



## COMMENTARY/COMMENTAIRE



# The Man Who Changed Everyone's Life

THE UBIQUITOUS  
IDEAS OF F. A. HAYEK

by Brian Lee Crowley

*It was 20 years ago this year that author, social philosopher and Nobel Laureate F. A. Hayek died. This essay was written in honour of his memory.*

THE LANDING OF THE ALLIED TROOPS ON THE BEACHES OF NORMANDY REPRESENTED THE DEFINITIVE TURNING OF THE TIDE IN THE MILITARY BATTLE AGAINST THE TOTALITARIAN AXIS POWERS IN EUROPE. Even half a century later, it still looms large in our historical consciousness. Yet today, it is easy to forget that an intellectual battle was also fought against the ideas and methods of those regimented and illiberal societies – ideas and methods that, in the course of the war, had come to attract popular and elite imaginations in the West. This year marks the 20th anniversary of the death of Friedrich August Hayek, the Nobel Prize winning economist, who was to lead the intellectual equivalent of the D-Day charge against central planning and government regimentation of individual life in the postwar era.

Unlike in the clashes of armies, of course, in the battle of ideas, clear-cut victors seldom emerge, especially in the long run. While the things we do are always bound up with the ideas we have – with our beliefs about right and wrong, what works and what doesn't, how power should be distributed, and what the good life looks like – the origins of those ideas are often obscure. Or, to use the striking imagery of Hayek's great nemesis, John Maynard Keynes, "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back" (1936, Ch. 24.v).

In Hayek's case, however, it is clear that his ideas changed the course of postwar history, changed it palpably and demonstrably in the direction of greater individual liberty and personal responsibility. And, remarkably, he performed this prodigious intellectual feat not just once or twice, but three times. The first was at the defeat of the Axis powers, when he captured American public opinion with a powerful critique of government economic planning in peacetime. The second was when Margaret Thatcher and the British Conservatives used his toolkit of ideas to understand and then reverse the consequences of decades of creeping state domination of British society and the economy. And, finally, at the fall of the Berlin Wall, many intellectuals in Eastern Europe turned to Hayek's work to understand how to foster the institutions of liberal freedom in a soil made stony by decades of Marxism-Leninism.

## Vienna

HAYEK'S LIFE WAS POWERFULLY SHAPED BY THE CITY AND EMPIRE OF HIS BIRTH. Vienna in 1899 was a cosmopolitan capital that rivalled London, Paris, and Berlin in its wealth, power, and sophistication. This thriving metropolis's intellectual ferment was almost without parallel. Virtually every field of 20th century art, culture, or science was deeply marked by the contribution of this era's Viennese. The vibrant city that produced Freud's psychoanalysis, Klimpt's painting, Mahler and Schönberg's music, Kelsen's legal theorizing, Lorenz's anthropology, and Wittgenstein, Polanyi, and Popper's philosophizing, was also home to a powerful and distinctive school of economics. This Austrian School, as it came to be known, produced generations of world-renowned scholars, such as Joseph Schumpeter and Ludwig von Mises. Hayek was destined to become its greatest exponent in our time.

Hayek was born into a family richly connected to these cultural and intellectual currents. Scientists, medical doctors, and university professors abounded. In keeping with the temper of the times, a rigorous and rationalist atmosphere imbued his home life. While still a child, young Friedrich took what his parents considered to be an unhealthy interest in the family Bible: It quickly, and mysteriously, disappeared. Hayek remained a lifelong skeptic in matters spiritual, although in his latter years he did come to see some utilitarian social value in the ethical teachings of the major religions.

Vienna was also the capital of the vast Austro-Hungarian empire that stretched over much of middle and eastern Europe. The collapse of that empire and the humbling of its mighty metropolis greatly affected the very young man freshly returned from the front at the end of the First World War. Although he saw no combat in the war, he soon had a front row seat to some equally powerful social conflicts.

Nationalism, which had fanned the flames of war, was now tearing apart the remnants of the multiethnic empire, while class conflict dominated Vienna's politics. Society was disintegrating, and this was nowhere more evident than in the economic realm. Hayek often told a story about how proud he was when he got his first job, earning a monthly salary of 5,000 Austrian crowns, a figure larger than his father's annual salary had been only a few years

earlier. Before a year had passed, however, hyperinflation had driven that same salary to over one million crowns. No social order can long withstand this kind of assault.

These social conditions brought Hayek to a fateful decision. Prior to the war, he had been strongly attracted to psychology and had thought to make a career there. But the collapse of Austrian society, coupled with his own self-described Fabian views, led him to choose economics instead. He went to university with an idealism that sought to unlock the secrets of the rational management of society to put an end to war, poverty, and misery.

The Hayek that emerged was a man transformed. It wasn't just that he had acquired the professional accoutrements of the economist and become one of the most promising young minds in his field. He had come within the circle of a great man, and, as many young people at university do, he fell under his spell.

The man in question was Ludwig von Mises. No university professor, Mises was in fact a senior official with the chamber of commerce, but he was also his generation's leading exponent of the Austrian school of economics. Having won the great and rare honor of joining Mises's private economics seminar, Hayek soon found himself collaborating with his master in a seminal exercise in economic imagination: Rigorously establishing why a successfully functioning socialism based on central planning was impossible.

To us – a generation that has witnessed the fall of the Berlin Wall and the collapse of the Soviet system, as well as China's growing prosperity as its planners loosen their grip – demonstrating the impossibility of central planning may seem like proving again that the world is not flat. Such confidence, however, is only available to those looking back over the history of the 20th century. To those at its beginning, the world and its possibilities appeared very different.

Then, socialism on a national scale was an untried idea. The Soviet Union was still in its infancy, its future direction uncertain. All over Europe, governments were rebuilding the shattered institutions of the continent along socialist lines, not least in "Red Vienna" itself.

Mises's argument was based on what he called the "impossibility of socialist calculation." Central planners claim to be able to calculate, in advance, how many shoes and cars, schoolbooks and office buildings, doctors and carpenters people will need and then to produce that number at the right time, and put them in the right places. All this was to be accomplished, moreover, for nothing but the noblest motives – meeting genuine human needs – and without morally suspect markets whose mainspring is self-interest and whose lubricant is "wasteful" profit.

But such socialist calculation, urged Mises, was a fantasy. All of the economic activities the central planners purported to organize involved making choices about where to put scarce manpower, natural resources, capital, and other elements of production to satisfy human needs. But in the absence of markets, and market prices, reflecting the true state of supply and demand, the planners would have no rational basis for handing out the productive resources of the economy, to determine who would get what, when, and why. Socialist calculation was impossible, the Austrian school said, because central planning destroyed the source of the information that planners needed to plan effectively.

# Keynes, Keynesianism, and the Depression

HAYEK'S FAME QUICKLY SPREAD THROUGHOUT THE ACADEMIC WORLD, in part for his work with Mises, but more for his own path-breaking research on the nature of the economic cycle, carried out largely from his prestigious post as director of the Austrian Institute for Economic Research. Within a few years he left the ruins of Austria, which had become, in his dismissive phrase, "a republic of workers and peasants." His destination was the London School of Economics (LSE).

Lionel Robbins, the head of the economics department at the LSE, was disturbed by the turn British economics was taking, a turn inspired by Cambridge's emerging economic guru, John Maynard Keynes. Robbins sought a powerful new exponent of the virtues of markets, competition, and non-intervention, and when Hayek came to deliver a lecture at the school in 1929, Robbins knew he had found his man. By 1931, Hayek had been appointed to a named chair in economics at the LSE and was arguably the most influential young economist of his generation.

Thus began a curious and complex relationship between Hayek and Keynes. Punctilious professional colleagues and scholarly rivals, they wrestled for years over the appropriate role of government in the economy and the impress that economics should leave on public policy.

For all the correctness that characterized their relations – Hayek was, for example, Keynes's guest when the LSE fled the Nazi bombings to the relative safety of Cambridge – the Austrian could not shake a profound distrust of Keynes. A brilliant economist, captivating teacher, witty conversationalist, and bon vivant, Keynes seemed to almost everyone who knew him a Renaissance man and one of his country's most powerful minds.

To Hayek's eyes, however, he appeared rather differently – as a man who always had a glib and superficially convincing scheme to solve every problem but who cared little for his schemes' long-term consequences. After all, it was Keynes who remarked that, in the long run, we are all dead. Hayek was later to link Keynes's insouciance for traditional values and morality (he was a self-described amoralist) to his homosexuality, then an extremely dangerous trait that exposed Keynes to the real risk of both persecution and prosecution. Nothing better sums up the fundamental character differences that separated Hayek and his Cambridge rival than their attitudes toward sexuality. The earnest and straitlaced Hayek was affronted, during his time at Cambridge, that he was never invited to the music appreciation club meetings that Keynes hosted. He only later discovered the reason: The music appreciation club was, to use Hayek's titillated expression, a club "for homosexual purposes."

But it was Keynes's intellectual dilettantism that most appalled Hayek. When Keynes wrote *A Treatise on Money* in 1930, Hayek spent a full year carefully analyzing it and then wrote a devastating review. At their next meeting, Hayek was outraged when Keynes airily said that he agreed with Hayek, but it was all beside the point because he had long since changed his mind in any case. Hayek always regretted that this incident led him to neglect replying to Keynes's next book, because it swept all before it, and by the time that Hayek was alive to the danger, it was too late.

Keynes's 1936 *General Theory of Employment, Interest and Money* became the bible of a whole new generation of economists, first in the universities, and later in governments around the world. The Keynesians, as they came to be known, shared Keynes's own unshakable belief in the ability of clever people, like himself, to smooth out capitalism's cycles of boom and bust by manipulating the level of demand in a nation's economy, through, for example, inflationary monetary expansion and large public works programs. Such vigorous actions appealed to a world already in the grips of a devastating depression – far more than the "do-nothing" non-interventionist

economics of the likes of Robbins and Hayek, who counselled letting the economy's self-corrective mechanisms do their work. To those concerned about the inflationary consequences of his policies, Keynes breezily asserted that inflation was the hallmark of rising civilizations.

In the very early days of Keynes's apotheosis, Hayek was already explaining why this clever scheme too would come to grief. He showed how the consistent pursuit of Keynesian policies would, in the long run, produce simultaneous inflation and economic stagnation and unemployment. The long run was reached in the 1970s, when economists had to coin a new word, *stagflation*, to describe a condition Keynesians had always dismissed as impossible. Far from being a "general theory," Hayek saw Keynes's book as nothing but a superficial tract for the times.

But in the Dirty Thirties the long run seemed very abstract and far away. Mass unemployment and industrial paralysis were again causing the collapse of people's hopes and expectations. Dire circumstances were calling forth fearsome responses, as continental European nations succumbed, one after the other, to totalitarian solutions, often to the applause of intellectuals in the English-speaking world. In the United States, Roosevelt's New Deal brought in its train a far more activist government than the republic had ever known.

## The War Years

THESE WERE NOT KEYNESIAN POLICIES, HOWEVER. KEYNES'S IDEAS WERE ONLY JUST BEGINNING TO FILTER OUT OF THE UNIVERSITIES AND HAD NOT YET WON THE ALLEGIANCE OF POLICY MAKERS. One more push of history was needed to create the ideal conditions for the comforting illusion of a costless form of rational economic management that would banish forever the inexplicable vagaries of markets and *laissez-faire*. That push came on September 3, 1939, when war broke out between Britain and Germany.

When backed by a large social consensus, war brings a unity of purpose in which most people willingly submerge a great deal of their personal liberty. The total war that the Second World War represented carried this willing renunciation of freedom to new heights. The Allies were locked in a struggle with powerful totalitarian societies that could direct every citizen's energy to the war effort. Britain, Canada, the United States, and others could afford to do no less. Not only were soldiers conscripted, but so too was labor. Bureaucrats, not markets, distributed raw materials; the needs of the war effort, not of consumers, determined what to produce and in what quantities. Wages were controlled, as were prices and profits. Strikes were not tolerated. Essential foodstuffs were rationed. The media willingly connived with government officials in spreading propaganda about the war effort in order to keep morale high. No sacrifice was too great.

Moreover, the Allies counted among their number the Soviet Union, a society used to this kind of control. The Eastern Front was vital to the success of the war effort, and the heroism, struggle, and sacrifice of the Soviet troops and people were constantly praised by the propaganda machine, while the fundamental differences between the two types of society were a forbidden topic, for fear of offending a vital partner in the war.

People marvelled at the effectiveness of the war effort. Unemployment was replaced by efforts to find enough workers, inflation was outlawed by decree, and ultimately, the sacrifices brought their due reward: The Axis powers went down to defeat.

# The Postwar World Takes Shape

THE PEOPLE WHO RAN THE WAR EFFORT NOTICED THE SUCCESS OF THESE HIGHLY REGIMENTED EFFORTS. They began to ask themselves why clever people like themselves couldn't simply go on running the economy and along the way restructure society to eliminate the prewar scourges of poverty, hunger, and unemployment. Long before the war's end, plans were afoot to trade on the prestige of the successful war effort, and the social solidarity it had created, to transform wartime planning into peacetime social engineering.

In Britain, the government-commissioned Beveridge Report (1942), which proposed a vast expansion of the country's still embryonic welfare state, epitomized the new thinking. The Labour Party won its first ever parliamentary majority in the 1945 election on a slogan suggesting the application of wartime solutions to social problems: "And now, win the peace." In the United States, the New Dealers, bolstered by both victory in war and Keynesianism's intellectual respectability, were determined to press interventionism. More ominously, those far cruder thinkers who rejected outright any role for capitalism and markets were ascendant in Eastern Europe, often with popular support, as in Czechoslovakia and Yugoslavia. There, planning was to be total, and totalitarian, necessitating the emergence of an iron curtain to separate the two forms of society.

Intellectuals were under a dangerous self-delusion that mastery of our social and economic life lay in their grasp. Deeply troubled by what he saw, Hayek set out to expose the rational-sounding claims of the salivating planners for what they were, the oldest scam in marketing: bait and switch. Planners promised a world in which the public's needs and desires would be satisfied more efficiently and with less waste and human misery than ever before. The reality, Hayek knew, would be that people's lives would be planned to satisfy the needs and desires of the planners, and that ultimately, if left unchecked, the economic waste and the loss of individual freedom would be devastating.

## The Road to Oblivion

THIS WAS HAYEK'S CENTRAL ARGUMENT IN HIS 1944 CLASSIC, *THE ROAD TO SERFDOM*, HIS ONE AND ONLY FORAY INTO A POPULAR, POLEMICAL FORMAT TO MAKE HIS IDEAS KNOWN. The impact, on both his professional life and public opinion seems almost unimaginable today, when these ideas have become part of the mainstream.

At a blow, Hayek alienated the intellectual community of which he had been such a paragon. As if he had uttered some unforgivable social solecism, he was banished from the polite company of the bright young things so convinced that their brains, good intentions, and selfless devotion to the public good would usher in an unprecedented era of human flowering. Virtually alone among British left-wing intellectuals, George Orwell found much he agreed with in the book, but then he had seen with his own eyes in the Spanish Civil War the European left's dangerous flirtation with totalitarianism. In the long run, fittingly, Hayek's ideas were to prove so powerful that even his colleagues would return him to professional respectability, which finally came with a Nobel Prize in 1974, 30 years after *The Road to Serfdom* first appeared.

More remarkable still was the impact on public opinion. The book sold well enough in Britain. When it reached the United States, however, *The Road to Serfdom* became a publishing phenomenon. It rapidly went through several printings and was abridged in a hugely successful edition by *Reader's Digest* (1945). *Look* magazine published a cartoon version. Business and press opinion was strongly favorable. Hayek went on a lecture tour and was lionized except, again, in intellectual and university settings, where he was excoriated.



1

### War forces “national planning”

To permit total mobilization of your country's economy, you gladly surrender many freedoms. You know regimentation was forced by your country's enemies.

2

### Many want “planning” to stay

Arguments for a “peace production board” are heard before the war ends. Wartime “planners” who want to stay in power, encourage the idea.

3

### “Planners” promise Utopias...

A rosy plan for farmers goes well in rural areas, a plan for workers is popular in cities – and so on. Many new “planners” are elected to office.

In his 1944 classic, *The Road to Serfdom*, Hayek warned of the dangers inherent in “national planning.” Although the book temporarily ruined his reputation within academic circles, it – and condensed versions like this cartoon from *Look* magazine's February 6, 1945 issue – earned him popular acclaim.

Keynes liked the book, although its full import escaped him. He told Hayek that, while the dangers that he saw were well founded, as long as intelligent and well-meaning people like themselves were in charge, they could easily prevent things getting out of hand. Of course, part of Hayek's argument was precisely that even good people would be corrupted or forced aside by the coercion that is necessary to give central planning even a semblance of success. Shortly afterward, Keynes died, and no one had the stature to put the brakes on the planning juggernaut, now directed in large part by Keynes's disciples, who made up in enthusiasm what they lacked of their master's subtlety and willingness to temper his ideas with experience. A few years later, virtually every European country had a ministry of planning, and a British Tory prime minister could proclaim, without fear of contradiction that “We're all Keynesians now.” Perhaps no other explanation is needed of *The Road to Serfdom's* dedication: “To the socialists of all parties.”

## The Pretence of Knowledge

*THE ROAD TO SERFDOM* CONTAINED, OFTEN IN EMBRYONIC FORM, THE ESSENCE OF THE SOCIAL AND POLITICAL PHILOSOPHY THAT HAYEK SPENT THE REST OF HIS LIFE ELABORATING in scholarly tomes such as *The Constitution of Liberty* (1960) and *Law, Legislation and Liberty* (1973), his three volume magnum opus, which appeared in its complete form in 1979. And the roots of the argument stretch all the way back to his work with Mises on the socialist calculation debate.

Hayek's misgivings about both Keynesian-style demand management and overall social planning, as well as his condemnation of the twin sisters of fascism and communism, stemmed from the central understanding that had caused him to abandon his early socialist convictions: The limits to human knowledge and wisdom.

To be successful, as Mises showed, planners needed what their plans destroyed: The signposts offered by freely formed prices reflecting the true state of supply and demand. Only then could they know where scarce resources



should be directed to achieve the greatest social good. And Mises wasn't only considering things like the price of milk or bricks or houses. He also focused on wages: What is the price for each form of labor such that there are neither surpluses nor shortages, but that supply and demand are in balance? What about interest rates, which are nothing but the price for using someone else's money?



4

**...but can't agree on ONE Utopia**

With peace, a new legislature meets: but "winning the war" unity is gone. The "planners" regularly come to blows. Each has his own pet plan, won't budge.

5

**And citizens can't agree either**

When the "planners" finally patch up a temporary plan months later, citizens in turn disagree. What the farmer likes, the factory worker doesn't like.

6

**"Planners" hate to force agreement**

Most "national planners" are well meaning idealists, balk at any use of force. They hope for some miracle of public agreement as to their patchwork plan.

Planning an economy therefore implies knowing all sorts of things: When and why people want to work, and when and where their particular skills are required; the state of future demand for particular goods and services, and therefore when to build new productive capacity or when to close down the old; how emerging technologies and other discoveries will cause people's needs and wants to shift in unforeseen directions. Most crucially, it involves knowing what people actually want and need. Put a foot wrong in any of these decisions and the whole complicated fabric of the economy begins slowly to unwind.

Yet Hayek's main point is that all human knowledge, and especially that available to social planners, is irremediably fragmentary and incomplete. No one can have the knowledge that planners require to successfully order social relations.

The author of *The Road to Serfdom* never tired of claiming that his own economics profession was guilty of pretending to have knowledge at its disposal that it did not and could not have, thus using the prestige of science to mask a crude grab for power and influence. So central was this idea to his whole view of social science's role in the evolution of civilization that Hayek used the most prestigious platform he was ever to occupy, his Nobel Prize acceptance speech, to drive it home. Unrepentant in the views that had earned him academic ostracism 30 years earlier, he castigated his fellow economists for their "pretence of knowledge" (the title of the lecture): Believing, and leading others to believe, that they knew enough, or could know enough, to direct and control something as intricate and complex as an economy.



# The Synoptic Delusion

TO THE MODERN MIND, OF COURSE, HAYEK'S ATTACK ON SOCIAL SCIENCE MAY APPEAR TO BE A KIND OF KNOW-NOTHINGISM. After all, modern civilization clings to few prejudices more tenaciously than the belief that nothing is beyond the grasp of human understanding and control. And science and reason, through their many apparent marvels and miracles, have given us little reason to doubt their power.

Perhaps ironically, Hayek's mission in life was to use reason to convince humanity of the limits of reason. He thought that, whatever our impressive information-gathering and processing tools, we are all unavoidably human and therefore subject to the weaknesses of the human condition. Heading the list of these weaknesses is our main instrument for understanding and interpreting our impressive scientific knowledge: The human mind. For all the wonders that the collective human mind has accomplished within the context of culture and society, the individual human mind remains a remarkably limited instrument. This was a subject of enduring fascination for Hayek, the early student of psychology, who in the 1950s wrote a seminal work in the field called *The Sensory Order* (1952).



7

### They try to "sell" the plan to all

In an unsuccessful effort to educate people to uniform views, "planners" establish a giant propaganda machine (which coming dictator will find handy).

8

### The gullible to find agreement

Meanwhile, growing national confusion leads to protest meetings. The least educated, thrilled and convinced by fiery oratory, form a party.

9

### Confidence in "planners" fades

The more "planners" improvise, the more normal business is upset. All suffer. People now feel – rightly – that "planners" can't get things done.

Research demonstrates, for example, that each of us is capable of having an astonishingly limited number of ideas in our mind at any moment – ideas available to the disciplined imagination for reflection, juxtaposition, and manipulation. This "channel capacity," as it is known, is limited in the average person to between 5 and 10 ideas at a time and has changed little over the course of human civilization.

It is humbling, but instructive, to compare this pitiful channel capacity with the quantity of information that exists about the social, economic, and physical world. Human knowledge is exploding at an unprecedented rate.

It has been argued that, in cutting edge fields such as computer science or nanotechnology, the total amount of knowledge doubles approximately every 18 to 24 months, while the whole body of human knowledge may double roughly every 15 years or so. Each of us is thus pushed to an ever greater degree of specialization in an ever narrower field. Put another way, our relative ignorance grows faster than we can ever hope to educate ourselves because our ability to acquire and reflect on information is relatively fixed, while our collective knowledge is expanding exponentially.

Neither of the two coping strategies usually trotted out by aspiring planners can in fact overcome this disability. The first such strategy relies on technology: If we build impressive enough computers and cram them with comprehensive enough data, we can process the information artificially, bypassing the constraints of the human mind. Alas, they forget that computers know no more than the humans that program them, and that many of the pieces of information on which the economy depends are often not known by anybody at all or are inextricably linked to a particular place and time, or their importance is ill understood by humans, including those who program computers. Nor is the stock of knowledge itself a constant, as technical and other innovations – combined with changes in people's needs and preferences – regularly reshape the intellectual landscape of society and the economy.

For example, a man in rural Nova Scotia had a little business making and selling highland paraphernalia, such as sporrans, daggers, and belt buckles. One day, his eye fell on a newspaper ad calling for tenders for the making of aircraft parts. He quickly realized that, with the equipment he possessed, he could easily make the parts described, and he submitted a bid. He is now successful in both lines of work. Note, however, that no planner sitting in Halifax or Ottawa would have included this man in their inventory of aircraft parts makers, because he did not know himself that he possessed this capacity. By the chance act of reading the ad, he learned something about himself, and transformed the tiny part of the economy of which he is the centre. The economy as a whole is composed of billions of such individuals whose true circumstances are never fully known to themselves, let alone to distant planners.



**10**

**The "strong man" is given power**

In desperation, "planners" authorize a new party leader to hammer out a plan and force its obedience. Later, they'll dispense with him – they think.

**11**

**The party takes over the country**

By now, confusion is so great that obedience to the new leader must be obtained at all costs. Maybe you join the party yourself to aid national unity.

**12**

**A negative aim welds party unity**

Early step of all dictators is to inflame the majority in common cause against some scapegoat minority. In Germany, Nazis' negative aim was anti-Semitism.

The other strategy social planners trot out for overcoming their ignorance is to claim that they don't need to know the details, but only the grand outlines – that they can simplify complex social processes down to large statistical aggregates. But in the Hayekian view, this is the "synoptic delusion," like mistaking a two-dimensional map for the real three-dimensional world. Maps are useful for getting around or for seeing key data in relation to one another, but can accomplish this only by stripping the world of its messy complexity, and distorting its real shape to fit on a piece of paper. Because most people's idea of the Earth is shaped by maps based on Mercator's projection, they think Greenland is roughly the same size as South America, whereas in reality the southern continent is 11 times larger. Since people live in a complex reality, not crude pictures, those who try to plan the

world on the basis of maps or statistical aggregates only end up sounding like they come from another planet, which, in a sense, they do.

All our vast ability to satisfy human wants and needs is created by our knowledge of how to do things, but that knowledge is – and must be – widely dispersed and locked in the minds and experiences of billions of individuals. With minds so limited, and knowledge so vast, variegated, and incapable of comprehensive statement, we are condemned to growing specialization as individuals and, the corollary of that, to a growing dependence on others similarly specialized in their fields. Hayek's Viennese contemporary, and LSE colleague, the philosopher of science Karl Popper, put it this way: "Our knowledge can only be finite, while our ignorance must necessarily be infinite" (1960).

## The Abstract Order

AS HAYEK NEVER TIRED OF REMARKING, OUR INTERDEPENDENCE IS BOTH THE CHIEF FACT OF ECONOMIC LIFE AND THE CHIEF OBSTACLE TO SUCCESSFUL SOCIAL PLANNING. If the knowledge on which individuals, corporations, governments, and societies depend is not only widely dispersed, but is necessarily so, how can this knowledge be called forth and put in the service of the people who need it? This casts economics in a new light, as the study of a massive co-ordination challenge.

Only a decentralized system – in which people are free to make the most of opportunities, often known only to themselves, and in which people voluntarily agree to exchange their goods, services, and ideas with one another, and in which new information is constantly being discovered and integrated – can achieve the needed co-ordination. Such decentralization of power and resources among competing organizations and individuals encourages each person to make maximum use of the opportunities and resources available to them. Hayek called this economic competition a "discovery procedure," a process by which society finds and puts to work the useful knowledge throughout the social order. A centralized organization, by contrast, can act only on the information possessed by decision makers at the top. Paradoxically, the blooming, buzzing, decentralized confusion of the marketplace masks a profound and wide-ranging order.

To this knowledge-based critique of central planning, Hayek added another element: What we would call today the problem of the irreducible pluralism of values. Still giddy with success from their war effort, the postwar planners envisioned a similar, almost universal consensus on society's peacetime objectives. They thought that rational people would naturally agree with the grand esthetics of their plans, but Hayek, ever the skeptic, saw that people would not submerge their own dreams and aspirations in the tidy little plans of well-meaning bureaucrats. People's values are a given, and only a society that respects the diversity of its members' goals can create an environment in which they willingly and energetically put their knowledge and abilities to work for others. But then the objection of planners came back again: Without agreement on what we are trying to achieve, how can we possibly co-ordinate the mass of disparate activities that constitute modern society?



13

**No one opposes the leader's plan**

It would be suicide. New secret police are ruthless. Ability to force obedience always becomes the No. 1 virtue in the "planned state". Now all freedom is gone.

14

**Your profession is "planned"**

The wider job choice promised by now defunct "planners" turns out to be a tragic farce. "Planners" never have delivered, never will be able to.

15

**Your wages are "planned"**

Divisions of the wage scale must be arbitrary and rigid. Running a "planned state" from central headquarters is clumsy, unfair, inefficient.

Again, Hayek saw the solution to the lack of agreement on the ends of social life as being identical to the solution to our limited knowledge: The market and its indispensable signalling mechanism of freely formed prices guiding supply and demand. For when we allow our economic activities to be guided by these impersonal signals, we can work with every other individual in the economy, exchanging information and other resources with them, and yet have no need to agree on the ends or objectives we are trying to achieve. No bureaucrat is needed to allocate resources to our various tasks. Each of us pursues our own individual goals, while cooperating with other unknown people, doing the same thing, spread across the face of the earth.

In Hayek's terms, this is the difference between a planned society and an "abstract order." An abstract order doesn't require different individuals to agree on common goals, but rather on basic practical rules governing each person's behavior as they pursue their private goals. A good analogy is the rules of the road: Every person is free to use the public roads to get to their self-chosen destination, on the condition that they respect the rules that allow millions of other truck and car drivers to use the road together every day. Other drivers need not agree on your destination. The complex pattern of traffic movement is thus an abstract order, created by the interaction between the impersonal public rules of the road and the drivers' private choices of destination.

Because the abstract order is the unspoken foundation of most of our daily contacts, we are as little conscious of it as we are of the beating of our own heart. Yet it allows us to achieve most of our objectives in a huge, complex, and pluralistic society. When I hop on an airplane to go from Halifax to Vancouver, I don't need to give the slightest thought to the knowledge – about piloting, navigation, air traffic control, computing, airport administration, catering, safety, metallurgy, fuel, maintenance, propulsion, and more – on which I depend to get to my destination. My ignorance is no bar to successful travel, however, because as soon as I plop down my credit card, the thousands of people who possess all those necessary bits of knowledge come running to put them at my service.

Just as important, those people don't need to know anything about me and my purposes in making the trip. I don't need to convince them that they should want to convey me to my destination. We cooperated, and a wide web of social cooperation was brought into play, not because we agreed on anything, but because our self-interest coincided.



Some critics thought that Hayek was guilty of gross exaggeration to sensationalize his opposition to the direction of postwar society. No one in Britain or America was proposing comprehensive social planning. On the contrary, Keynesianism, to pick just one example, is based on surgical interventions in the economy, on a careful diagnosis of the ills of the market at any one moment. Bureaucrats would not substitute their judgment for that of companies and individuals everywhere and at all times, but only when that judgment would produce a better outcome than the apparent chaos of markets.



16

**Your thinking is "planned"**

In the dictatorship the "planners" unintentionally created, there is no room for difference of opinion. Posters, radio, press – all tell you the same lies.

17

**Your recreation is "planned"**

It is no coincidence that sports and amusements have been carefully "planned" in Russia, Italy, Germany. Once started, "planners" can't stop.

18

**Your disciplining is "planned"**

If you are fired from your job, it's apt to be by firing squad. What used to be an error has now become a crime against the state. Thus ends the road to serfdom.

This too, Hayek countered, is a delusion. Supply and demand, and the prices that summarize it, represent a vast and tightly interwoven communication network. Replace one part of the network with false information – that is, with bureaucrats' notions of what the information should be, as opposed to what people's actions indicate it is – and the network starts to unravel. The effect is very slow and almost imperceptible at first, but again, there is that inconvenient long run. Hayek argued forcefully that the consequence of even very limited intervention would be a growing demand for ever more intervention.

Suppose, for example, that the government decides that it would be good for children's health if more milk were drunk by families. Most people would agree that this was a worthy objective. The government decides that the best course is to set the price of milk, by bureaucratic order, at a lower price than it is offered on the market. Presto: Cheaper milk appears in the stores.

But of course two contradictory effects result from such action. On the one hand, as the government intended, demand is stimulated: More milk is drunk than before. But the unintended consequence is that marginal milk producers, those who were just making it at the original milk price, are driven out of business, taking a part of the supply out of the market. Shortages result.

Now the government has a choice: It can either withdraw its original intervention, which unbalanced the equilibrium between the demand for and the supply of milk, or it can allow itself to be drawn further into substituting its own judgment for the market's. For example, it can try to lower farmers' costs, by controlling the prices of things like feed, cattle, and farmland. Or it can pay farmers more and subsidize the price difference with tax dollars. Or it can nationalize the farms, thus eliminating "wasteful" profit. Or it can coerce farmers to produce milk at a loss.

But each one of these responses brings further undesirable consequences. Milk lakes emerge that must be stored or dumped on international markets, as government tries to stimulate milk production by subsidies and other industries organize politically to have themselves declared essential to public health so that they, too, can receive subsidies. Or suppliers of farm inputs withdraw from business because, under controlled prices, they can't survive either. Or bureaucrats put on gumboots and milk the cows according to the schedule laid down in their collective agreement. Or milk farms are abandoned by impoverished farmers, and supply collapses over time. The circle of discoordination widens with every turn of the interventionist screw.

Hayek's critics claimed that he argued that the slightest intervention led automatically and inevitably to totalitarianism, but he said nothing of the sort. What he said was that each intervention forces government to make a choice: Either be drawn into ever more intervention than was intended at the outset, or withdraw the original intervention. There is no equilibrium point: One is either swept along by the logic of intervention, which leads to large losses of freedom by tiny degrees, or one turns back. Strictly limited or surgically targeted intervention, whether it be agricultural subsidies, rent controls, managed trade, or demand management, is a myth.

Nor is it any more accurate to say that Hayek opposed all forms of planning. On the contrary, Hayek saw that all of us, individually, and in the organizations to which we belong, have to plan constantly in order to realize our goals. Each business must have a plan of how to discover what consumers want, of how to make them aware of what the business offers, of what investments to make, of how to finance them, and so forth. The economy is constituted of myriad little planning organizations, each dealing with a manageably small slice of economic life. But, Hayek noted, planners can only plan for society as a whole by substituting their overall plan for the plans of millions of individuals and organizations, forcing society to rely on a radically less comprehensive stock of knowledge, making everyone's efforts enormously less useful to themselves and others.

While Hayek was an implacable foe of government destabilization of the market's guiding signals, he by no means thought government's role had to be minimalist. Instead, he sought to lay out some rules about how government needed to behave so that its actions would be consistent with the larger social order. For example, he would have opposed minimum wage laws, on the grounds that they short-circuited vital information about the wages at which the available supply of labor would be put to work. On the other hand, in his later years he had no objection to the idea of a guaranteed minimum income, as long as it was universally available and the tax system that financed it left the market-generated relative distribution of income undisturbed. He recognized that a guaranteed income would have undesirable effects on incentives to work, but thought that this was nonetheless a choice that democratic societies could legitimately take.

## Planning the Counteroffensive

WHATEVER THE POPULAR SUCCESSES OF *THE ROAD TO SERFDOM*, HAYEK KNEW THAT THE FIRST ROUND OF THE FIGHT OVER THE ROLE OF GOVERNMENT AND INDIVIDUAL FREEDOM IN THE POSTWAR WORLD WENT TO THE DISCIPLES OF GROWING INTERVENTIONISM, ESPECIALLY IN EUROPE. Moreover, he had always recognized that the short-term effects of such policies would appear positive and benign; their destabilizing and authoritarian character would only be revealed with time. He cast about for a strategy to keep alive the different intellectual tradition he represented, so that when interventionism's shortcomings became intolerable, the intellectual tools would be available to unwind the confusion.

Hayek called a meeting of like-minded people in Mont Pèlerin, Switzerland in 1947. Among those who answered the call were four future Nobel laureates, including Milton Friedman and George Stigler, as well as such



intellectual luminaries as Bertrand de Jouvenal, Frank Knight, Ludwig von Mises, Michael Polanyi, Karl Popper, and Henry Hazlitt. They agreed to found what they called the Mont Pèlerin Society. Cheekily modelled after the structure of the various Communist parties, with far-flung "cells" and a tightly controlled procedure to become a member, the new organization actively sought out and encouraged contact among intellectuals who shared its core ideas. The society grew enormously in size and prestige over the years, its annual meetings now the world's premier venue for classical liberal, libertarian, and conservative thinkers to exchange ideas and hone their arguments. Hayek was later to write, "[I]t is my conviction that the really serious endeavour among intellectuals to bring about the rehabilitation of the idea of personal freedom, especially in the economic realm, dates from the founding of the Mont Pèlerin Society" (1992, 192).

Within a few years, Hayek was finding the direction of British society to be more and more alarming. When added to his own social ostracism, the atmosphere was simply too oppressive. He decided to shake the dust off his feet and head for the United States, and the University of Chicago.

There followed not just one divorce, but two. After 20 years, Hayek was leaving the London School of Economics, but he was also leaving his wife of 25 years and his daughter and son in order to marry his widowed childhood sweetheart from Vienna, a marriage that was to last until Hayek's death. Lionel Robbins, Hayek's patrician mentor at the LSE, was so scandalized by Hayek's behavior toward his first wife, Hella, that he refused to speak to his former protégé for years afterward.

The next 20 years were among the most productive in Hayek's life. He found the intellectual atmosphere in America stimulating and refreshing; he dedicated his massive 1960 book, *The Constitution of Liberty*, to "The unknown society that is growing in America." But intellectual fashion in that society was nevertheless headed in a different direction than Hayek would have liked, with the growth of government spending and naïve social programs such as Lyndon Johnson's War on Poverty.

Having had his fill of the populist approach to propagating his ideas, Hayek spent these years returning to what he knew best: Laying out in modern scholarly idiom the deep intellectual roots of his classical liberal philosophy. His aim was to influence the rising class of young intellectuals by offering them a different way of seeing the world.

## Spontaneous Order

TO REHABILITATE THE CLASSICAL LIBERAL WORLD VIEW, ADAM SMITH'S FAMOUS IMAGE – AN "INVISIBLE HAND" GUIDING UNREGULATED MARKETS TO THE BENEFIT OF SOCIETY AS A WHOLE – NEEDED RESTATEMENT. Non-interventionism had lost its hold on the imagination of intellectuals, Hayek concluded, because they labored under the mistaken impression that human reason had somehow designed society and its major institutions, such as the market. What reason had designed, reason could reject, renovate, replace.

Hayek blamed the classical Greeks for what he considered this damaging intellectual confusion, for it was they who divided the world into two categories: The natural and the artificial. The classical liberal tradition – which includes not only the Austrian economists but giants of the Western intellectual tradition such as Adam Smith, David Hume, Edmund Burke, Alexis de Tocqueville, and the Founding Fathers of the American republic – saw a vital third category of manmade institutions, which is, in the famous phrase of Adam Smith's contemporary, Adam Ferguson, "the product of human action, but not of human design."

Forged by millennia of trial and error, and born out of circumstances of which we can at best be only dimly aware, these human institutions were not the product of some designing intelligence. Language, social traditions, the common law, money, and pre-eminently, the freely functioning economy were just some of the outcomes of the accumulated experience of human beings pitting their wits against nature and social circumstance. They represent a distillation of what human experience has found works to satisfy our various needs. Because they arise from a multitude of circumstances and influences too diverse and too obscure to be known in their totality, they offer a rational guide to human action that individual human reason seeks to supplant at its peril.

At its core, this evolutionist account of human society's growth challenged the notion that a human will must be behind the remarkable social order that lets us achieve our goals and that allows other people to behave toward us in usefully predictable ways. If this authoritarian vision of the origins of social order were correct, then the order we know would simply be the choice of some human authority. If but a choice, it could be redesigned to achieve an outcome more pleasing for one reason or another.

In contrast, Hayek offered a vision of social order that was not designed, but rather "spontaneous." In a spontaneous order, like the abstract order that was its predecessor in Hayek's thought, people pursue their own goals within the framework of rules that facilitate cooperation with others. Spontaneous order adds a further dimension: The rules themselves, because of their evolutionary pedigree, allow the emergence of a far richer and more complex level of cooperation than rules invented by clever people. Just as the attempts to "invent" a universal language, such as Esperanto, always seem a pale and inadequate imitation of the complexities and resources of a language refined and enriched by millennia of human experience, so, too, invented moral codes and planned economies reduce the complexity of human relations to what the designing mind can comprehend. No one knows all the circumstances that give rise to the rules that govern the economy, no more than anyone knows what all those rules, spoken and unspoken, might be.

A tiny practical example of the spontaneous order at work occurred at two neighboring colleges in the American Midwest. One designed its campus in accordance with rational principles guided by the designer's esthetics. A pleasing set of pathways was laid out connecting the buildings, giving a wonderful sense of symmetry from the air. The other college, founded over 150 years ago, waits for students to determine useful new paths; it then paves over the well-trodden routes. The second college is not nearly as pleasing to look at from the air, but its pattern is actually better suited to those who use it, while in the first college, ugly pathways were in any case soon worn in its grassy lawns as students imposed their will on the planner's vision.

In economic terms, the spontaneous order became the cornerstone of Hayek's defence of free markets because it offered a powerful explanation of how the contending forces of billions of humans pursuing their own lives could nonetheless find their activities beneficently co-ordinated: The free flow of information contained in prices impersonally guiding all forms of economic activity without the need for authoritarian intervention by government. The centrality of spontaneous order in his thought puts the lie to the argument that Hayek was somehow a radical exponent of total non-involvement of government in the economy. His critics have often felt that they only had to show that markets could not exist without government "intervention" – such as the law of contract and courts to enforce property laws – to discredit non-intervention as a mythology. Hayek's argument, however, was quite different: The economy grows out of a complex interaction between rules evolved out of deep human experience on the one hand and the energies of human desire and ingenuity on the other. Thus, while government enforcement of evolved rules is indispensable to the operation of the economy, he argued that attempts to substitute newly invented bureaucratic schemes in their place was the "constructivist fallacy." However rational their plans may sound, government planners simply don't know enough to invent new institutions that can produce better results than the accumulated, if often unspoken, wisdom of humanity.

## THE BOOK THAT CHANGED EVERYONE'S LIFE

The title of *The Road to Serfdom* was suggested to Hayek by his reading of Alexis de Tocqueville's classic work, *Democracy in America*, in which Tocqueville frequently referred to "the new servitude" to describe the potential for tyranny that existed in democratic nations under majority rule and egalitarian culture. Tocqueville wrote: "I think...that the species of oppression by which the democratic nations are menaced is unlike anything which ever existed before in the world: our contemporaries will find more prototypes of it in their memories. I am trying myself to choose an expression which will accurately convey the whole idea I have formed of it, but in vain; the old words despotism and tyranny are inappropriate: the thing itself is new, and since I cannot name it, I must attempt to define it."

Hayek included the following excerpt from Tocqueville's classic in *The Road to Serfdom's* 1956 foreword – an excerpt Hayek believed was a prescient insight into "the psychological effects of the modern welfare state": "After having thus successively taken each member of the community in its powerful grasp, and fashioned him at will, the supreme power then extends its arm over the whole community. It covers the surface of society with a network of small complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate to rise above the crowd. The will of man is not shattered but softened, bent and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrial animals, of which government is the shepherd."

"I have always thought that servitude of the regular, quiet, and gentle kind which I have just described might be combined more easily than is commonly believed with some of the outward forms of freedom and that it might even establish itself under the wing of the sovereignty of the people."

Ironically, John Maynard Keynes, Hayek's chief competitor, endorsed *The Road to Serfdom*: "In my opinion it is a grand book...Morally and philosophically I find myself in agreement with virtually the whole of it; and not only in agreement with it, but in a deeply moved agreement."

## The Thatcher Revolution

AS HE HAD FORESEEN, HAYEK'S INTELLECTUAL COUNTER-REVOLUTION ONLY GATHERED STEAM AS CENTRAL PLANNING PROVED ITSELF A GREAT DISAPPOINTMENT. The first major breakthrough was in Britain. For over 30 years, Labour and the Tories had vied to prove to the electorate that they would be the most competent manipulators of the instruments of economic management. Then, after a disastrous interventionist "dash for growth" under Prime Minister Edward Heath, and after the party's defeat by a rudderless corporatist Labour government, the Tories sought intellectual renewal under their new leader, Margaret Thatcher. The leader of her brain trust, Sir Keith Joseph, was a convinced Hayekian. Aided by the efforts of the Institute for Economic Affairs, Thatcher and Joseph gradually asserted intellectual domination over the Tories' efforts to stake out for themselves a political identity that broke with the postwar economic consensus.

Thatcher became convinced of the rightness of Hayek's arguments that intervention brought with it its own momentum, and she took on the task of reversing course with relish. While the share of GDP spent by government only slightly declined during the Thatcher years, other changes were far more important. Privatization removed the dead hand of government control and political interference from vast swathes of the economy, stimulating new investment and impressive productivity growth. Government got out of the business of picking winners or subsidizing failing industries and allowed consumers and investors to direct resources to companies that actually produced goods and services that they wanted to buy. The Tories broke up state monopolies, introducing competition and innovation in sectors such as rail, electricity, telecoms, and natural gas, long grown sclerotic and complacent. Labor markets were deregulated, allowing British employment to rise without touching off destructive inflation. Hayek's distinctive contribution to Thatcherism was recognized most explicitly when he was invited to Buckingham Palace and made a Companion of Honour in 1984.

Most important, Thatcher changed the intellectual landscape of British politics, rendering the opposition Labour Party unelectable until it not merely accepted, but actively embraced, much of her legacy. Hayek, who died in 1992, would have approved of this focus on the long run.

But Hayek's ideas spread much further afield than Britain. Privatization is now a worldwide phenomenon, including in Canada where the likes of CN, Air Canada, and Petro-Canada have passed into the hands of the market. The growing push for free trade, flat taxes, the breakup and privatization of utilities such Ontario Hydro, the introduction of competition in telephone service, and the idea of tradable pollution credits under the Kyoto Accord on greenhouse gases are all natural outgrowths of Hayekian insights.

## Eastern Europe

BEHIND THE IRON CURTAIN, HAYEK'S IDEAS, WHILE ILLEGAL TO PUBLISH, WERE WIDELY INFLUENTIAL IN THE TINY CIRCLES OF OPPOSITION INTELLECTUALS WHO WERE THINKING ABOUT HOW THEIR SOCIETIES COULD BE PUT RIGHT WHEN COMMUNISM'S INEVITABLE COLLAPSE FINALLY CAME. *The Road to Serfdom* became a classic in Eastern Europe, but for a wholly different reason than in the West. While in Britain and America Hayek was warning against the hypothetical danger posed by a naïve reliance on centralized control of society, behind the Iron Curtain people were living those ideas pushed to their most nightmarish conclusion. What first made Hayek a household name in opposition circles was his clear-eyed analysis of the dynamic of totalitarian society, how it can begin with the best of intentions to reconstruct society for the greater good of humanity and end up enslaving humanity in the service of society's worst elements.

This by itself was regarded as an intellectual tour de force for a man who had never lived in a totalitarian society. But he then added to his importance and prestige in the East by stating so clearly and unambiguously how societies based on freely grown institutions manage to have individual freedom and social order coexist, all within a context of prosperity. These were precious insights for societies that had lived for generations under regimes that strove with all their might to uproot the moral, legal, traditional, and economic bases of human freedom and dignity. Hayek gave them confidence that there was a way back from the darkness. Samizdat versions of Hayek's works circulated widely, including readings on cassette tapes.

Hayek was long since living in quiet retirement in Freiburg, Germany, when the Berlin Wall fell. Among those members of the opposition who rushed to fill the power vacuum many had been vicarious "students" of Hayek's, especially in those countries that were quickest and most vigorous in moving to a market economy and liberal democracy: Poland, Hungary, and Czechoslovakia. Vaclav Klaus, now President of the Czech Republic, and former student of Milton Friedman's in Chicago, used to complain laughingly during his years as finance minister and later prime minister that he was a Friedmanite surrounded by Hayekians.

## Hayek's Legacy

WHEN A MAN'S IDEAS ARE SO INTIMATELY ASSOCIATED WITH MANY OF THE DEFINING MOMENTS OF THE AGE, THE TENDENCY IS TO MYTHOLOGIZE HIM, TO MAKE HIM LARGER THAN LIFE. The life of F. A. Hayek is no exception. Yet it is vital to keep what he did in perspective. He did not cause the failures of Keynesianism, or the advent of the Thatcher revolution, or the fall of the Berlin Wall. Indeed, if his analysis of the deep wellsprings of the institutions of a free society is correct, all of these events were bound to happen, in one form or another. The self-correcting mechanisms of human life, evolved out of long and hard-won experience, were simply stronger than the schemes of well-meaning social planners wanting to mould the world nearer to their hearts' desire, stronger even than the mad pretensions of unscrupulous totalitarians to control individual behavior down to the finest degree, backed by all the terrors of modern technology and military force.

But if it is true that the ideas we have are the most powerful force shaping the things that we do, then the work of this itinerant Viennese economist can truly be said to have shaped the course of the twentieth century. For it was his unsentimental statement in modern language of the ideas of classical liberal philosophers and economists that gave to many key people a mental framework within which to assess and understand the events that confronted them. In a century often intoxicated with the apparent power of technology and science to reshape human institutions, Hayek patiently reminded us of the limits of reason and of the inestimable value of what we had inherited from our forebears, who built far better than they knew. When tired and exasperated with the manifest failings of our many hubristic schemes, Hayek was always there to offer us a way out of the impasse and back onto the road of freedom and progress.

The thanks he received for being so farsighted and uncompromising were, at first, cruel and dispiriting. But he ended his life a Nobel laureate, Companion of Honour, unofficial leader of a worldwide army of like-minded thinkers battling governments' recurring temptation to ill-advised meddling, and intellectual godfather of policies that have transformed Western politics and helped to hasten the collapse of communism. Perhaps – just perhaps – there is something to this business about things working themselves out in the long run after all.

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