F. A. Hayek, on the Occasion of the Centenary of his Birth

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At the time of his death, F.A. Hayek (1899–1992) was unquestionably the world's preeminent spokesman for classical liberalism and its most important thinker. He led an immensely productive life, over the course of which he made significant contributions to a variety of disciplines, among them economics, political and social theory, psychology, and the history of ideas. While his doctorate from the University of Vienna was in jurisprudence, his first interests were in economics and, to a lesser extent, in psychology. Hayek had done his work at the University under Friedrich Wieser and as a consequence had early adopted some of Wieser's socialist views. However, in 1922 Ludwig von Mises published his devastating critique of central planning (*Die Gemeinwirtschaft*), in which he demonstrated that in the absence of markets there exists no method of determining the values of goods and services and hence rational economic calculation becomes impossible. Indeed, the inevitable failure of socialism hinges on this central fact, that in the absence of a genuine price system, which requires truly free markets, planning boards are incapable of calculating real costs. Largely as a consequence of reading Mises, Hayek abandoned his early Fabian views and developed a close relationship with Mises, whose seminars Hayek began attending.

During a year-long visit to the United States, Hayek had become particularly interested in the relation between bank credit and the business cycle, and this interest eventuated in 1927 in Hayek's being appointed director of the newly created Institute for Business Cycle Research. Building on the theoretical framework earlier advanced by Mises in his *Theory of Money and Credit*, Hayek produced his first important work, *Monetary Theory and the Trade Cycle* (1929), in which he unraveled the relation between credit expansions and capital

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malinvestment that lay at the root of business cycles. The work was very well received and as a result Hayek was invited by Lionel Robbins to deliver a series of lectures at the London School of Economics on the trade cycle. Those lectures, which soon appeared in book form under the title *Prices and Production*, were received with such enthusiasm by the assembled faculty of the LSE that, as Ronald Coase has reported, they could speak of nothing else for months. Indeed, in their initial excitement some economists had concluded that Hayek had laid bare the underlying groundwork on which all public policy would henceforth have to be built. The immediate result was that Hayek was offered a chair at the LSE, the Tooke Professorship of Economic Science, which he took up at the age of 32.

The Primacy of Spontaneous Order

It is doubtless from this period that Hayek's love affair with England began. Hayek had already read widely in the history of ideas, but it was while in Great Britain that his conclusions regarding the nature of social relationships and law were more fully formed. Thoroughly familiar with the history of early economic thought, Hayek found in the writings of such writers as Adam Smith and David Hume the key to a theory that provided the philosophical underpinning for a free society. Much like Smith's description of the invisible hand as an unseen and undirected coordinating mechanism for the production and distribution of wealth, the writers of the Scottish Enlightenment, and particularly Adam Ferguson, had, Hayek found, offered an account of the rise of social institutions as the product of spontaneously generated orders. The theory, simply put, is that the social arrangements under which we live are of such an order of complexity that they cannot be the product of deliberate calculation but are, rather, the unintended consequence of countless individual actions, none of which aims at the establishment of coherent social institutions and many of which are the product of instinct and habit. In sum, one does not need an orderer to have order. Thus, language, law, morals, social conventions, and the exchange of goods and services are all instances of spontaneous orders. Indeed, Hayek regarded the view that social arrangements must be controlled by some central authority lest disorder and chaos ensue as the opening door to totalitarianism, no matter whether the directing authority was reactionary or socialist.

Both conservatism and socialism, Hayek contended, share this distrust of uncontrolled social action, in the same way both lack an understanding of economic forces. So central was the idea of the complexity of social orders to Hayek's thinking that it provided him what was probably his greatest insight in the field of economics, that in a *dirigiste* society there is simply no way to bring to bear the dispersed bits of knowledge possessed by economic actors that makes economic coordination possible. In two brilliant essays, the first published in 1937 ("Economics and Knowledge") and the second in 1945 ("The Use of Knowledge in Society"), Hayek points out that this division of knowledge is in fact the central problem of economics and that only free markets can provide this necessary coordinating structure.

Hayek's distrust of comprehensive theories of government and society followed directly upon his notions of the extraordinary complexity of social arrangements and the dispersion of knowledge. The history of the idea of liberty in England, Hayek contended, was essentially empirical and unsystematic and tended to rest on interpreting traditions and institutions that took their form without conscious direction. Most British theorists were aware, Hayek observed, that freedom itself was an artifact that grew out of these institutions and was no more natural to man than were the other trappings of civilization. French theories of a free society, on the other hand, tended to be more speculative and rationalistic, based on the assumption that the human mind could comprehend the totality of social arrangements and that it was, at least in principle, possible to restructure these institutions consistent with the social laws that human reason could uncover. In identifying these two traditions in the theory of liberty, the one British, the other French, Hayek sought to account for why continental political doctrine, stemming as it did from the French tradition, so easily slipped into totalitarianism. If one believes that human reason can lay bear the laws governing social arrangements, then one may with impunity thoroughly redesign society to one's liking.

The British tradition that Hayek so much admired was best exemplified by the writers of the Scottish Enlightenment, Adam Smith, Adam Ferguson, and above all David Hume. Joining them were a number of their 18th century contemporaries including Josiah Tucker, Edmund Burke, and William Paley, and the jurisprudential theorists of the common law. To these Hayek opposed the intellectuals of the French Enlightenment, which included the Encyclopedists, the Physiocrats, Condorcet, and especially Rousseau. Poisoned by Cartesian rationalism and appealing to men's pride and ambition, these writers regarded all social arrangements as the product of an ordering intelligence that political wisdom could reshape. Of course, as Hayek himself concedes, not all writers in the British tradition were British, nor were all those corrupted by rationalistic hubris French. Hobbes, Bentham and the other Philosophical Radicals, and the British supporters of the French

Revolution, among them William Godwin, Thomas Paine, and Richard Price, all rejected the insights of the Scottish Enlightenment into the evolution of institutions under which men live. On the other hand, a number of French liberals fit more easily in the British tradition: Montesquieu, Benjamin Constant, and Alexis de Tocqueville.

Hayek's Liberalism

While I have some difficulty in accepting Hayek's model of the history of liberalism, I do think it casts light on where Hayek placed himself and why he regarded himself as a classical liberal. As such, Hayek could not fail to admire Locke, whose empiricism appealed to him. Certainly Hayek would have questioned the idea that government is ultimately the creature of a social contract, but Hayek's skepticism on the issue of natural law, like Hume's, was tempered by a rather sophisticated understanding of the nature of justice. While Hume, and Hayek after him, would have regarded the rules that comprise our notion of justice as the product of convention, these rules are not capricious but are, in fact, grounded in our nature as social animals born into a universe of scarce resources. We all share certain values by virtue of our living in a common environment, where the desires of all men exceed the means to satisfy them. It is this condition that gives rise to the fundamental rules of justice—what Hume had designated "the fundamental laws of nature." This is as close to Locke's conception of natural law as Hayek got, but it is close enough for him to embrace Locke as a true Whig.

Hayek enlarged on his criticism of the rationalistic approach to politics that characterized the French liberal tradition in a series of essays attacking the uncritical application of the methodology of the natural sciences to social questions. This scientistic analysis of society, common to all social planning schemes, errs in assuming that all social issues can be studied solely in terms of the observable behavior of individuals comprising the social whole, without reference to their subjective states of mind, and in asserting that we may make meaningful statements about social collectives independent of their constituent components. In a series of articles that originally appeared in the British journal *Economica* between 1942 and 1944 (later published in book form as *The Counter-Revolution of Science: Studies in the Abuse of Reason*), Hayek demonstrated that this fundamental methodological fallacy lies at the root of all social engineering. Tracing its roots to the view put forward by many French Enlightenment thinkers that all phenomena were in principle reducible to physics and that all social ills were curable through the application of reason, scientism found its fullest expression in the social physics of Henri de Saint-Simon and Auguste Comte and in Georg Hegel's scheme for a universal history of mankind. And from Comte and Hegel, this view descended to Karl Marx and his successors.

Hayek and Keynes

Hayek's concerns while at the London School of Economics were not, of course, confined to problems in social theory. Soon after arriving in London, Hayek found himself confronting Britain's (and possibly the world's) most celebrated economist, John Maynard Keynes. Keynes's *Treatise on Money* was published in 1930 and Lionel Robbins, at the time the editor of *Economica*, assigned the book to Hayek to review. Hayek's review, which was published in two parts, was sharply critical of Keynes's monetary theory, which, he pointed out, failed to appreciate the critical importance of monetary factors in altering the structure of production and in determining the trade cycle. Keynes replied to part one of Hayek's review, which appeared in August 1931, and, as editor of the *Economic Journal*, in turn selected Piero Sraffa of Cambridge to review Hayek's recently released *Prices and Production*, to which Hayek replied and Sraffa wrote a rejoinder. The debate between Keynes and Hayek soon spread throughout Great Britain and eventually involved every important economist then writing (including Sir Ralph Hawtry, Arthur Pigou, Sir Dennis Robertson, Arthur Marget, Alvin Hansen, and Herbert Tout).

It should not, by the way, be assumed that there developed a strong personal animosity between Hayek and Keynes because of their intellectual disagreements. Keynes apparently had an exceptionally engaging personality. He was quick, immensely witty, and an excellent raconteur, and, like most who met him, Hayek had early been charmed by his company, a charm that continued when the London School of Economics was moved to Cambridge early in the war as a consequence of the German bombing of the British capital.

Despite the fact that Keynes was later to concede the legitimacy of much of Hayek's criticism of his *Treatise*, the debate between the two economists was soon eclipsed by the publication of Keynes's *General Theory of Employment, Interest, and Money*. Released in 1936, at the height of the Depression, the academic world found in Keynes's recommendations regarding deficit spending and vigorous government activity a formula that had far more appeal than did Hayek's analysis of the causes of the business cycle and the need to allow the market to correct itself without more monetary intervention. The result was that Keynes's theory of underinvestment and underconsumption during periods of slow or negative economic growth came to dominate economic theory for several decades.

The Road to Serfdom

The 1930s and 40s, coincident with Hayek's tenure as professor at the LSE, witnessed a massive increase in government intervention in the economy coupled with ever greater intrusions into what had hitherto been regarded as one's private life. The growth of government was, of course, substantially accelerated after the outbreak of war in 1939. At the same time the prevailing English and American political orthodoxy viewed fascism and particularly National Socialism as philosophically antithetical to welfare socialism, which was commonly thought to be capitalism's benign reaction to the depredations of an unbridled market economy. Hayek became so alarmed by this commonly held view that he felt compelled to write his first work aimed at a lay audience, *The Road to Serfdom*. The essay appeared in 1944 and quickly became a cause célèbre, castigated by intellectuals on both sides of the Atlantic. Hayek there argued that the collectivist attitudes that had become so popular in the western democracies were, by virtue of their distrust of market forces and their contempt for individual decisionmaking, intimately related to fascism and that both had similar statist, anti-individualist roots. Central planning, Hayek claimed, by destroying the spontaneous order of the market, had of necessity resulted in a wide array of unforeseen and undesired consequences, which, in turn, had led to even more extensive planning and to yet further unsatisfactory outcomes.

The public notice that *The Road to Serfdom* received in the United States, where the book also appeared in condensed form in the *Reader's Digest*, led to Hayek's being invited on a lecture tour of American cities in mid-1945. His taste for America having been whetted by this trip, he was prevailed upon to accept an appointment on the Committee on Social Thought at the University of Chicago, which he took up in 1950. Hayek's appointment was to the Committee on Social Thought rather than to the Economics Department, his natural home, because the economists at Chicago regarded *The Road to Serfdom* and Hayek's other publications during the 1940s as either in areas not central to the problems of economic science as they understood them or as aimed at too popular an audience to be considered serious academic works. Hayek remained at Chicago until 1962, when he accepted an appointment as professor of economics at the University of Freiburg.

The Constitution of Liberty

While Hayek published comparatively little in the field of pure economics during his tenure at Chicago, he did write a number of seminal works in a number of other disciplines, including psychology (*The Sensory Order*, 1952), the history of ideas (*The Counter-Revolution of Science*, 1952), economic history (the introductory essay to *Capitalism and the Historians*, 1954), and social philosophy (*The Constitution of Liberty*, 1960). *The Constitution of Liberty*, a theoretical treatise on the institutional foundations of a free society, was Hayek's most ambitious work. In its 570 pages, in which Hayek displayed truly breathtaking scholarship, he elaborated his theory of the interrelation between the rule of law and individual freedom and amplified his notion that the social arrangements under which men live are the product of spontaneously generated forces. By this, of course, Hayek did not in any way intend to rule out human intervention to ameliorate our condition or to improve our institutions. What he regarded as foolhardy was the idea that men could fashion complex social arrangements from the ground up and substitute these supposedly rationally designed institutions for those that had been build up over centuries, the product of numberless individual human interactions each of which sought some specific end distinct from the ordered arrangement to which it contributed.

Hayek as Mentor

It was immediately after the publication of *The Constitution of Liberty* that I met Hayek and had the pleasure of working under him. He was an extremely distinguished-looking man with impeccable manners and a gentle scholarly way about him. I confess to having found him somewhat formal, and although I grew to become quite fond of him and saw him a number of times after having received my doctorate, there always existed a wall, however tenuous, that separated professor from student. Indeed, I never ceased to call him professor even though I last met him when I was in my forties and had been a professor myself for a number of years.

Two things that struck me quite early about Hayek were his intellectual honesty and the modesty with which he wore his immense erudition. A close friend, Ralph Raico, had preceded me on the Committee on Social Thought by a year and was in residence working under Hayek when *The Constitution of Liberty* was first released. When I learned that I had been admitted to do graduate work there, Ralph presented me with a copy of Hayek's new book, with an inscription by the author: "As welcome to the Committee on Social Thought:

F.A. Hayek." My response to Hayek's kind gesture was to devote my first few months at Chicago to writing an article attacking a crucial aspect of Hayek's theoretical framework, his analysis of the relation between freedom, coercion, and the rule of law. Not only did Hayek have the opportunity to read this attack but a number of others did as well, since it appeared as a book review in a new student periodical Ralph and I had started. At the time it did not strike me as inappropriate for a new graduate student to try to point out failings in the philosophical reasoning of his professor, but not only did Hayek read and discuss my critique with me, he offered to respond in print to my comments. It was only after I became a professor in my own right that I really appreciated the modesty and love of true scholarship that Hayek displayed toward me, some jumped-up graduate student who decided he was going to take on the very man he had chosen to work under. I'm still breathless when I think of the chutzpah that I must have had.

Because of the inadequacy of the pension arrangements Hayek had with the University of Chicago, he decided to return to Europe in the fall of 1962, when he assumed a professorship at the University of Freiburg. I had mentioned earlier that Hayek had an ongoing love affair with Great Britain. One of his proudest achievements was his having become a British subject during his tenure at the LSE, and he was disappointed that he did not have the opportunity to return to Britain. During the years I studied at Oxford I was able to see Hayek in London, to which he occasionally came. We would meet for a drink or lunch and he would tell me stories of his years in England and why he regarded the British as the most civilized people on earth. The British more than any other nation, Hayek contended, understood that true liberty rested on an appreciation for the rule of law and on the institutions that evolved to protect the subject's freedom from arbitrary power. They had a keen (but not a blind) respect for the unwritten rules governing how we should deal with each other, which allowed them to function as a cohesive entity even in a crisis, without relying on the explicit commands of some arbitrary authority.

But beyond this, he was struck by the quiet courage and dignity that the British displayed during the Second World War and particularly during the bombing of London. One day over lunch at the Reform Club he recounted to me how, at that very same table some years earlier, he had been having lunch with a colleague when the screech of a buzz bomb was heard getting louder and louder, a sure sign that it would land, if not directly on the Club, then close by. When conversation no longer became possible over the mounting noise the dining room fell silent and remained so until the bomb landed. At that point, Hayek recalled, each person picked up his comments at the exact point where he had earlier stopped speaking. There were no cries of alarm, no confused rush for the doors, no panic, and, equally important, no one barking out orders to the waiters and guests. In the event, the club that stood immediately to the west of the Reform was totally destroyed.

For some reason, that event and Hayek's tremendous pride in having been part of it stayed with me as an indication of Hayek's own modest dignity. When Hayek became a British subject he ceased styling himself in the central European manner as Friedrich August von Hayek but became F.A. Hayek, or "Fritz," as he was known to his close friends. He loved the British people and, above all, her philosophers of liberty, from the Whigs of the 18th century to the great liberals who followed them, especially Macaulay, Gladstone, and Lord Acton. All his writings in political and social philosophy attest to his admiration for things British. It was therefore somewhat of a surprise that he should have been recognized by the Nobel Committee for his brilliant contributions to economics but never to have been knighted by the Queen. But, doubtless, this disappointment was more than made up for by Hayek's having been fortunate enough to witness the complete collapse of the Soviet Union and the introduction of market ideas into Eastern Europe and to realize, as large numbers of Eastern European academics and intellectuals have attested, that his work played a crucial role in the revolutions that swept through the Eastern Bloc. If the world is a better place now than it was 20 years ago, at least some of the credit must be laid at Hayek's door. Beyond that, we have all been enriched by Hayek's contributions to our understanding of what makes a free society free.