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Volume 3 The Political Order of a Free Society (*forthcoming*)

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# LAW, LEGISLATION AND LIBERTY

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*A new statement of the liberal principles  
of justice and political economy*

Volume 2

## THE MIRAGE OF SOCIAL JUSTICE

Friedrich A. Hayek



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In a free society the state does not administer the affairs of men. It administers justice among men who conduct their own affairs.

(Walter Lippmann, *An Inquiry into the Principles of a Good Society* (Boston, 1937), p. 267)

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Nations solemnly proclaiming that *every* individual (1), 'keeping this Declaration constantly in mind' (1), should strive to insure the universal observation of those human rights, would be merely comic if the illusions which this creates were not so profoundly tragic. To see the most comprehensive authority which man has yet created undermining the respect it ought to command by giving countenance to the naive prejudice that we can create any state of affairs which we think to be desirable by simply decreeing that it ought to exist, and indulging in the self-deception that we can benefit from the spontaneous order of society and at the same time mould it to our own will, is more than merely tragic.<sup>5</sup>

The fundamental fact which these illusions disregard is that the availability of all those benefits which we wish as many people as possible to have depends on these same people using for their production their own best knowledge. To establish enforceable rights to the benefits is not likely to produce them. If we wish everybody to be well off, we shall get closest to our goal, not by commanding by law that this should be achieved, or giving everybody a legal claim to what we think he ought to have, but by providing inducements for all to do as much as they can that will benefit others. To speak of rights where what are in question are merely aspirations which only a voluntary system can fulfil, not only misdirects attention from what are the effective determinants of the wealth which we wish for all, but also debases the word 'right', the strict meaning of which it is very important to preserve if we are to maintain a free society.

## THE MARKET ORDER OR CATALLAXY

The judgement of mankind about what is equitable is liable to change, and . . . one of the forces which cause it to change is mankind's discovery from time to time that what was supposed to be quite just and equitable in some particular matter has become, or perhaps always was, uneconomical.

Edwin Cannan\*

### *The nature of the market order*

In chapter 2 we have discussed the general character of all spontaneous orders. It is necessary now to examine more fully the special attributes possessed by the order of the market and the nature of the benefits we owe to it. This order serves our ends not merely, as all order does, by guiding us in our actions and by bringing about a certain correspondence between the expectations of the different persons, but also, in a sense which we must now make more precise, by increasing the prospects or chances of every one of a greater command over the various goods (i.e. commodities and services) than we are able to secure in any other way. We shall see, however, that this manner of co-ordinating individual actions will secure a high degree of coincidence of expectations and an effective utilization of the knowledge and skills of the several members only at the price of a constant disappointment of some expectations.

For a proper understanding of the character of this order it is essential that we free ourselves of the misleading associations suggested by its usual description as an 'economy'. An economy, in the strict sense of the word in which a household, a farm, or an enterprise can be called economies, consists of a complex of activities by which a given set of means is allocated in accordance with a unitary plan among the competing ends according to their relative importance. The market order serves no such single order of ends.

Doesn't like term "economy" — econ. as inst'n

spont. order

max. soc. util.?

no order ends

What is commonly called a social or national economy is in this sense not a single economy but a network of many interlaced economies.<sup>1</sup> Its order shares, as we shall see, with the order of an economy proper some formal characteristics but not the most important one: its activities are not governed by a single scale or hierarchy of ends. The belief that the economic activities of the individual members of society are or ought to be part of one economy in the strict sense of this term, and that what is commonly described as the economy of a country or a society ought to be ordered and judged by the same criteria as an economy proper, is a chief source of error in this field. But, whenever we speak of the economy of a country, or of the world, we are employing a term which suggests that these systems ought to be run on socialist lines and directed according to a single plan so as to serve a unitary system of ends.

While an economy proper is an organization in the technical sense in which we have defined that term, that is, a deliberate arrangement of the use of the means which are known to some single agency, the cosmos of the market neither is nor could be governed by such a single scale of ends; it serves the multiplicity of separate and incommensurable ends of all its separate members.

The confusion which has been created by the ambiguity of the word economy is so serious that for our present purposes it seems necessary to confine its use strictly to the original meaning in which it describes a complex of deliberately co-ordinated actions serving a single scale of ends, and to adopt another term to describe the system of numerous interrelated economies which constitute the market-order. Since the name 'catalactics' has long ago been suggested for the science which deals with the market order<sup>2</sup> and has more recently been revived,<sup>3</sup> it would seem appropriate to adopt a corresponding term for the market order itself. The term 'catalactics' was derived from the Greek verb *katalattein* (or *katalassein*) which meant, significantly, not only 'to exchange' but also 'to admit into the community' and 'to change from enemy into friend'. From it the adjective 'catalactic' has been derived to serve in the place of 'economic' to describe the kind of phenomena with which the science of catalactics deals. The ancient Greeks knew neither this term nor had a corresponding noun; if they had formed one it would probably have been *katalaxia*. From this we can form an English term *catalaxy* which we shall use to describe the order

no: not economy but catalaxy

brought about by the mutual adjustment of many individual economies in a market. A catalaxy is thus the special kind of spontaneous order produced by the market through people acting within the rules of the law of property, tort and contract.

*A free society is a pluralistic society without a common hierarchy of particular ends*

It is often made a reproach to the Great Society and its market order that it lacks an agreed ranking of ends. This, however, is in fact its great merit which makes individual freedom and all its values possible. The Great Society arose through the discovery that men can live together in peace and mutually benefiting each other without agreeing on the particular aims which they severally pursue. The discovery that by substituting abstract rules of conduct for obligatory concrete ends made it possible to extend the order of peace beyond the small groups pursuing the same ends, because it enabled each individual to gain from the skill and knowledge of others whom he need not even know and whose aims could be wholly different from his own.<sup>5</sup>

The decisive step which made such peaceful collaboration possible in the absence of concrete common purposes was the adoption of barter or exchange. It was the simple recognition that different persons had different uses for the same things, and that often each of two individuals would benefit if he obtained something the other had, in return for his giving the other what he needed. All that was required to bring this about was that rules be recognized which determined what belonged to each, and how such property could be transferred by consent.<sup>6</sup> There was no need for the parties to agree on the purposes which this transaction served. It is indeed characteristic of such acts of exchange that they serve different and independent purposes of each partner in the transaction, and that they thus assist the parties as means for different ends. The parties are in fact the more likely to benefit from exchange the more their needs differ. While within an organization the several members will assist each other to the extent that they are made to aim at the same purposes, in a catalaxy they are induced to contribute to the needs of others without caring or even knowing about them.

In the Great Society we all in fact contribute not only to the satisfaction of needs of which we do not know, but sometimes even to the achievement of ends of which we would disapprove if we

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knew about them. We cannot help this because we do not know for what purposes the goods or services which we supply to others will be used by them. That we assist in the realization of other people's aims without sharing them or even knowing them, and solely in order to achieve our own aims, is the source of strength of the Great Society. So long as collaboration presupposes common purposes, people with different aims are necessarily enemies who may fight each other for the same means; only the introduction of barter made it possible for the different individuals to be of use to each other without agreeing on the ultimate ends.

When this effect of exchange of making people mutually benefit each other without intending to do so was first clearly recognized, <sup>7</sup> too much stress was laid on the resulting division of labour and on the fact that it was their 'selfish' aims which led the different persons to render services to each other. This is much too narrow a view of the matter. Division of labour is extensively practised also within organizations; and the advantages of the spontaneous order do not depend on people being selfish in the ordinary sense of this word. The important point about the catalaxy is that it reconciles different knowledge and different purposes which, whether the individuals be selfish or not, will greatly differ from one person to another. It is because in the catalaxy men, while following their own interests, whether wholly egotistical or highly altruistic, will further the aims of many others, most of whom they will never know, that it is as an overall order so superior to any deliberate organization: in the Great Society the different members benefit from each other's efforts not only in spite of but often even because of their several aims being different. <sup>8</sup>

Many people regard it as revolting that the Great Society has no common concrete purposes or, as we may say, that it is merely means-connected and not ends-connected. It is indeed true that the chief common purpose of all its members is the purely instrumental one of securing the formation of an abstract order which has no specific purposes but will enhance for all the prospects of achieving their respective purposes. The prevailing moral tradition, much of which still derives from the end-connected tribal society, makes people often regard this circumstance as a moral defect of the Great Society which ought to be remedied. Yet it was the very restriction of coercion to the observance of the negative rules of just conduct that made possible the integration into a peaceful order of individuals and groups which pursued different ends; and

it is the absence of prescribed common ends which makes a society of free men all that it has come to mean to us.

Though the conception that a common scale of particular values is a good thing which ought, if necessary, to be enforced, is deeply founded in the history of the human race, its intellectual defence today is based mainly on the erroneous belief that such a common scale of ends is necessary for the integration of the individual activities into an order, and a necessary condition of peace. This error is, however, the greatest obstacle to the achievement of those very ends. A Great Society has nothing to do with, and is in fact irreconcilable with solidarity in the true sense of unitedness in the pursuit of known common goals. <sup>9</sup> If we all occasionally feel that it is a good thing to have a common purpose with our fellows, and enjoy a sense of elation when we can act as members of a group aiming at common ends, this is an instinct which we have inherited from tribal society and which no doubt often still stands us in good stead whenever it is important that in a small group we should act in concert to meet a sudden emergency. It shows itself conspicuously when sometimes even the outbreak of war is felt as satisfying a craving for such a common purpose; and it manifests itself most clearly in modern times in the two greatest threats to a free civilization: nationalism and socialism. <sup>10</sup>

Most of the knowledge on which we rely in the pursuit of our ends is the unintended by-product of others exploring the world in different directions from those we pursue ourselves because they are impelled by different aims; it would never have become available to us if only those ends were pursued which we regarded as desirable. To make it a condition for the membership of a society that one approved of, and deliberately supported, the concrete ends which one's fellow members serve, would eliminate the chief factor which makes for the advancement of such a society. Where agreement on concrete objects is a necessary condition of order and peace, and dissent a danger to the order of the society, where approval and censure depend on the concrete ends which particular actions serve, the forces for intellectual progress would be much confined. However much the existence of agreement on ends may in many respects smooth the course of life, the possibility of disagreement, or at least the lack of compulsion to agree on particular ends, is the basis of the kind of civilization which has grown up since the Greeks developed independent thought of the individual as the most effective method of advancement of the human mind. <sup>11</sup>

Unintended by-product

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*Though not a single economy, the Great Society is still held together mainly by what vulgarly are called economic relations*

The misconception that the market order is an economy in the strict sense of the term is usually found combined with the denial that the Great Society is held together by what are loosely called economic relations. These two views are frequently held by the same persons because it is certainly true that those deliberate organizations which are properly called economies are based on an agreement on common ends which in turn mostly are non-economic; while it is the great advantage of the spontaneous order of the market that it is merely means-connected and that, therefore, it makes agreement on ends unnecessary and a reconciliation of divergent purposes possible. What are commonly called economic relations are indeed relations determined by the fact that the use of all means is affected by the striving for those many different purposes. It is in this wide sense of the term 'economic' that the interdependence or coherence of the parts of the Great Society is purely economic.<sup>12</sup>

The suggestion that in this wide sense the only ties which hold the whole of a Great Society together are purely 'economic' (more precisely 'catalactic') arouse great emotional resistance. Yet the fact can hardly be denied; nor the fact that, in a society of the dimensions and complexity of a modern country or of the world, it can hardly be otherwise. Most people are still reluctant to accept the fact that it should be the disdained 'cash-nexus' which holds the Great Society together, that the great ideal of the unity of mankind should in the last resort depend on the relations between the parts being governed by the striving for the better satisfaction of their material needs.

It is of course true that within the overall framework of the Great Society there exist numerous networks of other relations that are in no sense economic. But this does not alter the fact that it is the market order which makes peaceful reconciliation of the divergent purposes possible—and possible by a process which redounds to the benefit of all. That interdependence of all men, which is now in everybody's mouth and which tends to make all mankind One World, not only is the effect of the market order but could not have been brought about by any other means. What today connects the life of any European or American with what happens in Australia, Japan or Zaire are repercussions transmitted by the network of

market relations. This is clearly seen when we reflect how little, for instance, all the technological possibilities of transportation and communication would matter if the conditions of production were the same in all the different parts of the world.

The benefits from the knowledge which others possess, including all the advances of science, reach us through channels provided and directed by the market mechanism. Even the degree to which we can participate in the aesthetic or moral strivings of men in other parts of the world we owe to the economic nexus. It is true that on the whole this dependence of every man on the actions of so many others is not a physical but what we call an economic fact. It is therefore a misunderstanding, caused by the misleading terms used, if the economists are sometimes accused of 'pan-economism', a tendency to see everything from the economic angle, or, worse, wanting to make 'economic purposes' prevail over all others.<sup>13</sup> The truth is that catalactics is the science which describes the only overall order that comprehends nearly all mankind, and that the economist is therefore entitled to insist that conduciveness to that order be accepted as a standard by which all particular institutions are judged.

It is, however, a misunderstanding to represent this as an effort to make 'economic ends' prevail over others. There are, in the last resort, no economic ends. The economic efforts of the individuals as well as the services which the market order renders to them, consist in an allocation of means for the competing ultimate purposes which are always non-economic. The task of all economic activity is to reconcile the competing ends by deciding for which of them the limited means are to be used. The market order reconciles the claims of the different non-economic ends by the only known process that benefits all—without, however, assuring that the more important comes before the less important, for the simple reason that there can exist in such a system no single ordering of needs. What it tends to bring about is merely a state of affairs in which no need is served at the cost of withdrawing a greater amount of means from the use for other needs than is necessary to satisfy it. The market is the only known method by which this can be achieved without an agreement on the relative importance of the different ultimate ends, and solely on the basis of a principle of reciprocity through which the opportunities of any person are likely to be greater than they would otherwise be.

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The aim of policy in a society of free men cannot be a maximum of foreknown results but only an abstract order

The erroneous interpretation of the catalaxy as an economy in the strict sense of this word frequently leads to attempts to evaluate the benefits which we derive from it in terms of the degree of satisfaction of a given order of ends. But, if the importance of the various demands is judged by the price offered, this approach, as has been pointed out innumerable times, by the critics of the market order even more frequently than by its defenders, involves us in a vicious circle: because the relative strength of the demand for the different goods and services to which the market will adjust their production is itself determined by the distribution of incomes which in turn is determined by the market mechanism. Many writers have concluded from this that if this scale of relative demands cannot without circular reasoning be accepted as the common scale of values, another scale of ends must be postulated if we are to judge the effectiveness of this market order.

The belief that there can be no rational policy without a common scale of concrete ends implies, however, an interpretation of the catalaxy as an economy proper and for this reason is misleading. Policy need not be guided by the striving for the achievement of particular results, but may be directed towards securing an abstract overall order of such character that it will secure for the members the best chance of achieving their different and largely unknown particular ends. The aim of policy in such a society would have to be to increase equally the chances for any unknown member of society of pursuing with success his equally unknown purposes, and to restrict the use of coercion (apart from the raising of taxes) to the enforcement of such rules as will, if universally applied, tend in this sense to improve everyone's opportunities.

A policy making use of the spontaneously ordering forces therefore cannot aim at a known maximum of particular results, but must aim at increasing, for any person picked out at random, the prospects that the overall effect of all changes required by that order will be to increase his chances of attaining his ends. We have seen<sup>14</sup> that the common good in this sense is not a particular state of things but consists in an abstract order which in a free society must leave undetermined the degree to which the several particular needs will be met. The aim will have to be an order which will increase everybody's chances as much as possible—

not at every moment, but only 'on the whole' and in the long run.

Because the results of any economic policy must depend on the use made of the operation of the market by unknown persons guided by their own knowledge and their own aims, the goal of such a policy must be to provide a multi-purpose instrument which at no particular moment may be the one best adapted to the particular circumstances, but which will be the best for the great variety of circumstances likely to occur. If we had known those particular circumstances in advance, we could probably have better equipped ourselves to deal with them; but since we do not know them beforehand, we must be content with a less specialized instrument which will allow us to cope even with very unlikely events.

### *The game of catalaxy*

The best way to understand how the operation of the market system leads not only to the creation of an order, but also to a great increase of the return which men receive from their efforts, is to think of it, as suggested in the last chapter, as a game which we may now call the game of catalaxy. It is a wealth-creating game (and not what game theory calls a zero-sum game), that is, one that leads to an increase of the stream of goods and of the prospects of all participants to satisfy their needs, but which retains the character of a game in the sense in which the term is defined by the *Oxford English Dictionary*: 'a contest played according to rules and decided by superior skill, strength or good fortune'. That the outcome of this game for each will, because of its very character, necessarily be determined by a mixture of skill and chance will be one of the main points we must now try to make clear.

The chief cause of the wealth-creating character of the game is that the returns of the efforts of each player act as the signs which enable him to contribute to the satisfaction of needs of which he does not know, and to do so by taking advantage of conditions of which he also learns only indirectly through their being reflected in the prices of the factors of production which they use. It is thus a wealth-producing game because it supplies to each player information which enables him to provide for needs of which he has no direct knowledge and by the use of means of the existence of which without it he would have no cognizance, thus bringing about the satisfaction of a greater range of needs than would otherwise be possible. The manufacturer does not produce shoes because he