whether the name really matters so much. In a country like the United States, which on the whole has free institutions and where, therefore, the defense of the existing is often a defense of freedom, it might not make so much difference if the defenders of freedom call themselves conservatives, although even here the association with the conservatives by disposition will often be embarrassing. Even when men approve of the same arrangements, it must be asked whether they approve of them because they exist or because they are desirable in themselves. The common resistance to the collectivist tide should not be allowed to obscure the fact that the belief in integral freedom is based on an essentially forward-looking attitude and not on any nostalgic longing for the past or a romantic admiration for what has been.

The need for a clear distinction is absolutely imperative, however, where, as is true in many parts of Europe, the conservatives have already accepted a large part of the collectivist creed - a creed that has governed policy for so long that many of its institutions have come to be accepted as a matter of course and have become a source of pride to "conservative" parties who created them. [19] Here the believer in freedom cannot but conflict with the conservative and take an essentially radical position, directed against popular prejudices, entrenched positions, and firmly established privileges. Follies and abuses are no better for having long been established principles of folly.

Though *quieta non movere* may at times be a wise maxim for the statesman it cannot satisfy the political philosopher. He may wish policy to proceed gingerly and not before public opinion is prepared to support it, but he cannot accept arrangements merely because current opinion sanctions them. In a world where the chief need is once more, as it was at the beginning of the nineteenth century, to free the process of spontaneous growth from the obstacles and encumbrances that human folly has erected, his hopes must rest on persuading and gaining the support of those who by disposition are "progressives," those who, though they may now be seeking change in the wrong direction, are at least willing to examine critically the existing and to change it wherever necessary.

I hope I have not misled the reader by occasionally speaking of "party" when I was thinking of groups of men defending a set of intellectual and moral principles. Party politics of any one country has not been the concern of this book. The question of how the principles I have tried to reconstruct by piecing together the broken fragments of a

tradition can be translated into a program with mass appeal, the political philosopher must leave to "that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs." [20] The task of the political philosopher can only be to influence public opinion, not to organize people for action. He will do so effectively only if he is not concerned with what is now politically possible but consistently defends the "general principles which are always the same." [21] In this sense I doubt whether there can be such a thing as a conservative political philosophy. Conservatism may often be a useful practical maxim, but it does not give us any guiding principles which can influence long-range developments.

## Notes

The quotation at the head of the Postscript is taken from Acton, *Hist. of Freedom*, p. 1.

1. This has now been true for over a century, and as early as 1855 J. S. Mill could say (see my *John Stuart Mill and Harriet Taylor* [London and Chicago, 1951], p. 216) that "almost all the projects of social reformers of these days are really liberticide."
2. B. Crick, "The Strange Quest for an American Conservatism," *Review of Politics*, XVII (1955), 365, says rightly that "the normal American who calls himself 'A Conservative' is, in fact, a liberal." It would appear that the reluctance of these conservatives to call themselves by the more appropriate name dates only from its abuse during the New Deal era.
3. The expression is that of R. G. Collingwood, *The New Leviathan* (Oxford: Oxford University Press, 1942), p. 209.
4. Cf. the characteristic choice of this title for the programmatic book by the present British Prime Minister Harold Macmillan, *The Middle Way* (London, 1938).
5. Cf. Lord Hugh Cecil, *Conservatism* ("Home University Library" [London, 1912], p. 9: "Natural Conservatism . . . is a disposition averse from change; and it springs partly from a distrust of the unknown."
6. Cf. the revealing self-description of a conservative in K. Feiling, *Sketches in Nineteenth Century Biography* (London, 1930), p. 174: "Taken in bulk, the Right have a horror of ideas, for is not the practical man, in Disraeli's words, 'one who practices the blunders of his predecessors'? For long tracts of their history they have indiscriminately resisted improvement, and in claiming to reverence their ancestors often reduce opinion to aged individual prejudice. Their position becomes safer, but more complex, when we add that this Right wing is incessantly overtaking the Left; that it lives by repeated inoculation of liberal ideas, and thus suffers from a never-perfected state of compromise."
7. I trust I shall be forgiven for repeating here the words in which on an earlier occasion I stated an important point: "The main merit of the individualism which [Adam Smith] and his contemporaries advocated is that it is a system under which bad men can do least

harm. It is a social system which does not depend for its functioning on our finding good men for running it, or on all men becoming better than they now are, but which makes use of men in all their given variety and complexity, sometimes good and sometimes bad, sometimes intelligent and more often stupid." (Individualism and Economic Order [London and Chicago, 1948], p. 11).

8. Cf. Lord Acton in Letters of Lord Acton to Mary Gladstone, ed. H. Paul (London, 1913), p. 73: "The danger is not that a particular class is unfit to govern. Every class is unfit to govern. The law of liberty tends to abolish the reign of race over race, of faith over faith, of class over class."

9. J. R. Hicks has rightly spoken in this connection of the "caricature drawn alike by the young Disraeli, by Marx and by Goebbels" ("The Pursuit of Economic Freedom," What We Defend, ed. E. F. Jacob [Oxford: Oxford University Press, 1942], p. 96). On the role of the conservatives in this connection see also my Introduction to Capitalism and the Historians (Chicago: University of Chicago Press, 1954), pp. 19 ff.

10. Cf. J. S. Mill, On Liberty, ed. R. B. McCallum (Oxford, 1946), p. 83: "I am not aware that any community has a right to force another to be civilised."

11. J. W. Burgess, The Reconciliation of Government with Liberty (New York, 1915), p. 380.

12. Cf. Learned Hand, The Spirit of Liberty, ed. I. Dilliard (New York, 1952), p. 190: "The Spirit of liberty is the spirit which is not too sure that it is right." See also Oliver Cromwell's often quoted statement in his Letter to the Assembly of the Church of Scotland, August 3, 1650: "I beseech you, in the bowels of Christ, think it possible you may be mistaken." It is significant that this should be the probably best-remembered saying of the only "dictator" in British history!

13. H. Hallam, Constitutional History (1827) ("Everyman" ed.), III, 90. It is often suggested that the term "liberal" derives from the early nineteenth-century Spanish party of the liberales. I am more inclined to believe that it derives from the use of that term by Adam Smith in such passages as W.o.N., II, 41: "the liberal system of free exportation and free importation" and p. 216: "allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty, and justice."

14. Lord Acton in Letters to Mary Gladstone, p. 44. Cf. also his judgment of Tocqueville in Lectures on the French Revolution (London, 1910), p. 357: "Tocqueville was a Liberal of the purest breed - a Liberal and nothing else, deeply suspicious of democracy and its kindred, equality, centralisation, and utilitarianism." Similarly in the Nineteenth Century, XXXIII (1892), 885. The statement by H. J. Laski occurs in "Alexis de Tocqueville and Democracy," in The Social and Political Ideas of Some Representative Thinkers of the Victorian Age, ed. F. J. C. Hearnshaw (London, 1933), p. 100, where he says that "a case of unanswerable power could, I think, be made out for the view that he [Tocqueville] and Lord Acton were the essential liberals of the nineteenth century."

15. As early as the beginning of the eighteenth century, an English observer could remark that he "scarce ever knew a foreigner settled in England, whether of Dutch, German, French, Italian, or Turkish growth, but became a Whig in a little time after his mixing with us" (quoted by G. H. Guttridge, *English Whiggism and the American Revolution* [Berkeley: University of California Press, 1942], p. 3).

16. In the United States the nineteenth-century use of the term "Whig" has unfortunately obliterated the memory of the fact that in the eighteenth it stood for the principles which guided the revolution, gained independence, and shaped the Constitution. It was in Whig societies that the young James Madison and John Adams developed their political ideals (cf. E. M. Burns, *James Madison* [New Brunswick, N.J.: Rutgers University Press, 1938], p. 4); it was Whig principles which, as Jefferson tells us, guided all the lawyers who constituted such a strong majority among the signers of the Declaration of Independence and among the members of the Constitutional Convention (see *Writings of Thomas Jefferson* ["Memorial ed." (Washington, 1905)], XVI, 156). The profession of Whig principles was carried to such a point that even Washington's soldiers were clad in the traditional "blue and buff" colors of the Whigs, which they shared with the Foxites in the British Parliament and which was preserved down to our days on the covers of the *Edinburgh Review*. If a socialist generation has made Whiggism its favorite target, this is all the more reason for the opponents of socialism to vindicate its name. It is today the only name which correctly describes the beliefs of the Gladstonian liberals, of the men of the generation of Maitland, Acton, and Bryce, and the last generation for whom liberty rather than equality or democracy was the main goal.

17. Lord Acton, *Lectures on Modern History* (London, 1906), p. 218 (I have slightly rearranged Acton's clauses to reproduce briefly the sense of his statement).

18. Cf. S. K. Padover in his *Introduction to The Complete Madison* (New York, 1953), p. 10: "In modern terminology, Madison would be labeled a middle-of-the-road liberal and Jefferson a radical." This is true and important, though we must remember what E. S. Corwin ("*James Madison: Layman, Publicist, and Exegete*," *New York University Law Review*, XXVII [1952], 285) has called Madison's later "surrender to the overwhelming influence of Jefferson."

19. Cf. the British Conservative party's statement of policy, *The Right Road for Britain* (London, 1950), pp. 41-42, which claims, with considerable justification, that "this new conception [of the social services] was developed [by] the Coalition Government with a majority of Conservative Ministers and the full approval of the Conservative majority in the House of Commons . . . [We] set out the principle for the schemes of pensions, sickness and unemployment benefit, industrial injustices benefit and a national health scheme."

20. A Smith, *W.o.N.*, I, 432.

21. *Ibid.*



# F. A. Hayek's Influence on Nobel Prize Winners

DAVID B. SKARBEEK<sup>1</sup>

*Department of Economics, George Mason University, Fairfax, VA. 22030*

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## **Abstract**

F.A. Hayek's broad research program has led some to conclude that his impact on economics has been minimal. This citation study examines the frequency of Nobel laureates cited by other laureates in the official Prize Lectures to understand how elite economists influence other elite economists. It finds that Hayek is the second most frequently mentioned laureate in the Prize Lectures, and he has the second most publication citations of the laureates. Hayek's influence on the top-tier of economists is substantial.

## **Introduction**

Friedrich A. Hayek's academic contributions span an impressive number of fields, including monetary and capital theory, constitutional economics, law, psychology, and political philosophy. Throughout his career, his work has challenged the mainstream economics profession by arguing against the acceptance of scientific socialism by mainstream economists, questioning the assumption of given information and static (rather than dynamic) markets, and denying the positivist methodology -- which is still dominant -- in favor of emphasizing the complexity of social phenomenon.

Peter Boettke argues, however, that most people recognize Hayek for his "political vision and not his economic analytics" (2000: xii). He notes that Hayek's early prominence as an economist turned to "ridicule" with the rise of Keynesianism. *The Road to Serfdom* restored

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<sup>1</sup> Email: [dskarbek@gmu.edu](mailto:dskarbek@gmu.edu). The author thanks Peter Boettke, Christopher Coyne, David Levy, and Emily Schaeffer for helpful comments. He gratefully acknowledges generous research support from the Mercatus Center.

Hayek's fame but firmly established him as an *ideological* opponent to socialism instead of an economist, and he notes that even a distinguished economist like Paul Krugman believes that if it were not for his politics, Hayek would be "virtually forgotten" (ibid.). Hayek's broad-ranging research program has eclipsed his economic contributions. To what extent, then, has Hayek's work actually influenced economists?<sup>2</sup>

This paper provides empirical evidence on Nobel Prize winners' influences on other Nobel laureates. I examine all of the Nobel laureates' Prize Lectures and tally the number of citations to other laureates. The lectures are primarily summary works about the contribution mentioned by the Nobel Committee, so citations in the lectures should reflect accurately the influences on the laureates' main work.

I use only the lectures listed as the "Prize Lecture" on the official Nobel Prize webpage. Many of the laureates have published variations of their prize lecture in journals or written commentaries in newspapers like the *Wall Street Journal* and *New York Times*, and using the lectures on the official webpage seems like the least arbitrary method for choosing among different versions. I examine the written lectures, not the prize speech which is sometimes included and different.

I exclude two laureates from this study<sup>3</sup>. I exclude John Nash because the Nobel website does not provide a Prize Lecture for him; instead, it lists a Prize Seminar with commentary by Kuhn, Harsanyi, Selten, Weibull, Damme, and Hammerstein with some limited discussion by Nash. William Vickrey died before giving his lecture, so Jean-Jacques Laffont gave a speech in his honor. Although likely to be consistent with each laureate's research influences, the citations are not actually attributable to them.

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<sup>2</sup> Boettke, Coyne, and Leeson (2008) discuss Hayek's influence by identifying the unifying theme throughout his work – coordination – and showing its relevance in eight areas of research, seven of which are explicitly economics.

<sup>3</sup> Paul Krugman is not included because his Prize Lecture has not been given at the time of writing.

Clearly, this is not a perfect test of Hayek's influence. It is possible that an economist works in a field that Hayek initially inspired, but the field has since lost that explicit distinction. Alternatively, an economist may simply not cite Hayek despite a clear influence. For example, even James Buchanan -- who cites Hayek roughly three times more than either Kenneth Arrow or Milton Friedman in his collected works (Buchanan 2002) -- does not cite him in his Nobel lecture. There is also variation in the length and style of the prize lectures, with some being shorter, more biographical pieces and others being detailed elaborations of the laureate's contribution. Moreover, the internet may have increased access to academic materials and may bias the later winners to cite more people or more often. Despite these shortcomings, starting with the Nobel Prize lectures seems like a reasonable place to start to understand Hayek's influence on the other laureates in economic science.

## **Results**

I record the number of times a laureate is cited in the others' lectures. This measure gives no indication of the extent to which a person is cited in a lecture, only the number of laureates who cited him at all. For the fifteen lectures without a clearly defined "references" section, I simply examine the lecture and record the laureates mentioned. I exclude self-citations. Table 1 displays the results.

TABLE 1

| Economist  | Citations Received | Economist | Citations Received | Economist   | Citations Received |
|------------|--------------------|-----------|--------------------|-------------|--------------------|
| Arrow      | 15                 | Aumann    | 4                  | Sen         | 2                  |
| Hayek      | 13                 | Maskin    | 4                  | Spence      | 2                  |
| Samuelson  | 12                 | Nash      | 4                  | Tinbergen   | 2                  |
| Friedman   | 10                 | Prescott  | 4                  | Allais      | 1                  |
| Lucas      | 10                 | Stiglitz  | 4                  | Engle       | 1                  |
| Phelps     | 10                 | Kuznets   | 3                  | Fogel       | 1                  |
| Modigliani | 9                  | Kydland   | 3                  | Granger     | 1                  |
| Becker     | 7                  | Leontief  | 3                  | Haavelmo    | 1                  |
| Miller     | 7                  | Mirrlees  | 3                  | Kantorovich | 1                  |
| Solow      | 7                  | Myrdal    | 3                  | Klein       | 1                  |
| Stigler    | 7                  | Scholes   | 3                  | McFadden    | 1                  |
| Coase      | 6                  | Sharpe    | 3                  | Mundell     | 1                  |
| Debreu     | 6                  | Vickrey   | 3                  | North       | 1                  |
| Hicks      | 6                  | Akerlof   | 2                  | Ohlin       | 1                  |
| Hurwicz    | 6                  | Buchanan  | 2                  | Schelling   | 1                  |
| Kahneman   | 6                  | Frisch    | 2                  | Smith       | 1                  |
| Koopmans   | 6                  | Harsanyi  | 2                  | Stone       | 1                  |
| Tobin      | 6                  | Heckman   | 2                  | Lewis       | 0                  |
| Markowitz  | 5                  | Meade     | 2                  | Selten      | 0                  |
| Merton     | 5                  | Myerson   | 2                  |             |                    |
| Simon      | 5                  | Schultz   | 2                  |             |                    |

To get a better idea of whether these are passing citations or substantive discussions, I count the number of laureate's publications cited in the references section. For example, if a lecture cites Coase's 1937 and 1960 pieces, I would record a "2" for Coase for this lecture. I do not discount coauthored publications. As mentioned above, fifteen of the lectures do not have a references section. For all laureates mentioned in these lectures, I simply record a one. Clearly, this will bias the results. I put an asterisk (in Table 2) next to the laureates who did not have a "references" section. The reader is free to speculate about to whom the laureates may have given multiple citations. Notably, neither Buchanan nor Coase have a references section, which I suspect would generate quite a few more citations for Hayek. Table 2 displays the results.

Table 2

| Economist  | Citations Received | Economist    | Citations Received | Economist | Citations Received |
|------------|--------------------|--------------|--------------------|-----------|--------------------|
| Arrow      | 37                 | Hicks*       | 8                  | Meade*    | 2                  |
| Hayek*     | 23                 | Mirrlees     | 8                  | Myerson   | 2                  |
| Samuelson  | 20                 | Prescott     | 7                  | Schultz   | 2                  |
| Lucas      | 18                 | Tobin        | 7                  | Sen       | 2                  |
| Phelps     | 18                 | Buchanan*    | 6                  | Smith     | 2                  |
| Kahneman   | 16                 | Koopmans     | 6                  | Tinbergen | 2                  |
| Friedman   | 15                 | Kydland      | 6                  | Allais*   | 1                  |
| Maskin     | 14                 | Leontief*    | 6                  | Engle     | 1                  |
| Merton     | 13                 | Simon        | 6                  | Fogel     | 1                  |
| Stiglitz   | 13                 | Aumann       | 5                  | Granger   | 1                  |
| Becker     | 12                 | Heckman      | 5                  | Haavelmo* | 1                  |
| Modigliani | 12                 | McFadden     | 5                  | Klein*    | 1                  |
| Markowitz  | 11                 | Nash         | 5                  | Mundell   | 1                  |
| Miller     | 11                 | Sharpe       | 5                  | North     | 1                  |
| Solow      | 10                 | Kantorovich* | 4                  | Ohlin*    | 1                  |
| Stigler*   | 10                 | Kuznets*     | 4                  | Schelling | 1                  |
| Hurwicz    | 9                  | Myrdal*      | 3                  | Stone     | 1                  |
| Scholes    | 9                  | Spence       | 3                  | Lewis*    | 0                  |
| Akerlof    | 8                  | Vickrey      | 3                  | Selten    | 0                  |
| Coase*     | 8                  | Frisch       | 2                  |           |                    |
| Debreu     | 8                  | Harsanyi     | 2                  |           |                    |

### Concluding Discussion

Hayek's influence on Nobel Laureates is, by these measures, substantial. Hayek comes in second – trailing Arrow – under both measurement methods. The elite of the economics profession, Coase, Friedman, Hicks, Hurwicz, Koopmans, Lucas, Maskin, Myerson, North, Phelps, Sen, Smith, and Stigler, all deem Hayek's work as important and influential to economics. I have presented a very simple measurement; I hope it will stimulate a more thorough and accurate study of Hayek's influence on the other Nobel laureates.

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