THE MIND AND THE MARKET

CAPITALISM IN MODERN EUROPEAN THOUGHT

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CHAPTER THIRTEEN

FRIEDRICH HAYEK: UNTIMELY LIBERAL

Friedrich August von Hayek was a year younger than Marcuse. He was born in 1899, in Vienna, when it was still the capital of the Austro-Hungarian Empire, and came of age intellectually in the highly antiliberal culture of Vienna of the 1920s and in the shadow of Communism and fascism. Though Hayek wrote his most systematic and comprehensive book, *The Constitution of Liberty,* while living in the United States and dedicated it "To the unknown civilization that is growing in America," his work grew out of his experiences in Europe.[1] "My mind," he noted, "has been shaped by a youth spent in my native Austria and by two decades of middle life in Great Britain. . . ."[2] He published his most seminal works from the mid-1930s to the 1970s, an era in which it was widely assumed that the expansion of the role of the state and of state expenditure was both desirable and inevitable. Just as Marcuse, after decades of laboring in the obscure corners of academe, found himself a mentor to the New Left of the 1960s, so Hayek emerged from intellectual marginality to become, along with his American comrade-in-arms, Milton Friedman, the most important influence on the neoliberalism that reappeared on the intellectual and political scene from the 1970s through the 1990s.

Hayek's was a conservative brand of liberalism, focused on individual liberty and the restriction of government, not, as with Keynes or most American liberals, on increasing equality. He first came to the attention of a broader public with the publication of *The Road to Serfdom* in 1944. Hayek defended a culture of individual achievement against an enemy he called "collectivism," which came in both left- and right-wing versions. On the left it took the form of social democracy, socialism, or, most radically, Communism; on the right it took the form of ethnic or nationalist particularism and, most radically, fascism and Nazism. In the eighteenth century, Adam Smith laid out a vision of international free trade as a deliberate alternative to the national chauvinism of his day. Hayek, too, would link the market to overcoming particularism and group self-interest, whether of the left or of the right. His work was an unremitting attack on attempts to use government power to protect some particular identity, whether based on race, class, religion, or ethnicity. [...]

resume:

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The Critique of "Social Justice" and the Hazards of the Welfare State

The publication of *The Road to Serfdom* brought Hayek a modicum of popular fame in Britain and in America, where an abridged version (edited by an ex-socialist, Max Eastman) appeared in the mass-circulation *Reader's Digest*. The book was embraced by some British Conservatives, and found even greater resonance among conservative opponents of the New Deal in the United States. Public acclaim, however, was purchased at the price of some academic respectability. Leftist academics were of course fiercely antipathetic to Hayek's argument. But even sympathizers felt that the links he suggested between British socialism and German National Socialism were forced and unfair, that his claims were exaggerated, and that he had crossed the boundary between social science and polemic.

After the war, Hayek visited Vienna and renewed his relationship with Helene Warhanek, a woman with whom he had been in love before he met his wife. They resolved to divorce their spouses and marry each other. Helene was spared the trouble: shortly thereafter, her husband died.[93] Hayek divorced his wife and married his old flame, an act that alienated many of his closest British friends and led Hayek to look for a post abroad. Whether because of the notoriety of *The Road to Serfdom* or because economists viewed his work on monetary theory as outdated, Hayek found it difficult to find a job at an economics department at a major American university.[94] After failed overtures to a number of institutions, the chairman of the University of Chicago's Committee on Social Thought worked out an unusual arrangement by which Hayek became professor of social and moral science there, his salary paid by a private American foundation, the Volker Charities Fund.[95]

Hayek taught at Chicago from 1950 to 1962, but his mind remained focused on Europe, where he returned frequently. He remained a British subject to the end of his days and regarded England as his homeland.[96] That he lived elsewhere was a matter of personal opportunities, not commitment. In 1962 he moved to the University of Freiburg in Germany, a center of the politically conservative brand of German economic liberalism known as "Ordo-Liberalism." His move was primarily motivated by the need for a job that would provide him with a guaranteed pension, since he was a man of limited means nearing the normal age of retirement in a job without retirement benefits. While Hayek spent the bulk of his remaining years in Germany and Austria, his greatest influence was in the English-speaking world. It was in English that he published his two most significant books of political thought, *The Constitution of Liberty* of 1960 and the trilogy *Law, Legislation, and Liberty,* published between 1973 and 1979.

The Constitution of Liberty and its successor aimed at a critical, though not entirely hostile, examination of what had come to be known as "the welfare state." Just as Marcuse's message was misinterpreted by disciples who thought that he stood for more and better orgasms, Hayek was often cited by advocates of laissez-faire and opponents of the welfare state. His position was actually more subtle and supple than such support might indicate.

Hayek's concern was the tensions between liberty and the welfare state. He defined liberty as the limitation of the coercive power of the state, such that "coercion of some [people] by others is reduced as much as is possible in society."[97] But Hayek was clear that liberty existed only when protected by the state, which enforced the rule of law, a set of rules that applied equally to all and that assured each individual "a known sphere of unimpeded action." These laws included "a right to privacy and secrecy, the conception that a man's house is his castle and nobody has a right even to take cognizance of his activities in it."[98] They also included the right to property, which Hayek regarded not as some eternal and unchanging essence, but as in need of redefinition in keeping with changing social needs.[99] "The rationale of securing to each individual a known range within which he can decide on his actions is to enable him to make the fullest use of his knowledge," Hayek reiterated.[100]

He approved of some of the goals of the welfare state, and regarded some of them as practicable. He acknowledged that "there are common needs that can be satisfied only by collective action," and asserted that as society grows richer, "that minimum of sustenance which the community has always provided for those not able to look after themselves, and which can be provided outside the market, will gradually rise, or that government may, usefully and without doing any harm, assist or even lead in such endeavors. There is little reason why the government should not also play some role, or even take the initiative, in such areas as social insurance and education," he noted.[101] Nor was he opposed in principle to government regulation of working conditions, buildings, and so on.[102] Hayek's criticism of proposals for the welfare state lay not so much with the aims as with the methods of government action.[103] He was suspicious above all of government monopolization of the provision of social, medical, or educational services, since that eliminated the competitive process by which new and possibly better means could be discovered. Hayek tried to show how social security (in the broad sense) could be provided in a manner that did as little damage as possible to individual freedom and to social innovation.[104] What he opposed was government measures that distorted the information system of the market by actually setting wages, rents, or the price of commodities to conform to some social ideal or political expedient. The result of that, Hayek thought, would be a less efficient economy as well as a less free society. Yet he believed that political and intellectual tendencies were moving in that direction.

By the late 1950s, the traditional socialist platform—the collective ownership of the means of production, the replacement of the profit motive, and the egalitarian redistribution of income—had been abandoned by almost all socialist parties in the west, in practice if not in theory.[105] For Hayek, the threat to liberty and progress no longer came from traditional socialism and proponents of comprehensive planning. It came from attempts to reshape capitalism to conform to one notion or another of "social justice," from group self-interest expressed through democratic politics, and from the pernicious interaction of the two.

Though the socialist ideal of equality had been largely abandoned as unfeasible, Hayek asserted, its place had been taken by another: the ideal of "social justice." The term was favored by those who, without deliberately setting out to destroy the market mechanism, thought it desirable "to manipulate the economy so that the distribution of incomes will be made to conform to their conception."[106] Hayek claimed that those who used the term didn't know what they were talking about, in two senses. First, the term had no clear and discernible meaning. Second, the notion that the economy could be structured to reflect some conception of "social justice" was based on a deep misapprehension about the nature of liberal capitalist society. The phrase had become the mantra of moralists. It had been incorporated into the official doctrine of the Roman Catholic Church, and was especially beloved by "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. . . ." Indeed, a commitment to "social justice" had become the recognized sign of the possession of a moral conscience. But, Hayek noted caustically, "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." The concept had become "a quasi-religious superstition."[107]

Those who preached the need to restructure the market economy to conform to the standards of "social justice" rarely had a precise sense of what they actually meant by the term, Hayek charged. That is why it was so readily adopted and manipulated by self-inter standards of social justice, that government ought to intervene to raise their wages or the prices they received for their services or products, in order to protect their accustomed way of life or to create the standard of living to which they felt they were justly entitled.

Any such conception of social justice ran up against what Hayek regarded as an insurmountable barrier: social justice was impossible in a capitalist society—and that was a good thing. We have seen that a series of modern analysts of the cultural effects of the market and of the liberal state that sustains it had criticized these arrangements as the triumph of means over ends. Tönnies depicted modern man as moving from "community," characterized by the solidarity of shared aims and beliefs, into a calculating "society" without shared ideals. "Community" was held together by common ends, "society" by common means. Money has no purpose of its own, Simmel noted, but functions as an intermediary in the series of purposes. Hayek agreed with these analyses but gave them a wholly positive spin. Liberal capitalist institutions made it possible for men and women of very different persuasions to live together in peace, he argued. They could cooperate precisely because their dealings with one another were mediated by money and by shared basic rules, both of which were systems of means, not ends. Unwittingly echoing Matthew Arnold, Hayek characterized the liberal state and the capitalist economy as a piece of "utilitarian machinery," useful for and usable by those who disagreed with one another on how life ought to be lived.

Hayek argued that precisely because the liberal state and economy are not based on a shared, coherent vision of the common good, they cannot be used to reward individuals economically according to some common scale of values. There *was* no society-wide agreement on values. That did not mean that it was an immoral society in which individuals were without higher values and ultimate ends, only that the diverse individuals and groups within the larger society did not all share the same ends and values. Individuals and groups could use their own money for their own purposes, selfish or altruistic. What they could not do was insist that government impose their purposes on everyone else through the state or by having government set wages, rents, or prices. Borrowing a term from Adam Smith, Hayek referred to modern liberal society as a "Great Society," to highlight the fact that it brings together a large number of people with a wide range of purposes, who for the most part do not know one another. Justice does exist in a Great Society, but only in the sense of the protection of person, property, and contracts—what was traditionally known as "commutative justice" as opposed to "distributive justice." These rules of justice served primarily to allow individuals to pursue their self-interest as they saw it. He contrasted the abstract and impersonal nature of the rules of the Great Society with the particularistic and altruistic shared moral code of earlier "tribal society."[108]

For Hayek, the demand for "social justice" derives from conceptions of ethical obligation that made sense when confined to small, face-to-face groups, but that are now obsolete and indeed dangerous.[109] The Great Society did not pretend to reward individuals according to commonly shared standards of merit or virtue, for that would require a consensus of values that simply did not exist. The fact that the rock star was paid far more than the teacher was not because "society" regarded the former as more meritorious than the latter, but simply because of the relationship between supply and effective demand—because more people were willing to pay more for a ticket to see that particular rock star than for the salary of any given teacher.[110] Capitalism, Hayek asserted, does not reward merit in some moral sense, and he thought it dangerous for conservatives to argue as if it did.[111]

Coming to terms with the logic of a society coordinated more by the market than by common purposes presents a shock to many traditional moral sensibilities, Hayek recognized, since those sensibilities reflected the needs of an earlier stage of history, that of a "tribal society" connected by common ends. But those sensibilities were now archaic and even pernicious. For they failed to recognize that limiting political coercion to enforcing the rules of commutative justice was what made a Great Society possible.[112]

For Hayek, then, the market, together with the laws of the liberal state, makes pluralism possible, but only if groups (religious, ethnic, and economic) give up their attempt to use the power of the state to enforce their conceptions of justice or the good life. Smaller groups will continue to exist in such a society, Hayek asserted, but political power must not be used to enforce their rules. Membership in them will be voluntary, and individuals will be able to move between "groups into which they may be accepted if they submit to their rules."[113]

The problem of protecting the resourceful few, even if they were ethnic, religious, or cultural outsiders, was solved by minimizing the cultural and moral claims of the state, by discrediting the notion that the state existed to protect one group of cultural insiders. Hayek knew that this too was hard for most people to swallow. But the price of voluntary cooperation among ever larger groups of people was to limit the moral claims for assistance that had bound smaller groups together. Modern capitalist society was based on a revolution in consciousness, in which those outside one's family or cultural group—foreigners and strangers—were no longer treated as enemies, as beyond the bounds of moral obligation. But that also meant that the moral obligation toward others in society could not be as great as had been the case in the pre-capitalist past.[114]

Hayek also suggested that there were dangers inherent in trying to use government to bring about "equality of opportunity" for everyone. In truth, Hayek claimed, there is no substitute for intelligent parents or for an emotionally and culturally nurturing family. Those who did not come from such a family would be at a disadvantage, a disadvantage that could be eliminated only at the cost of ever more radical government attempts to control the environments in which children were raised. Moreover Hayek, like Burke and like Hegel, pointed out that one of the major motivations for most people to engage in market activity was to secure advantages to their children, by providing funds for housing, education, and other opportunities. To equalize the opportunities for children by penalizing those of "privileged" backgrounds or rewarding those of "disadvantaged" backgrounds was to remove the most fundamental incentive for people to work and exercise their ingenuity in the market.[115]

Adam Smith believed that the main obstacle to universal opulence through the competitive market came from groups who used their political power to pursue their self-interest in a way that circumvented the market mechanism. He pointed to merchants as a group who in his day were particularly well situated to do so, by virtue of their small numbers, urban location, and access to the ears of politicians. They made use of the distorted ideas of national interest that Smith dubbed "mercantilism" to argue in favor of political restrictions on trade that ultimately benefited the merchants themselves at the expense of the larger society. Almost two centuries later, Hayek saw a similar threat to the development of the market and of liberal society, from those best situated to exert political influence for particular purposes. But under the conditions of modern mass democracy, Hayek asserted, that threat came not primarily from merchants (who would always be a small numerical minority) but from other organized interests, especially labor unions. For labor unions had the numbers that counted as votes in a democracy, as well as the advantages that accrued to the well organized. Moreover, the very vagueness of the notion of social justice made it a flexible ideological tool with which to pursue their group self-interest.[116] And unions could make an emotional, irrational appeal to the yearning for solidarity that lurked unquenched and archaic in liberal capitalist society.[117]

Hayek noted the propensity of the progressive-minded not to treat unions as self-interested monopolies, but to assume that they were conducive to the public good simply because they had many members.[118] That, he thought, was a fallacy. Truly voluntary labor unions, Hayek thought, could play a valuable role in shaping the workplace. Like other groups in society, labor unions legitimately pursued their self-interest. But they presented a danger when they were able to use physical coercion (such as picket lines) or laws that granted them a monopoly to keep nonmembers from being employed. Like other successful monopolists, union members increased their own returns (in the form of wages). But that came at the cost of those outside the union who would only be able to get jobs that paid less well, Hayek argued.[119]

When unions pushed up the cost of wages beyond the point where it was profitable for companies to hire workers, they caused unemployment, as firms laid off workers or went bankrupt, and as it became unprofitable to form new businesses because labor costs were too high. "The present position of the unions cannot last," he predicted in 1960, "for they can function only in a market economy which they are doing their best to destroy."[120]

What Hayek found particularly worrisome was a growing consensus among western politicians that government had a responsibility to maintain full employment, a belief enshrined in the economic doctrine of Keynesianism. Governments committed to keeping down unemployment, Hayek noted, could only do so by increasing the supply of money and credit in the economy. That worked by causing inflation, which decreased the real value of the wages that unions had obtained, temporarily allowing businesses to regain profitability. By selling their products at higher prices while still paying workers at preinflated wages, businesses became profitable again, while the real wages of their employees declined. But that was only a temporary fix, since in order to catch up with inflation, everyone demanded higher wages. The effect was a wage-price spiral, in which the expectation of ongoing inflation led to ever higher wage demands and government injection of ever more money into the economy, resulting in ever higher inflation. That would create pressures on government to try to control the process by actually setting wages and then prices. Governments would thus back into what amounted to administration of the economy, distorting if not destroying the informational system of the market.[121] The danger was accelerating inflation, that is a currency which was constantly decreasing in value, but at an unpredictable rate. Since money was the unit in which market actors calculated how to act economically, the system of information was increasingly distorted, like a thermometer whose units changed as one tried to measure the temperature.[122]

Hayek was not opposed to democracy, but he thought that its virtues were overrated compared to those of the market and the liberal state, and that its greatest benefit came in allowing for a peaceful transition of power. He feared that unless institutional limits were placed on democratic legislatures, the existing structure of political and ideological incentives would lead one economic interest group after another to make demands upon democratically elected politicians in the name of social justice. The result would be a constant expansion of state intervention in the wage- and price-setting mechanisms of the economy, a steady rise in the state's share of national income, and a steady diminution of the freedom to engage in economic innovation. Democracy, in other words, could destroy liberalism—a recurrent fear among nineteenth-century liberals, which Hayek revived. Given the opportunity, most men and women would try to have government protect their existing way of life and sources of income from the "creative destruction" through which capitalism brought about new social and material possibilities. To decide economic questions by majority vote was therefore a recipe for stagnation.[123] In the long run, Hayek argued, liberal democracy would survive only if it put limits on the range of questions that could be decided through the political process.[124] "Is there really no other way for people to maintain a democratic government than by handing over unlimited power to a group of elected representatives whose decisions must be guided by the exigencies of a bargaining process in which they bribe a sufficient number of voters to support an organized group of themselves numerous enough to outvote the rest?" he asked rhetorically.[125]

Hayek's answer, in his late work of the 1970s, was to suggest constitutional mechanisms that would limit the ease with which politicians could pass legislation that promoted the interests of particular individuals or groups.[126] Given the centrality of money in the information system of the capitalist economy, and given the propensity of democratically elected governments to create inflation, Hayek also made the radical suggestion that money be denationalized. Take it out of the hands of government, he suggested, permit international competition of currencies, and people would choose to use the one that maintained its stability.[127]

To many readers, all of this must have seemed exaggerated and alarmist in 1960 or even in 1970, just as Burke's *Reflections on the Revolution in France* had in 1790. But within a decade Hayek's predictions were proving remarkably prescient. Politicians and policy makers devoted new attention to his writings. That was in part, as we will see, because the world seemed to be going in the direction Hayek had predicted. But it was also because Hayek's ideas had been taken up and disseminated by other intellectuals.

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The Hayekian Moment

While the 1950s and 1960s had been years of economic growth and of expanding government services in most of western Europe and the United States, the 1970s were a decade of economic slowdown and stagnation. In the 1950s and 1960s, there was a tacit understanding between employers and labor organizations to keep labor demands within limits that did not destroy profits. Labor unions regularly obtained rising wages and employer-paid benefits for their members; they used their political clout to enlarge the welfare state. By the late 1960s, however, the center of gravity in most western polities had shifted toward the left. Labor shortages, combined with a more radicalized political culture, created an atmosphere that led to ever higher demands by labor unions, most strikingly in the United Kingdom. Wages went up more quickly than profits, limiting the availability of investment capital.[139] At the same time, taxes were increasing to pay for ever larger government expenditures on income maintenance, education, and health care.[140] The combination of slow economic growth and expectations of continuous increases in the provision of government welfare measures soon had their effects. Government's share of national income moved ever upward, and government budgetary deficits ballooned.

union

Inflation, which in western Europe had averaged only about 1 percent per annum in 1960 when Hayek warned of its dangers in *The Constitution of Liberty*, rose to 3.7 percent per annum during the years from 1961 to 1969, jumped to 6.4 percent in 1969 to 1973, and then shot up to over 10 percent per annum from 1973 to 1979.[141] As inflation crept upward, governments responded by one form or another of what the British Labour party called "incomes policy": politicians tried to set wages from industry to industry, either through legislation or through consultation with labor and business leaders. In the United States, a Republican president, Richard Nixon, reacted to galloping inflation with a governmentally mandated temporary freeze of wages and prices in 1971, and then again in 1973.[142] His British counterpart, Conservative prime minister Edward Heath, imposed a system of comprehensive controls on wages and dividends.[143] Nixon's successor, Gerald Ford, presided over an economy in which unemployment stood at 9.2 percent, higher than at any point since the end of the Second World War. Both inflation and unemployment got worse under his Democratic successor, Jimmy Carter.

What puzzled and alarmed informed observers was that the tools of Keynesian economic policy now seemed blunted. Governments since the war had fought unemployment by increasing government spending or by increasing the supply of money and credit in the economy to try to stimulate economic demand and thus create more jobs. This policy was known to be inflationary, but that hazard was seen as controllable: when inflation threatened to get out of hand, government could respond by decreasing the money supply, thus reducing inflation at the cost of greater unemployment. But by the second half of the 1970s, these instruments no longer served their purposes. Both unemployment and inflation increased, while economic growth came almost to a halt. This was stagnation and inflation, a combination that was dubbed "stagflation." In the countries of western Europe and North America that belonged to the Organization of Economic Cooperation and Development (the OECD), the combined statistics for unemployment and inflation were over 15 percent in the years from 1973 to 1979.[144] Public expenditures continued to rise, consuming an ever larger share of gross national product. In the late 1970s, government outlays in the OECD countries rose to 48.5 percent of the gross national income.[145] In Sweden, the paradigm of the welfare state, total public expenditure reached 66 percent of the gross domestic product in 1980.[146] All of this set the stage for a rebellion by taxpayers who balked at having so high a portion of their earnings taken out of their hands.

It was the economic crisis of the western welfare state that led policy intellectuals, then politicians, and finally voters to reconsider their premises and consider policies more in keeping with Hayek's strictures. The first breakthrough came in Great Britain, where the problems evident in other welfare states were most blatant. By the late 1970s, British governments seemed to have lost control of public spending, inflation was rampant (as high as 24 percent per annum), and economic growth was low. Substantial government revenue was poured into preserving the jobs of workers in the declining steel and mining industries, which had been nationalized after the war to keep open plants and mines that were no longer profitable. When, in 1974, the Conservative government sought to resist the coal miners' demands for higher wages, the miners went on strike, plunging the nation into nighttime darkness. The strike brought down the Conservative government of Edward Heath. In the winter of 1978–79, a Labour government came close to declaring a state of emergency in response to a series of strikes by public-sector unions that left garbage piling up in the streets, hospital services curtailed, and—thanks to a strike by gravediggers—the dead unburied. Picketing in support of striking truck drivers brought the flow of all but essential goods to a halt.[147] In response to this "winter of discontent," voters turned to the new Conservative leader, Margaret Thatcher, whose party triumphed in the elections of 1979. She named Keith Joseph, her associate at the Hayekian Centre for Policy Studies, to her cabinet as secretary of state for industry.

Together, they reoriented government economic policy. New legislation limited the power of trade unions by curbing the rights of pickets and holding national union organizations financially responsible for actions taken by each union local. Thatcher rejected the Keynesian policies that had led to inflation. Government no longer increased the supply of money in an effort to induce economic activity, and it accepted unemployment as a necessary if short-term evil. Her administration sold off government-owned businesses, diminished direct government intervention in the economy, encouraged entrepreneurship, and reduced income taxes.[148] Thatcher was reelected in 1983 and 1987. By the time she left office in 1990, she had presided over the structural transformation of the economy. The greatest triumph of "Thatcherism" was in so transforming the British political landscape that many of her policies and some of her rhetoric were copied by the Labour Party under Tony Blair.

While one Hayekian-oriented head of government was transforming the British economy, another was attempting similar reforms in the United States. For Hayek, together with Mises, was the economist most cited by Ronald Reagan.[149] Of his seventy-six economic advisers during his 1980 U.S. presidential campaign, twenty-two were members of the Mont Pélerin Society.[150] Like Thatcher, Reagan worked to reduce the power of trade unions. One of his first acts was to replace the members of the striking air traffic controllers union. He too encouraged entrepreneurship, reduced taxes, and cut back on government regulation. Like Thatcher, Reagan was prepared to tolerate substantial unemployment as a way of breaking out of the wage-price spiral that Hayek had analyzed.

In launching the Uruguay Round of the international General Agreement on Tariffs and Trade in 1986, Thatcher and Reagan pursued Smithian policies of reducing tariffs to encourage international trade. These policies were continued and intensified by their Labourite and Democratic successors. Domestic deregulation and the need to compete with foreign producers induced a new dynamism into each national economy, as corporations were forced to revamp their practices in order to compete with foreign producers. In sectors such as steel and automobile production, corporations were forced to abandon the cozy arrangements between a few large firms and their unions, which allowed both to exploit their semimonopolistic position.[151] In the United States as in Britain, the greatest triumph of Hayek's ideas came in the transformation of the parties of the left toward the positions identified with Thatcher and Reagan.

The Thatcher and Reagan administrations represent one "Hayekian moment," which began in the world of think tanks in the 1970s and influenced government policy in the 1980s. But another Hayekian moment was occurring elsewhere in Europe, in what had been the Soviet bloc.

If the travails of the capitalist welfare state seemed to bear out Hayek's predictions in *The Constitution of Liberty,* the economic fate of the Soviet Union and its eastern European satellites seemed to confirm the critique of socialist economic planning put forth by Mises and Hayek. It would be a simplification, but by no means a distortion, to say that the Communist system foundered on the rocks of information and incentive.[152] Its abject inferiority to the market economies of western Europe was disguised in part by contrived statistics, but above all by the fact that these statistics revealed little about the quality, suitability, durability, and availability of the goods produced by the planned economies of the eastern bloc. Economic growth in Communist regimes came largely from increasing the inputs of land, labor, and capital, rather than from more efficient use of resources. As early as the 1960s this strategy was breaking down, as the limits of adding land and people to the economy, and of deferring consumption to provide capital, were reached. The Communist economies stagnated in the 1970s, and by the 1980s were actually shrinking. From the late 1950s through the 1980s, Eastern European regimes experimented with a series of attempted reforms, each of which was intended to decentralize decision making and create a semblance of market prices. But without private ownership of the means of production, the incentives were lacking for the managers of factories or socialist "firms" to meet consumer needs, to produce efficiently, or to innovate.[153]

It was the intractability of the problem of socialist production, together with a repugnance at the lack of liberty in Communist regimes, that led intellectuals in eastern Europe to Hayek. While university students in the west were being taught the "critical theory" of Marcuse and the Frankfurt School, intellectuals in Communist eastern Europe discovered that for them the really critical theory was Hayek's. His work was widely circulated and read in Poland.[154] In Czechoslovakia Václav Klaus, an economist in the Communist regime, was entrusted with the task of reading the work of Hayek and Milton Friedman in order to "know the enemy." Klaus became convinced that his "enemies" were right, and he became an advocate of their ideas within the Communist regime. After the fall of the Berlin Wall, he emerged as minister of finance in the new liberal government of Czechoslovakia, then, after the separation from Slovakia in 1992, as prime minister of the new Czech Republic. As prime minister, Klaus presided over the liberalization of the economy, including selling off nationalized industries and creation of a convertible currency.[155] The results were a great (though temporarily painful) leap forward into the international capitalist economy. Other governments in the former Soviet bloc made similar attempts, with varying degrees of success.

When Friedrich Hayek died in 1992, many nations seemed to be moving in a Hayekian direction in other respects as well. Though no nation adopted his blueprint for reducing the economic power of democratically elected legislatures, that influence was attenuated in other ways. In the United States, attempts to change the constitutional rules by passing a constitutional amendment mandating a balanced budget failed. But Congress and the president agreed on a balanced budget plan, which (if adhered to) would set limits to the spending power of the legislature. In western Europe, countries that aspired to join the European Currency Union were required to limit their budget deficits to 3 percent of GDP—another way of creating rules that limited the power of elected legislatures to spend. Democratic influence on the currency was also curtailed. In the United States this took the form of a consensus that the Federal Reserve Board use its independence to fight inflation. Several Latin American nations, beginning with Argentina, officially adopted the American dollar as legal tender, another way of removing control from democratically elected politicians. In Europe, the adoption of the euro as a unified currency also worked toward diminishing the economic power of elected legislatures. In all of these instances, democratic legislatures tied their own hands, to keep themselves from pursuing the temptations of greater government spending and inflation.

All in all, the 1980s and 1990s were a Hayekian moment, when his once untimely liberalism came to be seen as timely. The intensification of market competition, internationally and within each nation, created a more innovative and dynamic brand of capitalism. That in turn gave rise to a new chorus of the laments that, as we have seen, have recurred since the eighteenth century. Community was breaking down; traditional ways of life were being destroyed; identities were thrown into question; solidarity was being undermined, egoism unleashed, wealth made conspicuous amid new inequality; philistinism was triumphant. Yet it also led new groups and nations into the circle of wealth; expanded the peaceable relations of exchange among nations; and created new cultural combinations and, as Simmel had noted, new possibilities for individual development.

The Tensions and Limits of Hayek's Thought

Like many thinkers who formulate their views primarily in response to some looming foe, Hayek's work had a tendency to one-sidedness and exaggeration. There were also tensions that arose from trying to incorporate disparate intellectual traditions into his work.

He asserted that the notion that society as a whole could be shaped to conform to some desired set of values betrayed a misunderstanding of the nature of capitalist society, which was an example of what he called a "spontaneous order." By that he meant two things (which he tended to conflate, but which are actually distinct). He called the market order "spontaneous" because it coordinated human purposes by appealing to existing motives of self-interest, rather than trying to coordinate activity through deliberate planning.[156] By a "spontaneous" order Hayek also meant that the market order had not come about in a planned, deliberate fashion to conform to a set of ideals. It had developed "spontaneously" over time, through a process of trial and error, and had been retained because it was found to be useful to a wide range of individuals. In that sense, it had developed—and was still developing—by a process of cultural evolution.[157] It was a set of institutions that were "artificial" in the sense of having been created by man. But that did not mean that those institutions had either been created intentionally or could be reconfigured to conform to any ideal. He passed over the fact that in most places the market had been deliberately introduced, often by rulers seeking to increase the wealth of the nation and the revenue of the state.

In his explorations of "spontaneous order," Hayek picked up a theme from Adam Ferguson, David Hume, and Adam Smith, but gave it a far more conservative turn than it had had for the Scots whom he annexed to his intellectual family tree.[158] A conservative undercurrent already present in Hayek's articles of the 1930s became more pronounced in his later work,[159] as he increasingly stressed that the major institutions he sought to conserve—the free market and the legal structure that made it possible—were the product not of rational deliberation but of the unintended results of human action. Though Hayek clearly thought that the market order had increased human well-being, he was wary of judging it by any specific criterion. Taken to the extreme to which Hayek sometimes took it, his emphasis on our inability to fully comprehend the market order amounted to a counsel of acceptance and resignation.[160] Hayek offered a cultural evolutionary scheme to explain the development of the institutions of the market and the rule of law, suggesting that they were adopted over time because they provided more adequately for changing human needs.[161] But like many evolutionary thinkers, he seemed to regard the survival of institutions as itself proof of their fitness and superiority. It sometimes seems that for Hayek, evolutionary development becomes an end in itself, a purposeless movement that we have no reason to embrace.[162]

In the last decades of his life, Hayek's tone became more conservative in another sense as well. A secularist, he came to regard religious traditions as usefully conveying modes of behavior that were necessary complements to the institutions of the market and the rule of law, even if they were untrue or mythical.[163] But this growing rhetorical warmth toward traditions seemed to be in tension with his emphasis on the progressive role of social and economic innovators, who set the example to be emulated by others. Another dilemma overlooked by Hayek was that the tradition of the modern west that he defended acted as a solvent on those older, traditional ways of life he dubbed "tribal."[164] How far can earlier traditions be reshaped, one might ask, before they lose the positive functions that Hayek ascribed to them? All of this is to say that Hayek never fully reconciled his dynamic Smithian-Schumpeterian side with his conservative side. But then neither did Burke. Indeed, it remains a tension for all conservative defenders of capitalism, including conservative liberals like Hayek.

Hayek's weaknesses as a thinker come from his propensity to exaggerate the scope of his very real insights. His was the crystal-clear vision of the one-eyed man. His antipathy to the notion that government exists to protect any particular culture—a legacy of Viennese pariah liberalism—led him to ignore the need for a shared ethos, however limited—what Hegel had called *Sittlichkeit*. The experiences of illiberal Vienna, and then of Communism and Nazism, made it difficult for Hayek to think systematically about the role of a moral consensus for the proper functioning of market institutions. It was not that he failed to appreciate the role of shared traditions: it was that he could never reconcile that awareness with his broader, individualist social theory. His well-founded suspicion of the protection of particular interests through the romanticization of community led him to underrate the value of a sense of social solidarity, however loose. The self-sacrifice necessary for national self-defense against hostile powers lay beyond his theoretical horizon, though he often favored a hawkish position, first against the Third Reich and later against the Soviet Union and then against the Argentineans during the Falkland Islands conflict.[165] His fierce opposition to governmental coercion led him to define liberty as freedom from government power, but he overlooked the coercion felt by the employee constrained by the private power of his employer, and the possibility that such private coercion might usefully be restrained by the power of government.[166]

Sometimes Hayek's tendency to exaggerate his own insights led to self-contradiction. His emphasis on the limits of human knowledge—the extent of our ignorance—led him to a distrust of all rational institutional design. But this was at odds with his own suggestions for institutional reform based upon a rational analysis of the malfunctions of contemporary democratic institutions.[167]

Hayek's opposition to the use of government to enshrine any single culture led him to deny that there could be any shared cultural standards for the sake of which the market might be restrained. As a result, he had no way to evaluate the negative effects of the market or to suggest a principled reason to try to remedy them. Here he proved far more one-sided than his revered predecessor, Adam Smith. Burke's admonition—"The effect of liberty to individuals is, that they may do what they please: We ought to see what it will please them to do, before we risk congratulations"—never seems to have occurred to Hayek. The Arnoldian ideal of the disinterested intellectual willing to criticize one side and then the other in order to create balance and counteract the one-sidedness that led toward fanaticism: that too was as alien to Hayek as it had been to Marcuse. If it was partisanship that led Hayek to push forward intellectually to new insights, it was also partisanship that kept him from a balanced and rounded philosophy.

Perhaps a familiarity with "the best that has been thought and said" about the market will aid us in attaining a more disinterested and informed perspective. Such a perspective might well begin with Hayek's insights. But it would by no means end with them.

84. Hayek, "Competition as a Discovery Procedure," p. 189.
85. *LLL*, 3, pp. 76–7.
86. As Yvon Quinious has noted, in this respect Hayek's work can be seen as the "veritable theorization of indifference toward human happiness." Yvon Quinious, "Hayek, les Limites d'un Défi," *Actuel Marx*, no. 1 (1989), p. 83, quoted in Alain de Benoist, "Hayek: A Critique," *Telos*, no. 110 (Winter 1998), pp. 71–104, at p. 85. This is a thoughtful if not always fair article.
87. *CL*, p. 35.
88. *LLL*, 1, pp. 56–7.
89. *Road*, p. 92; repeated with slight variation in *LLL*, I, pp. 186–7.
90. Friedrich Hayek, "Freedom and the Economic System," *Contemporary Review*, April 1938, pp. 434–42, reprinted in Bruce Caldwell (ed.), *Socialism and War: The Collected Works of F. A. Hayek*, vol. 10 (Chicago, 1997), to which page numbers refer; p. 183. Similarly, *Road*, p. 58.
91. *Road*, p. 77.
92. Hayek, "Freedom and the Economic System," pp. 184–5. Repeated with slightly different phrasing in *Road*, p. 69.
93. Hennecke, *Friedrich August von Hayek*, p. 230.
94. For a claim that it was the latter motive that kept Hayek out of the economics department at Chicago, see Alan Ebenstein, *Friedrich Hayek: A Biography* (New York, 2001), p. 174.
95. John U. Nef, *Search for Meaning: The Autobiography of a Nonconformist* (Washington, D.C., 1973), pp. 237–8; John Raybould, *Hayek: A Commemorative Album* (London, 1998), p. 67; *Hayek on Hayek*, pp. 125–8, 143.
96. Hennecke, *Friedrich August von Hayek*, p. 329.
97. *CL*, p. 11.
98. *CL*, pp. 141–2.
99. *Road*, pp. 36–39; *LLL*, I, pp. 108–9.
100. *CL*, p. 156.
101. *CL*, pp. 257–8. Similarly, *Road*, pp. 120–1; *LLL*, 3, pp. 41, 44, 61–2.
102. *CL*, pp. 220 ff.
103. *CL*, pp. 257–8.
104. *CL*, pp. 257–9.
105. *CL*, pp. 253–6. Among the significant milestones in this process were the German Social Democratic Party's Bad Godesberg platform of 1958 and C. A. R. Crossland's *The Future of Socialism* (London, 1956).
106. *CL*, p. 256.
107. *LLL*, 2, p. 66.
108. *LLL*, p. 3. The term "Great Society," in the sense in which Hayek uses it, seems to be taken from Adam Smith, *The Wealth of Nations*, I, viii, 57. Hayek's use of the term "tribal society" is adopted from his friend Karl Popper's *The Open Society and Its Enemies*, 2 vols. (Princeton, 1966; first published in 1945), vol. 1, pp. 173 ff.
109. *LLL*, 2, pp. 111, 133–4.
110. *LLL*, 2, p. 76.
111. *CL*, pp. 94–5; *LLL*, 2, p. 70.
112. *LLL*, 2, p. 88–90.
113. *LLL*, 2, pp. 148–9.
114. *LLL*, 2, pp. 88–9.
115. *CL*, pp. 89–92; *LLL*, 2, pp. 84–5.
116. *CL*, p. 282.
117. *CL*, p. 266; *LLL*, 2, p. 67.
118. *CL*, p. 266; *LLL*, 3, p. 90.
119. *CL*, p. 270; *LLL*, 3, p. 144.

120. *CL*, p. 283.
121. *CL*, pp. 270, 280–2; see also *LLL*, 3, p. 94.
122. *CL*, pp. 331–2.
123. *CL*, pp. 50–1.
124. *CL*, pp. 106, 115.
125. *LLL*, 3, pp. 4–5.
126. *LLL*, 3, pp. 106ff.
127. Hayek, *The Denationalization of Money* (London, 1976). Hayek's pamphlet on the denationalization of money was written "while I was working on my main book," i.e., at the same time as *LLL: Hayek on Hayek*, p. 150.
128. Hayek, "The Intellectuals and Socialism" (1949), reprinted in Bruce Caldwell (ed.), *The Collected Works of F. A. Hayek*, vol. 10, *Socialism and War* (Chicago, 1997), pp. 229–37, 222, 224, 225.
129. *CL*, p. 112.
130. *CL*, p. 114.
131. *CL*, p. 115.
132. Hayek, "The Intellectuals and Socialism," pp. 229–37; Hayek, *CL*, pp. 112 ff.
133. *Hayek on Hayek*, p. 155. Mises had held a similar view, see Mises, *Socialism*, pp. 460–1.
134. See for example the critical reviews of *The Constitution of Liberty* written by Lionel Robbins, "Hayek on Liberty," *Economica* (February 1961), pp. 66–81; by Jacob Viner, "Hayek on Freedom and Coercion," *Southern Economic Journal*, vol. 27 (January 1961), pp. 230–6; by F. H. Knight, "Laissez Faire: Pro and Con," *Journal of Political Economy*, vol. 75 (October 1967), pp. 782–95 (all reprinted in J. C. Wood and Ronald N. Woods (eds.), *Friedrich A. Hayek: Critical Assessments*, vol. 2 [London, 1991]); and Raymond Aron, "La Définition libérale de la Liberté" (1961), in his *Études politiques* (Paris, 1972), reprinted in Pierre Manent (ed.) *Les Libéraux*, 2 vols., vol. 2 (Paris, 1986), pp. 467–88.
135. Quoted in Neil McInnes, "The Road Not Taken: Hayek's Slippery Slope to Serfdom," *The National Interest* (Spring 1998), pp. 56–66, at p. 59.
136. R. M. Hartwell, *A History of the Mont Pélerin Society* (Indianapolis, Ind., 1995); *Hayek on Hayek*, p. 133.
137. Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the Modern World* (New York, 1998), pp. 98–101; see also R. Cockett, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931–1983* (London, 1994), and Dennis Kavanagh, *Thatcherism and British Politics: The End of Consensus?* (New York, 1987).
138. Yergin and Stanislaw, *Commanding Heights*, p. 106.
139. Samuel Brittan, *The Economic Consequences of Democracy* (London, 1977), pp. 142–6, and A. Glynn and R. Sutcliffe, *British Capitalism* (London, 1973).
140. Eric Hobsbawm, *The Age of Extremes: A History of the World, 1914–1991* (New York, 1995), pp. 282–5.
141. Mark Mazower, *Dark Continent: Europe's Twentieth Century* (New York, 1999), p. 329.
142. Yergin and Stanislaw, *Commanding Heights*, p. 62.
143. Yergin and Stanislaw, *Commanding Heights*, p. 96.
144. Robert Skidelsky, *The Road from Serfdom: The Economic and Political Consequences of the End of Communism* (New York, 1995), p. 93.
145. Skidelsky, *Road from Serfdom*, p. 93.
146. Yergin and Stanislaw, *Commanding Heights*, p. 92; and Hartwell, *A History of the Mont Pélerin Society*, p. 199.
147. Yergin and Stanislaw, *Commanding Heights*, p. 104.
148. Yergin and Stanislaw, *Commanding Heights*, pp. 112–3.