

CATO INSTITUTE

BOOK FORUM

FRIEDRICH HAYEK: A BIOGRAPHY

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Moderator:

Tom Palmer, Cato Institute

Featuring the Author:

Alan Ebenstein

With comments by:

Jerry Z. Muller, Professor of History, Catholic University,  
Author, "Adam Smith in his Time and Ours"

The Cato Institute

F.A. Hayek Auditorium

Washington, D.C.

## P R O C E E D I N G S

MR. PALMER: Good evening. My name is Tom Palmer. I'm a Senior Fellow here at the Cato Institute, and it's my pleasure to welcome all of you to the F.A. Hayek Auditorium of the Cato Institute, and to an event that is certainly very appropriate for this location: a forum on a brand-new biography of Hayek, by our guest author this evening, Alan Ebenstein.

I should mention, for those of you in the audience, copies of the book are available for sale outside. And for those who are eavesdropping through our Webcast, you can order copies either at quality bookstores everywhere or from [www.laissezfairebooks.com](http://www.laissezfairebooks.com), a little advertisement for our friends.

As I think everyone is aware here, Hayek is increasingly being appreciated as one of the truly great thinkers of the 20th century, partly because of his enormous influence in the countries that have been struggling over the past decade to throw off the heavy shackles of statism, but also because of the remarkable scope of his interests and the great breadth of his learning. Few thinkers make original contributions to such fields as intellectual history, political thought, economic theory, jurisprudence, and theoretical psychology. And fewer still do that and also serve as inspirations to political leaders on several continents.

Much of Hayek's influence undoubtedly came from his intellectual openness, and his willingness to be guided by reason and experience. I remember a lecture he gave some years ago when he was still working on his last book, "The Fatal Conceit." A question was posed, and the question was not particularly interesting, but his answer has stuck with me all those years. It had to do with a thorny problem in the philosophy of the person, what Kant called the transcendental unity of apperception, how we can attribute all of the acts to one acting and person. Hayek responded in his rather Anglo-Austrian accent, he said, "From the way you posed the question, I gather you believe" such and such. And the questioner says, "Yes, that's right." And he said, "I also believed that for about 50 years, but lately I've been thinking about it and I believe it was a fundamental mistake."

And that really impressed me. Most of us get to about the age of 30, we know what we know and we're not going to change our opinions after that. Here was a man in his eighties who

thought that he had held a view that was a fundamental error for about 50 years, as he put it. He was always open to learning and to revising his views. And this intellectual attitude, which gained him so much influence, certainly characterized his political philosophy.

As he noted in "The Constitution of Liberty," freedom granted only when it is known beforehand that its effects will be beneficial is not freedom. His very concept of freedom implied an openness to novelty and to being shown to have been wrong.

Here to enlighten us about the life and work of one of the most important thinkers of the past century is Alan Ebenstein, the author of "Friedrich Hayek: A Biography." Dr. Ebenstein received his Ph.D. from the London School of Economics and Political Science, and is the author or co-author of six other books on the history of economic and political thought, including a biography of the great economist Edwin Cannan.

Commenting will be Professor Jerry Muller, Professor of History at The Catholic University of America here in Washington, D.C., and author of "Adam Smith in His Time and Ours," and Editor of "Conservatism: An Anthology of Social and Political Thought, from David Hume to the Present." And he has a new book that will be coming out shortly, "The Mind and the Market: Capitalism in Modern European Thought."

After Dr. Ebenstein's remarks and Professor Muller's comments, we will have an opportunity for some questions and interaction with our speakers, followed by a reception upstairs in the Winter Garden. So, Alan, would you please enlighten us about Hayek's life and thought?

(Applause.)

ALAN EBENSTEIN, AUTHOR  
"FRIEDRICH HAYEK: A BIOGRAPHY"

DR. EBENSTEIN: Thank you. It's a great privilege to be able to give a talk on Hayek at the Cato Institute on what would be his 102nd birthday. The Hayek Auditorium here is obviously named after Hayek. And Cato played an important role in funding Hayek's later work through its provision to him of administrative support. One of Hayek's later letters was to Cato President Ed Crane, in 1989, when he wrote in response to Crane, who had just presented a bust of Hayek in Moscow, that he had hardly lived to be able to experience this. That is, the decline of Communism, the collapse of Communism. Also noting, "the ultimate victory of our side."

Hayek's views were as close to those at the Cato Institute as of any think tank in the United States. This talk tonight will consist largely of a biographical presentation of

Hayek's views. In addition, we are fortunate to have Professor Jerry Muller as a commenter.

Hayek emerged from the milieu of Austrian liberalism during the last decades of the 19th century and first decades of the 20th. Signal among those who most influenced him were Karl Menger, founder of what became the Austrian School of Economics, and Ludwig von Mises, the key initiator of the socialist calculation debate. Both Menger and Mises were staunch liberals in the 19th century, or perhaps Cato, meaning of the term; Hayek's main professor at the University of Vienna, Friedrich von Wieser was more of a welfare state interventionist.

The conditions in Vienna following World War I, when Hayek became a student at the University, were grievous. Inflation was out of control, the economy collapsed, the traditional social order had been ripped asunder. A completely new society was in the making. In these circumstances, it is unsurprising that Hayek adopted, for a time as a young college student, somewhat mild socialist outlooks. He was experiencing and thought he would participate in the rational construction or reconstruction of a new society. But then he came in contact with von Mises, and his entire outlook changed.

Hayek liked to describe his first meeting with Mises rather humorously. He came to Mises in 1921 with a letter of introduction from Wieser, who described him as, "a promising economist." "Promising economist?" Mises asked. "I've never seen you at any of my lectures."

Mises was a short, burly man, given to occasional temperamental outbursts. He possessed a clear intellect, however, and Hayek learned much from him. The work of Mises that most influenced Hayek was Mises' "Socialism," which made the argument not that socialism was ethically undesirable or morally unattainable, but that socialism literally does not deliver the goods. Mises' great accomplishment was to turn the question of socialism from an ethical to a practical one. Not "Would socialism be desirable?" but "How would it work?"

So effective was Mises' argument that even many socialists admitted its power. Oscar Lang, a prominent Polish socialist, went so far as to say that, "A statue of Professor Mises ought to occupy an honorable place in the Great Hall of the ministry of socialization of the socialist state."

in 1931, after 10 years of working for and with Mises, Hayek went to the London School of Economics and Political Science, and it was here that his career blossomed and he gained worldwide renown. Probably the most famous name now associated with the London School of Economics during this period is Harold Laski. And in considerable part, as a result of Laski's

influence, the LSE, as it is also known, gained a reputation as a haven of socialist thought.

But there was another tradition at the London School of Economics which can be traced to the first professor of economics there, Edwin Cannan, one of the greatest scholars of Adam Smith and a significant classical liberal in his own right. There was much in Cannan's thought that Hayek found congruent with his own, particularly the slow, gradual transformation of societies and institutions. Hayek later termed this process "spontaneous order," a concept he also found in the work of Karl Menger.

Hayek's first work at the London School of Economics was as an economist. He was brought to the LSE by the then leading British classical liberal economist, Lionel Robbins, Cannan's student and successor. Robbins was almost exactly the same age as Hayek. Together at the London School of Economics during the 1930's, Robbins and Hayek led a seminar that included many of the emerging leading lights in economics of the day, including such diverse figures as John Hicks, Arthur Lewis and Ronald Coase, all, with Hayek, future Nobel laureates, and Arthur Selden.

John Kenneth Galbraith, incidentally, was also a visitor in Hayek's seminar for one year.

Hayek came to London as an opponent to John Maynard Keynes, who had just published in 1930 "A Treatise on Money." Robbins, in fact, brought Hayek to the London School largely for the purpose of serving as a counterweight to Keynes. Hayek wrote a blistering review of Keynes' "Treatise on Money" that was published simultaneously with Hayek's arrival in London. This is six years before the General Theory. Keynes then wrote an even more blistering reply to Hayek's review. Quote -- and this is Keynes -- "Dr. Hayek's 'Prices and Production' seems to me to be one of the most frightful muddles I have ever read. It is an extraordinary example of how, starting with a mistake, a remorseless logician can end up in bedlam." They didn't mince their words.

Notwithstanding this rather inauspicious start, personal relations between Keynes and Hayek soon became good, though they never did agree on economics and, indeed, seem to have agreed to avoid discussions of it. During World War II, Hayek became fairly close to Keynes when the London School of Economics moved to Cambridge, where Keynes resided. And Hayek and Keynes, during the War, would sometimes take turns together at night watching for fires from the top of Kings College. And one can only speculate on the conversations they had.

Hayek's great accomplishment during the 1930's was to enunciate the idea of the Division of Knowledge, which many Hayek commentators consider to be his greatest intellectual

achievement. This idea of the Division of Knowledge occurred to Hayek as he was reflecting on the socialist calculation debate in which Mises had been involved 10 to 15 years earlier.

"There are many socialists," Mises had written, "who have never come to grips with the problems of economics. They have criticized freely enough the economic structure of free society, but have consistently neglected to apply to the economics of the disputed socialist state the same caustic acumen. They invariably explain how in the cloud kookoo lands of their fancy, roast pigeons will in some way fly into the mouths of the comrades, but they omit to show how this miracle is to take place. How would a socialist society practically be organized? It is not enough merely to point to deficiencies under capitalism."

Hayek's brilliant insight is that there is a Division of Knowledge among all the members of a society. Knowledge does not exist anywhere in a compact, complete whole. Rather, knowledge is fragmented. It exists in the minds of all of the members of a society.

Hayek's idea of the Division of Knowledge is very simple, but it is an idea that has potentially profound consequences. Hayek thought that the Division of Knowledge precludes the possibility of classical socialism, of the central management and direction of a nation's economy from one place. "The Division of Knowledge," he thought, "requires capitalism. Only under a system, whatever its other flaws, in which the reality of divided knowledge is accommodated, is a materially productive society possible," Hayek believed.

Hayek described the essay in which he put forward the idea of the Division of Knowledge, "Economics and Knowledge," as the most important of his career. Later in his life, he sometimes said that he had made one discovery, and this discovery was of the Division of Knowledge and its consequences for societal order.

If knowledge is divided, how is information communicated? Hayek's answer here, too, is brilliant. Hayek believed that the price and profit system, capitalism, is primarily a system that conveys information. Prices and profits are information. Prices reflect the relative supply of and demand for different goods.

Mises uses an excellent example of how a building would be built under a socialist system to demonstrate the importance of prices. What type of wood should be used? Should bricks, or concrete, or steel be used in construction? What should the relative amounts of labor and capital that go into construction be?

Without a price system, none of these questions can be answered in the most cost-effective and rational manner. Capitalism, through utilizing prices and profits, has been literally the only system that can deliver the goods in an advanced technological society. More than this, however, prices require private property. Unless individuals have exclusive control over property and the ability to exchange it on the terms that they see fit, prices are impossible.

This was the problem in the Soviet Union and other command economies during the 20th century. With no private property there is no price, and without prices there cannot be rational economic calculation. Moreover, profits are as essential as prices to the capitalist order.

Later in his career, Hayek further explored the concept of order without orderers, undirected order, or spontaneous order. The role of the businessperson who makes profits is essential to the capitalist order. Who is the best person to be entrusted with resources? In capitalism, this question is ideally answered by the individuals who make the most profits, that is, the individuals who use resources most effectively. Profits and prices convey information. They are essential, Hayek thought, to a free market order.

World War II, of course, affected events in England, as the rest of the world, greatly, and focused Hayek's attention on the political ramifications of socialism. In his most well-known work, "The Road to Serfdom," published during World War II in England, in March 1944, he now argued that not only is socialism -- the collective management and control of a nation's economy -- unproductive, he argued that socialism is necessarily undemocratic and dictatorial.

"This is really the crux of the matter," he wrote in "The Road to Serfdom." "Whoever controls all economic activity controls the means for all our ends. Economic control is not merely control of a sector of human life, which can be separated from the rest, it is the control of the means for all our ends. The control of the production of wealth is the control of human life itself."

Hayek's staunch defense of free market capitalism was highly unpopular when he put it forward. He was severely criticized in the academic world for his views. He was thought to be an obscurantist crank at best, or downright anti-democratic at worst. As a result of the popular success of "The Road to Serfdom," Hayek made a lecture tour in America regarding the book during the spring of 1945, just as World War II in Europe was coming to an end. During this American tour he came in contact with the University of Chicago, which published "The Road to

Serfdom" in the United States. Hayek later came to the University of Chicago for a dozen years, from 1950 to 1962.

Here, he came in contact with such great minds as Milton Friedman and other Chicago economists such as Frank Knight and George Stigler. Hayek and Friedman are not as close as is sometimes thought, both philosophically and personally. Hayek was on the Committee on Social Thought at the University of Chicago, and Friedman was in the Economics Department. Friedman participated in Hayek's seminar in the Committee on Social Thought, however, and Friedman credits Hayek's seminar with having exerted a significant positive influence on him.

Another great mind with whom Hayek was in contact during these years was the philosopher Karl Popper. Like Hayek, from Vienna, and also like Hayek, who wind up teaching at the London School of Economics. It was one of the characteristics of Hayek's mind, though, that he more developed his own thought than that he took from the thought of others -- a topic which Professor Mueller may discuss in more depth.

The great work of Hayek's Chicago period was "The Constitution of Liberty." Here, Hayek attempted to expand some of the thoughts on the Division of Knowledge that he had developed in economic theory, and apply them to all of societal life. Hayek believed that liberty is the supremacy of law. To some, this may sound a very distinct conception of liberty, because liberty during the 20th century was more often considered to be either the absence of law, constraints, or a certain material standard of living. How can liberty be the supremacy of law?

Following from his work in the Division of Knowledge, Hayek postulated that it is law -- rules -- that allow people to interact more or less effectively. The better or worse the laws or rules in a society are, the more or less effectively individuals will interact. The rules that Hayek saw as crucial to a materially productive society are the rules that sustain and create a free market: private property, contract, profit, freely fluctuating prices, a stable currency, limited government intrusion in and involvement with individuals' lives. All of these he saw as essential at a time when explicit and emphatic belief in a free market was often ridiculed, when not subjected to lesser forms of criticism.

Hayek had two great works in him after "The Constitution of Liberty" was published in 1960. In 1962, he and his second wife moved back to Europe, to Freiberg, in then West Germany. Primarily here, Hayek wrote "Law, Legislation and Liberty," which, because of illness, was not published until the 1970's. In "Law, Legislation and Liberty," Hayek explored further the relationship between liberty and law. Particularly



in its crucial first volume, "Rules and Order," he developed the insights that had guided him throughout his earlier career. He expanded the idea of law to not just the legal statutes of a society, but its customs and morals.

Hayek was appalled by the protest and revolts among the young during the 1960's. He feared that socialism, in idea and practice, would triumph over the free market. Particularly as inflation ignited throughout the Western world during the late 1960's and early 1970's, as the American position in the world diminished, and as the influence of the Soviet Union expanded, he feared that the prospects for freedom were as imperiled as they had been at any time since World War II.

In 1974, most unexpectedly, Hayek was co-recipient of the Nobel Prize in Economic Sciences, with Swedish socialist Gunnar Myrdal. The award of the Nobel Prize in Economics to Hayek -- a Nobel in economics had been instituted only in 1969, and Hayek was the first free market economist to receive the award -- was the great rejuvenating event for him. He now became not merely the best-selling author of a popular work three decades before, "The Road to Serfdom," but the first free market economist to win a Nobel.

As a result of the greater popular renown that the Nobel Prize garnered Hayek, he once again began to be referred to in the popular press, particularly in England. Hayek's greatest later renown was in England where, during the 1980's, Prime Minister Margaret Thatcher identified him as her primary philosophical inspirer. Much of the advice that Hayek put forward over the course of his career was particularly applicable to Great Britain, particularly in the area of the de-nationalization of industry.

During the late 1970's and through the 1980's, particularly during the time of the Thatcher government in Great Britain and the Reagan administration in the United States, the idea began to emerge that Hayek was not just a great political thinker for a point in time, but a great political thinker for all time. His contributions in the areas of the Division of Knowledge, of the essential role of prices, profits, private property and contract to a market order, and of the relationship among law, liberty, customs and morals began to be recognized as permanent contributions to Western political order and thought. He had been right about Keynes and the welfare state all along. And now, with the decline of Communism and socialism throughout the world during the 1980's, he came to be recognized as the great anti-Marx, the thinker who enunciated the contours of a new free market order in the same way that Marx philosophically enunciated the idea of a Communist system that had such pernicious consequences during the 20th century.

Hayek's final work was "The Fatal Conceit." In 1978, he conceived the idea of organizing a debate on the question, "Was socialism a mistake?" As earlier and elsewhere during his career, Hayek attempted to move a question from the realm of ethics to that of facts. He sought to organize teams on both sides of the proposed debate topic for a great public discussion in Paris.

Hayek's proposed debate did not come off. However, he wrote a work that was originally intended to be a challenge to debate, "The Fatal Conceit," subtitled "The Errors of Socialism," in which he attempted to bring his life's work to a conclusion. The insight that he originally developed through the socialist calculation debate, that knowledge is divided and that prices and profits guide production, he now attempted to apply to society as a whole and its entire complex of rules, laws, customs, morals and manners.

Now, Hayek argued, there is essentially a Darwinian struggle among complexes of rules, laws, customs and morals, and the societies that have the most materially productive complexes of rules will prevail in the end. After several years of illness, Hayek died in March 1992, less than two months shy of his 93rd birthday. Father Johan Schossing said in his homily that Hayek "was one looking for solutions to the great problems of mankind. He tried to find an answer. He was himself convinced that his answers were merely a piece within a larger mosaic."

As earlier noted, though ill, Hayek was well aware when the Berlin Wall fell and Communism in the Soviet Union collapsed. These events have seemed to justify his life's purpose and message: Within the field of human society, there can be no freedom unless individuals possess substantial liberty to live their lives, including their material lives, substantially as they wish. As Hayek concluded in "The Road to Serfdom" almost a half century before his demise, "A policy of freedom for the individual is the only truly progressive policy."

The idea that individuals may be made better than they are through compulsion is false. As Hayek said so well in "The Constitution of Liberty": Liberty is an opportunity for doing good. We praise or blame only when a person has the opportunity to choose.

Near the end of "The Road to Serfdom," he said along the same line, on the proper field of morals, individual conduct, that "issues in this field have become so confused that it is necessary to go back to fundamentals. What our generation is in danger of forgetting is not only that morals are of necessity a phenomenon of individual conduct, but that they can exist only in the sphere in which the individual is free to decide for himself.

The members of a society who in all respects are made to do the good thing have not title to praise. In order to be moral, individuals should have the opportunity to choose the right thing to do."

Economist and political philosopher though he was, Hayek was also ultimately a moralist. His foundational assumptions included that if individuals are given freedom, they will choose to do the right things and that collectivist coercion steals from humans what makes us human -- free will. The theory of libertarianism has been much encouraged and nourished by Hayek. Literally scores, if not hundreds and perhaps even thousands, of prominent and influential policymakers, journalists and academics have testified as to the great and beneficial influence that Hayek has had on them.

Hayek foresaw a society in which coercive government would play a much smaller role than it now does. He foresaw a society that, in practical terms, the role of government would be cut perhaps by as much as two-thirds or so from its current level at all levels of government as a first step. He foresaw a society in which government regulation would be much less at all levels of government than it now is. He foresaw a society in which individuals would be able to live in and participate in creating the communities they wish.

He was ultimately a Utopian philosopher. He wrote in 1949 that "we must make the building of a free society once more an intellectual adventure, a deed of courage. What we lack is a liberal Utopia, a truly liberal radicalism."

Practical ramifications of Hayek's ideas are explored in such institutes as Cato. In addition to the philosophical ideas that thinkers such as Hayek enunciate, it is vital that these ideas are clothed in the garb of public policy.

In "The Fatal Conceit," his final work, Hayek most attempted to explore the evolution of societies. He wrote here that "the main point of my argument is that the conflict between, on one hand, advocates of the spontaneous extended human order created by a competitive market, and on the other hand those who demand a deliberate arrangement of human interaction by central authority based on collective command over available resources, is due to a factual error by the latter, about how knowledge of these resources is and can be generated and utilized."

Hayek wrote in "The Moral Imperative of the Market," perhaps the last publication that he himself saw through to print, that "in 1936 I suddenly saw that my previous work in different branches of economics had a common root. This insight was that the price system was really an instrument which enabled millions of people to adjust their efforts to events, demands and conditions of which they had no direct, concrete knowledge. It

took me a long time to develop what is basically a simple idea. I gradually found that the whole economic order rested on the fact that by using prices as guides, or as signals, we were led to serve the demands and enlist the powers and capacities of people whom knew nothing. Basically, the insight that prices were signals became the leading idea behind my work."

To convince leaders of public opinion of this idea became Hayek's chief task. The theory of capitalism is that individuals are more likely to serve the needs of others if they follow the impersonal rules of the market than if they attempt individually and specifically to do good. Hayekian capitalism is thus, ultimately, a moral creed. Thank you.

(Applause.)

JERRY Z. MULLER, PROFESSOR OF HISTORY,  
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AUTHOR, ADAM SMITH IN HIS TIME AND OURS

DR. MULLER: Alan Ebenstein, in his talk this evening, has offered us a rather unblemished portrait of Hayek. That's in keeping with the affirmative portrait of Hayek's thought in his book. I don't mean to suggest that the book is entirely uncritical of Hayek as a person or as a thinker, but except for some reservations about Hayek's monetary theory there is little criticism of Hayek's thought, especially of his social and political thought. So, this evening, speaking in the Hayek Auditorium at an institution which regards Hayek as an icon, Ebenstein has said little to rattle the faithful by calling into question the adequacy of Hayek's accounts.

That, therefore, is what I want to do by suggesting that Hayek had the clear and piercing vision of the one-eyed man. Like many thinkers who formulate their views primarily in response to one or another looming foe, Hayek's work has a tendency to one-sidedness and exaggeration. That's why his work needs to be assimilated critically rather than ideologically.

Indeed, Hayek's very real and sometimes brilliant insights have a tendency to ideological deformation. By an ideologist, I mean someone who always tells his enemies why they are wrong, and his friends why they are right. I'll contrast that to a different model of the intellectual, the one embodied in various ways by David Hume, Adam Smith, Matthew Arnold. In their conception, part of the intellectual's task is to tell his friends why they are mistaken, or one-sided, and to encourage them to see that there is more to be learned from their adversaries than they are want to believe.

First then, briefly, to the question of what Hayek saw, often with great clarity, often with greater clarity than almost

any of his contemporaries. In the 1930's and the early 1940's, he saw that the political program of trying to shape the economy to preserve the status and way of life of any group in society was a recipe for economic stagnation and cultural parochialism. That was especially the case when it came to defending the cultural or ethnic majority against challenges from more dynamic minorities.

That, I would argue, was the lesson he learned from his experience in inter-war Austria, where the major parties of the right were all committed to protecting the well-being of what they called the German Aryans, at the expense of Jews and Slavs. That was the origin of Hayek's insight: that the state in a liberal capitalist society could not embody the ideals of particular cultural communities, an insight which eventually led to his critique of the very notion of social justice on the grounds that it presupposed a common set of values that simply didn't exist in a liberal capitalist society.

It is worth recalling, perhaps, that his insight into the fact that a liberal society was based on a relatively thin cultural consensus emerged not from his critique of socialism, but from his critique of radical nationalism and fascism. That was the first faux that led him to formulate his thought.

His second big insight was first articulated in response to the socialist project of a fully planned economy. One finds that adumbrated in the volume of essays that he edited in 1935 on socialist economic planning. There, and in many subsequent works, as Alan Ebenstein has noted, he explored the reasons why a rational economy, without private property and the profit motive, was a contradiction in terms, because it lacked incentives to convey information and to develop new knowledge. That insight was amply confirmed in the subsequent history of the Soviet Bloc.

Later, Hayek saw the intrinsic weaknesses of the welfare state, at a time when few others did. I say intrinsic weaknesses, which is quite different from fatal flaws. He warned of the dangers in the dynamic of a democratic welfare state. In particular, he predicted that powerful unions, devoted to raising the prices of wages, combined with governments committed to keeping unemployment low, would lead to a spiral of wages and prices that would get out of control.

"The present position of the unions cannot last," he wrote in 1960, "for they can function only in a market economy, which they are doing their best to destroy." That spiral, which was very hard to see in the late 1950's when he wrote "The Constitution of Liberty," picked up steam in the 1960's and surged upward in the 1970's, leading ultimately to the rise of

political leaders willing to swallow the painful medicine which Hayek had prescribed.

Three big insights, then. Very impressive, you might say. And you would be right. But we ought not to be so blinded by Hayek's brilliance to lose sight of his limitations. Hayek's vision was intense because he had a propensity to tunnel vision. He missed a good deal because his focus was so narrow and ideological.

Take, for example, his favorite notion of spontaneous order. Hayek asserted that capitalist society was best understood as an example of what he called spontaneous order. By that, he meant two things, which he tended to conflate with one another, but which are actually quite distinct. He thought of the market order as spontaneous in that it coordinated human purposes by appealing to existing motives of self-interest, rather than by trying to coordinate activity through deliberate planning.

By a spontaneous order Hayek also meant something else: that the market order had come about not in a planned, deliberate fashion to conform to a particular 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, Hayek thought, the market order had developed and was still developing by a process of cultural evolution. It was a set of institutions which had neither been created intentionally, nor could they be reconfigured to conform to any ideal.

Now, this was a brilliant half-truth. What Hayek passed over was the fact that in most places in the world, the market economy had been deliberately introduced, often by rulers seeking to increase the wealth of the nation. That was as true in late 18th century Wurtemberg as in mid-19th century Japan or in late 20th century China. And even in Great Britain, the development of a liberal market economy was a process which might have begun in an unplanned fashion, but which was promoted by the deliberate action and rational analysis of intellectuals like David Hume and Adam Smith.

Here, Hayek's tendency to exaggerate his own insights led him into self-contradiction. His emphasis on the limits of human knowledge led him to a distrust of all rational institutional design. But this was at odds with his own suggestions for institutional reform, which were based upon a rational analysis of the malfunctions of contemporary democratic institutions. Hayek's antagonism to hubristic planning, what he called the error of constructivism, made it impossible for him to make a principled argument for the sort of piecemeal social

engineering, which, as his friend Karl Popper recognized, was both possible and desirable in a liberal society.

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 criteria by which 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, far more one-eyed, far more ideological, than his predecessor Adam Smith.

Smith devoted substantial parts of "The Wealth of Nations" to pointing out the negative effects of even a well-functioning market, and to suggesting remedies for them. Think, for example, of his famous description of the negative effects of the division of labor on many workers. This is a quote from "The Wealth of Nations":

"The man whose whole life is spent performing a few simple operations has no occasion to exert his understanding. He naturally loses, therefore, the habit of such exertion and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing part in any conversation, but of conceiving any generous, noble or tender sentiment, and consequently of forming any judgment concerning even many of the ordinary duties of private life.

"Of the great and extensive interests of his country, he is altogether incapable of judging. His dexterity at his own particular trades seems, in this manner, to be acquired at the expense of his intellectual, social and martial virtues. But in every improved and civilized society" -- in what we would call a capitalist society -- "this is the state into which the laboring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it."

One can, I believe, read through the 20 volumes of Hayek's collected works and never come up with a similar passage. He was so committed to defending the market from its opponents that he never stopped to consider that perhaps it was the responsibility of those who defend the market to point out its shortcomings, its limitations, and to try to develop remedies. It's not that Hayek's thought about the role of markets, of initiative, of experimentation and entrepreneurship is intrinsically at odds with recognizing the unintended but anticipatable negative effects of the market. The fact that Hayek never did so, inheres not in his analysis but in his one-sidedness, in what I have called the ideological cast of his thought.

One can certainly believe that there are negative effects of the market and yet come up with solutions which are compatible with Hayek's description of a liberal society. Hayek, for example, held no belief for the notion of timeless property rights that existed in some purported state of nature. He regarded property rights as a historical creation, and he recognized that changing social and technological circumstances would demand a redefinition of property rights from time to time.

Today, this is a model that's appropriate, for example, in dealing with questions of environmental pollution. There is a need to redefine property rights in a way that, as economists say, internalizes externalities. That is, it makes the owners and users of property pay for the damage they do to third parties. Similarly, legislation that makes businesses pay for the damage that they do to the bodies of their employees by ignoring ergonomic considerations is in keeping with Hayek's thought when it's divorced from the ideological cast of his mind.

The contrast between Adam Smith and Hayek calls to mind another problem in Hayek's work: his tendency -- and this comes out in Alan Ebenstein's work -- his tendency to take from other thinkers only what Hayek himself already believed. Ebenstein touches upon Hayek's unwillingness to confront criticism of his thought. The problem, I suggest, goes even further. Hayek looked deep into the intellectual history of the West, but all that he found there was his own reflection. Whether writing about Mandeville, Hume, Smith, or Burke, what interested Hayek was the extent to which past thinkers anticipated his own insights. The cost of this was that Hayek rarely drew upon the great thinkers of the past to challenge his own assumptions and perhaps to correct his one-sidedness.

Another lamentable propensity of ideological thought which one finds in Hayek is the tendency to cast all choices in terms of polar opposites. One sees this in the quotation from "The Fatal Conceit" cited by Mr. Ebenstein, in which Hayek describes the conflict between the advocates of "the spontaneous order created by a competitive market" versus "those who demand a deliberate arrangement of human interaction by central authority based on collective command over available resources."

But is the unrestrained market really the only alternative to a centrally planned and owned economy? Surely not. But Hayek's rhetoric makes us forget that one can have a market-based economy, restrained and influenced by considerations of public policy, arrived at through rational analysis. Those who have never been exposed to Hayek's major insights will find themselves intellectually enriched by doing so. But those who have been struck by his brilliance should not be blinded to his limitations as a thinker. Whenever the market needs defending



against its enemies, Hayek's work will be indispensable. But it will be less useful on those occasions when society requires defense against the market.

Thank you.

(Applause.)

MR. PALMER: Thank you very much, both of our speakers. We have an opportunity for some questions to be posed to either or both of our speakers. There's a microphone in the back. If you would raise your hand if you want to ask a question, and please identify yourself. Please wait, also, for the microphone to reach you. Right here, sir.

MR. O'CONNELL: I'm Jeffrey O'Connell, from the University of Virginia Law School.

I haven't finished your book, but I'm richly rewarded by reading it. I note, though, that I don't see in the index anything under religion, and I wonder about Hayek's religion. Was he raised a Catholic in Austria? And what was his religion through his life? And what, if anything, was the influence of religion in his life?

DR. EBENSTEIN: Hayek was born a Roman Catholic, but his parents were not religious. His father was a botanist and Darwinian in his philosophical perspective. His grandfather also had similar views. Hayek comments in interviews that he was raised in an essentially unreligious atmosphere, although he was formally Roman Catholic. He considered himself to be an agnostic throughout life, from the age of a young teenager.

It's something that he said in a later interview that he rarely discussed religion -- this is almost an exact quote -- he rarely discussed religion because it was something that was bound to be controversial and he didn't want to upset people unnecessarily. That wasn't his focus. He simply said he didn't have the "ear" for religion. So, those would be some comments.

MR. PALMER: Right here.

QUESTION: Was there any interaction between Hayek and Michael Oakeshott, particularly during the --

DR. EBENSTEIN: Very limited. Oakeshott succeeded Lake in the Department of Government at the London School of Economics, and Laski died just as Hayek was leaving London in 1950. So, they were not colleagues at the London School. Hayek refers to Oakeshott a couple of times in "Law, Legislation, and Liberty," and elsewhere. In his oral teaching Oakeshott refers to nomocracy, which Hayek thought was similar to some of his ideas on law. So, I think that there was not a personal relationship nor was there a strong intellectual relationship. Oakeshott may have gone to one regional meeting of the Mont Pelerin Society, but they did not have much interaction.

DR. MULLER: I'm sure that Dr. Ebenstein is right about the personal interaction. That having been said, there are very important intellectual affinities and cross-influences between them. In fact, the notion that Oakeshott -- in two very important senses. First of all, both of them emphasized what you might call epistemological modesty. That is, an emphasis on how much one could know and on how much of what one does know one could articulate. That was a common theme in both of them.

And then, Alan Ebenstein alluded to this, but for those of you who are interested, you might want to follow it up, in Oakeshott's later work, he made this distinction between civil associations and enterprise associations. Civil associations were associations where people associated because they wanted some common means, not because they had a common purpose. Whereas, enterprise associations are associations in which they enter into because of a common purpose. And it was Oakeshott's contention that the modern liberal state ought to be understood as a civil association, not as an enterprise association.

Well, that's very close to Hayek's notion of the modern state as a piece of, as he put it, utilitarian machinery with a shared set of laws, the purpose of which is not to fulfill some common shared aim, but to make it possible for groups within society to fulfill a wide range of aims. So, there's a lot of intellectual cross-fertilization without, I think, much personal interaction or even without much mutual citation. But these things happen.

MR. PALMER: I remember Oakeshott wrote a review of "The Road to Serfdom," in which he largely endorsed the outcome as critical of socialism, but he criticized Hayek, as I recall, for having been too systematic in his critique of the attempt to impose a system on society. I never quite understood Oakeshott's point, but Oakeshott was more critical of systematization per se. And he thought a systematic critique of systematization should criticize itself, in effect.

MALE VOICE: I'd like to pose a question, take a quick prerogative, for either of our speakers, although it was occasioned by Jerry's exhortation to be critical when thinking about Hayek. One of the things that I always found appealing about him was he was not a cheerleader for capitalism in the usual sense of the term. And there are two passages that come to mind in this context. One is in "The Constitution of Liberty," where he says that people who live in a free society won't always be happy in the usual sense of the term. They will necessarily be discontented. They may be wiser but always sadder, because we always learn the limits of our own knowledge, and we won't have the kind of happiness that is promised to us by Utopian thinkers generally. It's a state of constantly striving for something

that you can't have. And he said that the point of it is it's the motion, the getting, not the having, that matters.

And secondarily, in his last book, he had a passage about social justice. And he seemed to imply that we're always doomed to be unhappy in a free society because it will seem unfair. We grow up in families where we learn about fairness, because of the way you are raised in a family. Then we go out into the great society and we find it's profoundly unfair. Sometimes people get more money than I do, even though they didn't work harder. Donald Trump works harder than I do, I'm sure, but I don't think he works a million times harder than I do.

(Laughter.)

MR. PALMER: And if that were the rule in your family, that the children all do their chores but one child gets a million times as much as the other child even though they worked about the same, that would be profoundly unfair. But it isn't unfair in the market. And he said we're doomed to live in two orders at the same time: the small order of the family in the intimate group, and then we go out into the great order. And that struck me as a more sophisticated nuanced critical approach to capitalism than you would find in someone like Ayn Rand, for example, who was much more of a cheerleader just all the way. So, if you could comment on that element of Hayek's thought.

DR. MULLER: Alan, do you want to go first?

DR. EBENSTEIN: Sure. I think that the question of ultimate good is one that Hayek doesn't really address. In "The Fatal Conceit," his ultimate justification is something along the lines that life has no purpose but itself, and that the virtue of the market order is that it makes life more abundant and more flourishing. And that's really all that can be said for it. And without any religious or supernal outlook, that was more or less all he could get to.

And so I think that there are aspects -- I think that there's certainly an element in Hayek's thought that is somewhat pessimistic. But at the same time, I think that there are also strands within his thought that are rather optimistic and that speak of that it's using the gifts of our intelligence, that we're as happy as we can be, and that a productive society is certainly happier than an unproductive society. And that, as he also says in "The Constitution of Liberty," we may not be able to justify the fruits of capitalist civilization in some ultimate sense, but what we can say is that almost every people in the world who have had the opportunity to choose the fruits of capitalist civilization have chosen it. So, I think that those would be some stream of consciousness.

DR. MULLER: Well, on your two points. First of all, about the latter point. Hayek stressed -- he adumbrated this in "The Constitution of Liberty," but he pointed it out especially in the volume of "Law, Legislation and Liberty," called "The Mirage of Social Justice" -- that he thought it was a great mistake of market-oriented conservatives to defend the market on the grounds that the market rewards virtue or merit. He pointed out that this is very obviously fallacious, that many people who do well in the market are neither virtuous nor meritorious. All they are, he pointed out, is people where the relationship between the supply of what they have to offer and the effective demand is such that they get a lot of money.

He called it the jazz star, but being a central European, he really had no idea what jazz was -- he really meant like a rock star, versus a teacher. He said it's not that what the rock star does is more virtuous or meritorious than what the teacher does. It's simply that there are a lot more people willing to pay money to hear that particular rock star than are willing to pay to hear any particular teacher. So, that's something where you are right in the sense that Hayek wasn't always a cheerleader. He could point to some of the people on his own side about why they had better make better arguments than they were making.

The other question you raised was about happiness and a market society, that's a much tougher question. Often, or at times at least, the vision that one gets in Hayek -- and he says this explicitly in some of his later works -- is that one of the things that market competition does is it forces us to work harder, be more efficient, and concentrate more on our work. Well, there are other things in life besides work and putting more and more of your mental energy into work in terms of remaining competitive in the market. And so one could see it as a kind of doomsday scenario, a kind of re-description of the Marxist notion of alienated labor, that market competition forces us into a continuous process of alienated labor.

I actually think there are better arguments for the market than that, but that was indeed Hayek's argument. And it comes from the fact that, as we have both alluded to, he has no real positive vision of the human good. Or, to put it another way, he was so convinced of the evils that had resulted in trying to coerce people into a particular conception of the good, in both fascism and communism, that he gave up any kind of normative criterion. Which, again, is why, unlike Adam Smith or others -- people that I think are more balanced intellectuals, even if they are defenders of the market or especially when they are defenders of the market -- he had no notion of why you might want to restrict the market in the interests of the human good.

DR. EBENSTEIN: Just one further point on that. I think Hayek was an indirect utilitarian in that some of his thought was along the lines that although the market doesn't work in every case -- and he fully acknowledged that the market does not work in every case -- that overall it works better than any other system. And so I agree that I think he did not believe that the market always works or it always has the most just outcomes. It's simply that it seems to be the system which works the best. And that was as good a justification as he could come up with.

MR. PALMER: Yes, in the back.

MR. SMITH: R.J. Smith, Competitive Enterprise Institute.

I would like to comment on Jerry Muller's mentioning that private property rights might have to be changed in order to internalize environmental externalities. I would argue that it is just the opposite: that private property rights themselves are the major way of internalizing environmental externalities if they are protected and enforced. I mean, the whole problem we have seen in America over 200 years is the refusal of the courts to protect private property rights from environmental damages and to protect them from trespass and to protect them from harm. There is example after example, starting with \_\_\_\_\_ and the transformation of American law.

When the first mill towns came into New England, initially, the court said, yes, there was harm to individual property rights' owners who had the water rights. But then, under pressure from State legislatures and Chambers of Commerce and so on, they wanted to see rapid economic growth, so they developed utilitarian arguments to say that we couldn't let selfish individual property rights stand in the way of progress and growth.

The same happened with the court cases on air pollution. The same thing happened when the New York Central Railroad burned down Rochester. The New York Supreme Court said, yes, the railroad is responsible but we won't find them liable because it would cost too much. And we've done this over and over and over. It hasn't been that property rights haven't worked; it is that the government has not enforced the rules of the game effectively.

DR. MULLER: This may be a disagreement without a difference. I am not sure that we radically disagree on this, that in some sense property rights have to be defined in such a way that corporations or individuals who do damage pay for it or are held responsible for it. My only point was -- it's not a small point -- my only point was that Hayek in fact endorses this in theory. He says that property rights have to be redefined

over time in keeping with changing social and technological needs.

So, we may disagree as to details, and I'm sure you're infinitely more knowledgeable than I am as to details, but I don't think in principle we disagree that the issue of pollution, of third party harm, is a real one. It's not a fake one in the way that some cheerleaders of the market tend to argue. And there are certainly market-compatible ways of dealing with it.

MR. PALMER: On the right back here?

QUESTION: Did Hayek late in his life comment on Rawls' Theory of Justice or pay much attention to that whole literature that developed around it? Did he attempt to critique it, or was he just at that point in his life not focusing on that area of philosophy?

DR. EBENSTEIN: Hayek had very interesting comments on John Rawls, author of "The Theory of Justice." Originally, in "Law, Legislation and Liberty," Hayek took a relatively positive stance toward some of the articles that preceded the "Theory of Justice" on the grounds that Rawls seemed to define justice more in procedural terms than in outcomes. At least, this was Hayek's earlier interpretation of Rawls.

And as Hayek said at one point in "Law, Legislation and Liberty," that is exactly what he was trying to do, not to get to specific outcomes, but to see that there are rules established which then, whatever the outcomes are, are fair. But later, in "The Fatal Conceit," he retracted that position and he said that there's just too much egalitarianism in Rawls, really, to sustain that position, and that he was, as Professor Muller said, trying to read something into Rawls that wasn't there -- this emphasis on Hayekian procedural justice. So, he was originally one-sidedly trying to find what he could in Rawls, but then he later came to the conclusion that Rawls' emphasis was simply too egalitarian to be consistent with his own conception of justice.

QUESTION: I'm just wondering if Hayek had a relationship with Schumpeter and, if so, what was that relationship?

DR. EBENSTEIN: They actually had a personal relationship. Schumpeter was actually a student of Hayek's grandfather, who was an economist, and was in that small milieu of Viennese economists. And when Hayek went to the United States, in fact, in the early 1920's for a year as a postgraduate student, Schumpeter wrote a letter on his behalf to American economists whom he knew. So, they had a good personal relationship, and Hayek was once asked if he could spend a night with anyone again, who would he choose? And he said Keynes and Schumpeter. So, they had a good personal relationship.

From a more economic perspective, Hayek did not agree with the view that -- what did he say -- it was something along the lines that capitalism is doomed by its success -- or something along those lines. So, I think that, similar to his intellectual relationship with Keynes, his academic relationship was not as strong. But perhaps you could amplify?

DR. MULLER: I think that one of the things that has been missed out in much of the Hayek scholarship is how deeply and indelibly Hayek was impressed by Schumpeter, especially Schumpeter's notion of the entrepreneur, and of creative individuals and creative minorities, as those who discover new ways of doing things and who are really the motive force in the dynamic elements of capitalism. That was a theme that was very central to Hayek's political and social thought, as well.

It comes in part from other Viennese economists other than Schumpeter. One finds it to some extent in Wieser, for example. But it is, above all, Schumpeter who articulated it. And although Hayek rarely cites Schumpeter, that Schumpeterian idea of creative dynamic individuals and creative and resourceful groups in society, including ethnic minorities in society, is a theme that was really very central, I think, for Hayek's social and economic thought.

MR. PALMER: We actually have time for about two more questions. Right here?

MR. CHISHOLM: John Chisholm, from Menlo Park, California.

It seems that Hayek wasn't particularly quantitative. Tell me if that's not correct. And are there quantitative economists who have carried his ideas forward?

DR. EBENSTEIN: I don't really think so. I think that Hayek was really more of a philosopher, if a philosopher is someone who uses language, as opposed to an economist, if an economist is someone who uses numbers. And I think that Hayek's contributions are considered by economists particularly to be in the area of economic philosophy as opposed to mainstream Samuelsonian economic theory. So, I think that it's a different approach, and whether modern economics has gone in the right or the wrong direction is a different question. But I think that it is a different approach than that of modern economics.

DR. MULLER: There is a reason why Hayek wasn't a mathematical economist and why mathematical economists -- which is to say, most institutionalized economists and universities today -- can't find a role for his thought, even if some of them agree with it in principle. And that is that Hayek's emphasis was that in a great society or an open society or free society, it's a society that leaves a great deal of room for innovation, for people to come up with new ways of doing things, with new

products that no one thought of before, with new uses for old materials, in ways that are indeed unpredictable. And after all, the purpose of most mathematical economists, or their claim to fame, is that they can predict the future in some way or to some degree or another.

And Hayek thought that one of the most fascinating and beautiful things about an open society was that you couldn't predict the future, because people were going to come up with new ways of doing things that were not continuous with old ways, and hence not predictable. And in that sense, Hayek isn't operationalizable by academic economists or by economists in the private sector, even though some of them admit that, on the fundamental level of understanding how markets work, he was right.

MR. PALMER: We have time for one more question. The gentleman over here?

QUESTION: I was wondering, Dr. Ebenstein, if you could comment. It's fairly well-known that Hayek later in life became a little more radical in the libertarian sense, even if modern-day libertarians take issue with much of what he had to say. But it's also fairly well-known now that "The Fatal Conceit," by the time it reached publication, had gone through many drafts that many close colleagues of his, at various points, had said were unpublishable and had all sorts of problems. And I'm just curious, based on your research and based on what still exists of those manuscripts, if they were commenting perhaps on specific expressions of his thought or if it was something much more mundane. Were they responding to the notion that his thought was carried off and expressed itself in ways that they deemed unpublishable? Or was it simply a matter of mundane notions of expression and coherency?

DR. EBENSTEIN: That's a very good question, and it is something that there is a significant amount of scholarly interest in. I was actually able to interview in depth Hayek's secretary from 1977 to his demise. And it is always the secretary who has all the information, so I think that I have the relatively straight story. And she had a number of the manuscript drafts of "The Fatal Conceit." I think -- and this is having seen the actual manuscripts that Hayek himself wrote and then comparing those to the published work -- that the ideas in "The Fatal Conceit" genuinely are Hayek's. It's not the case that there is, in my opinion, any major idea that is imported into that work that was not already there.

There is certainly editing, in terms of chapters have been moved around. It was originally going to be a three-part work, like "The Constitution of Liberty" and "Law, Legislation and Liberty." Only the first part, ultimately, was published.



But I think that it is basically Hayek's work, and it's something that the changes are more stylistic and genuinely significant editing, but not in the sense of distorting Hayek's basic fundamental ideas.

There was a critical review article a couple of years ago where -- I think it was Jeffrey Friedman -- commented how he had -- I forget who it was -- had suggested that there be some incorporation of discussion of -- is it Marcusi or maybe Habermas -- and then, there it appeared in the work, and he had never met Hayek. Well, that's a couple of paragraphs. It's something that there was that sort of editorial license taken, and I don't think positively in terms of -- my own feeling is that, from a scholarly perspective it would have been better simply to have presented Hayek's final work as he had completed it.

But then he got to be an old man, and somewhat persnickety, and ill, and unsatisfied, and not willing to see things through. And so it was something where William Bartley, who became editor of "The Fatal Conceit," which was not anticipated when Hayek was writing it, I think took more license than I believe should have been taken. But I believe that the work is fundamentally and essentially Hayek's. And perhaps someday there will be a scholarly edition in which some of the nuances will be able to be worked out.

MR. PALMER: Well, we've had two very valuable perspectives presented on Hayek's life and work. I hope you will join me in thanking our two speakers this evening for their presentations, and also that you will join us upstairs in the Winter Garden for a reception. Thank you, gentlemen.

(Applause.)

(Whereupon, the Cato Institute Book Forum was adjourned.)