



ANDREW GAMBLE

HAYEK

The Iron Cage of Liberty

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For Tom, Corinna, and Sarah

While it may not be difficult to destroy the spontaneous formations which are the indispensable bases of a free civilisation, it may be beyond our power deliberately to reconstruct such a civilisation once these foundations are destroyed.

Hayek, *The Road to Serfdom*

There is simply no other choice than this: either to abstain from interference in the free play of the market, or to delegate the entire management of production and distribution to the government. Either capitalism or socialism: there exists no middle way.

Mises, *The Free and Prosperous Commonwealth*

Preface

Hayek has long held a peculiar fascination for me, connected as he is with so many of the themes and problems which have interested me since I was a graduate student. Many of these obsessions appear in some form in these pages. David Held first suggested that I should turn some of my thoughts on Hayek into a book. I did not think it would take me as long as it has, and I am conscious of only having scratched the surface of some topics. The more I have explored Hayek, the more aware I have become of the complexity and range of his thought and the difficulty of some of the issues he raises, for which we lack answers. What I have tried to do here is to provide an assessment and a critical analysis of Hayek's achievement, to indicate some of the limitations of his thought, and to suggest why he is still relevant to us.

One of my particular interests in Hayek is his role in the ideological change in the British Conservative party in the 1970s. One of the origins of this book, as well as much other work I have done in the last fifteen years, is the article 'The Free Economy and the Strong State' published in the *Socialist Register* in 1979. The exploration of Hayek as an ideologue remains one of the central themes of the book. But I have also become interested in the contrast between Hayek the ideologue and Hayek the social scientist, and the extent to which he failed to develop many of his insights because of the ideological closures he imposed on his work. These ideological closures have also been responsible for Hayek not reaching a wider readership. It has been too easy to dismiss him as engaged in a forlorn project to restore the liberalism of an earlier era. I hope to have shown that there is great deal more to Hayek than that.

I have incurred many debts in the writing of this book. An invitation to a Liberty Fund symposium on the relationship between ideas, interests, and circumstances was very valuable at an early stage, and I particularly benefited from conversations with Arthur Seldon, David Willetts, John Burton, and Norman Barry among others about some of the general themes of the book. Others from whom I have learnt a great deal include Raymond Plant, Richard Bellamy, Martin Durham, Hilary Wainwright, Andrew Denham, Rodney Barker, and Jeremy Shearmur. David Miliband invited me to give a presentation on Hayek to an Institute of Public Policy Research seminar which produced a lively exchange, and I have also benefited from seminar discussions at Kobe, Strathclyde, Manchester, Cambridge, the London School of Economics, Edinburgh, and Nuffield.

I owe most of all to the Department of Politics and the Political Economy Research Centre at the University of Sheffield for providing such a stimulating environment in the last few years in which to think about problems of political economy. I am particularly grateful for specific help, comments, conversations, and encouragement from Anthony Arblaster, Tim Bale, Michael Harris, Gavin Kelly, Michael Kenny, Ankie Hoogvelt, David Marquand, Brian McCormick, James Meadowcroft, Tony Payne, and Matthew Sowemimo.

Andrew Gamble

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1

Introduction: Rethinking Hayek

Every social order rests on an ideology.
Hayek, Law, Legislation, and Liberty

When Hayek died in Freiburg on 23 March 1992, the obituaries paid tribute to him as a central figure in the intellectual history of the twentieth century. But the nature of his achievement remains controversial. In the course of his long life – he was born in Vienna on 8 May 1899 – he contributed to many different academic disciplines – economics, political science, the history of ideas, philosophy, and psychology – without being identified exclusively with any one of them. He was always a polymath. Speaking of his time at the University of Vienna, he once said, ‘In the University the decisive point was simply that you were not expected to confine yourself to your own subject.’¹ He followed this principle throughout his academic career. In a century of increasing intellectual specialization, Hayek moved firmly in the other direction.

This fact alone would make it difficult to assess his achievement. But what makes it even harder is that he had two intellectual personas. He was a patient, thorough, wide-ranging scholar, who emerged as one of the most important and original thinkers of the century, but also as one of the century’s most renowned ideologues, a leading critic of all forms of socialism and collectivism and a passionate advocate of classical liberalism.

One of my purposes in this book is to argue that Hayek’s reputation as an ideologue has for long been a barrier to a wider appreciation of his intellectual contribution to social science. This is hardly

surprising. The two are hard to disentangle, because Hayek for the most part saw no reason to keep them apart. His ideological views flow from the same methodological assumptions as his scientific work, and his writings are all part of the same intellectual project.

This is not how many have seen him, however. One view of his career quite common among his critics is that he was a failed economist who abandoned serious academic work in the 1940s for extravagant ideological polemics against even mild forms of state intervention. Having begun as a theoretical economist who made some contributions to business cycle theory and monetary theory from the Austrian school perspective during the 1930s, Hayek then found himself on the losing side in two major theoretical debates: the first with Maynard Keynes over monetary theory and the causes of the Depression, the second with Oscar Lange over the feasibility of economic calculation in a socialist economy. The apparent failure of his research programme and the conversion of so many economists to the new Keynesian paradigm persuaded Hayek to abandon theoretical economics midway through his career and take up social and political theory. Starting with *The Road to Serfdom*, published in 1944, which warned that even mild government intervention and redistribution could lead to totalitarianism, he became an implacable critic of all forms of socialism and collectivism, setting himself the task of restating and reviving the principles of nineteenth-century political and economic liberalism which he believed were in danger of being forgotten.

The substance in this view is that there was a major change of direction in Hayek's career. In the 1930s he was a leading and respected member of the economics profession. Keynes's view of him (which Hayek himself quotes) was that 'of course he is crazy, but his ideas are also rather interesting'.² Outside the narrow circle of professional economists, he was little known. The publication of *The Road to Serfdom* changed all that. It made Hayek a celebrity, particularly in the United States. Lecture tours, radio debates, and newspaper articles expounding his views followed. He received great adulation in some quarters, but in the economics profession he was no longer regarded by most as a serious figure. The economics department at the University of Chicago even refused to consider him for a chair. Eventually the Committee of Social Thought at Chicago came to the rescue, and appointed him to a chair in social and political theory. This marked the end of his formal career as an economist.

His reception among political scientists and social and political

philosophers was little better, however. He was ignored or belittled for many years as pedlar of an antiquated, reactionary creed. His greatest book, *The Constitution of Liberty*, published in 1960, was regarded as a grand folly, a last spasm of nineteenth-century *laissez-faire* liberalism, which the world had left behind. Hayek was seen as a Don Quixote fighting enemies which only existed in his imagination. George Lichtheim wrote in his review:

With its remorseless extrapolation of the logic inherent in the liberal doctrine, its unflinching demonstration that individualism is incompatible with the vital needs of modern society, this massive work stands as both a timely warning to political philosophers and as an impressive monument to a myth.³

But Hayek was a more formidable figure than many of those who dismissed him in the 1950s and 1960s realized. In the 1970s and 1980s the ideology he had espoused for so long proved to be not so moribund after all, and by the 1990s new interest was beginning to be expressed in his economics, amidst realization that some of his insights had been neglected during the Keynesian and monetarist ascendancy of the previous forty years, and that he offered a way of thinking about economic co-ordination problems which had not been surpassed.⁴

The improvement in Hayek's standing was closely linked with the revival of the fortunes of economic liberalism and its renewed ascendancy as public doctrine in both Britain and the United States. Hayek became one of the main inspirations for many of the currents of thought which made up the New Right of this period. He also belatedly began to receive academic recognition and public honours. But this hardly amounted to full rehabilitation. The partisanship of his followers and his association with conviction politicians like Margaret Thatcher only helped confirm the earlier image of him as an ideologue rather than a serious thinker.

Rescuing Hayek from fifty years of ideological stereotyping is not an easy task, and Hayek himself is often of little help. In time, however, the ideological components of Hayek's work may fade, as his contribution to social science comes to be better understood. One of the arguments of this book is that some of Hayek's most important insights remain undeveloped in his writings because of the ideological closures he imposed on his work. Often his questions are more interesting than his answers. Critics of Hayek, feeling themselves to be in the presence of an ideological adversary,

have often concentrated on rebutting his arguments or criticizing his assumptions, rather than exploring his questions. Hayek often gives his opponents little incentive to do otherwise. But in the last ten years this has begun to change. It used to be the case that Hayek was taken seriously only by those who were ideologically sympathetic to his position. This is no longer true. There is especial interest in his economics, particularly his theory of knowledge and his theory of spontaneous order, and the methodological assumptions which underlie them. Beyond this, there is also a new appreciation of the strengths as well as the limitations of Hayek's account of liberalism and modernity.

The first reason for rethinking Hayek is that the long ideological war of position in which he was involved throughout his life is over. Reflecting on Hayek is one way of reflecting on what was at stake in that struggle, and who had the better arguments. Hayek turns out to have been more right than wrong. Many of the earlier judgements of him were misplaced or misinformed. Hayek often had greater insight than his critics into the organization of modern society, even if some of his ideas are crudely expressed, or are expressed in such an extreme way that many who might otherwise have been sympathetic were led to reject them.

The second reason for rethinking Hayek is to assess his work as an account of the nature of modernity. Which of Hayek's insights into social and economic organization transcend the ideological controversies in which he was involved? Confident declarations at the end of the twentieth century that not merely ideology but history itself is over have focused renewed attention on the meaning of modernity and the claims which are common to all versions of the modern project. Hayek provides a particular account of modernity and its economic, social, and political dimensions, based on arguments about the nature and distribution of knowledge in society and the relationship between reason and tradition.

The scope of his work and the scale of his achievement need to be registered. He may well prove to be one of the last Western thinkers to attempt to rethink from first principles the nature of Western civilization and the institutions and rules which are central to it. What spurred Hayek to do this was his desire to resist the encroachment of collectivism and socialism. If Hayek had not had an ideological vision of the modern world, he might be remembered now only for a scholarly technical contribution to economics, but the wider implications of his economic ideas for theories of knowledge and social order would not have emerged. What makes

him of interest to us, and far more than just an ideologue, is that, like all truly great social and political thinkers, his thought is full of contradictions and tensions, and is capable of many different interpretations.⁵ He was operating at a level such that his insights in one field have implications which conflict with his assumptions or conclusions in other fields. Sometimes he himself was only partly aware of some of these implications, and sometimes he failed to develop them. But many of his ideas have a life beyond the particular ideological form he chose to give them, and raise general issues about the nature of modernity and social change which remain at the heart of contemporary social theory, even if many of his own answers are inadequate or flawed.

The Crisis of Liberalism

In order to understand Hayek's work, it is therefore necessary to explore his ideological as well as his intellectual formation. Hayek was eighteen years old at the time of the Bolshevik Revolution in 1917, thirty-one when Hitler came to power, thirty-three when Roosevelt launched his New Deal, and thirty-seven when Keynes published his *General Theory*. He lived just long enough to witness the opening of the Berlin Wall in 1989 and the collapse of communism in Russia in 1991. He lived through the whole of the short twentieth century between 1917 and 1991: the destruction of the liberal global economic order and its state system, the rise and collapse of totalitarian movements and regimes, the Great Depression, the Second World War, the establishment and subsequent weakening of United States hegemony, the disappearance of the European colonial empires, the long boom, the growth of the state, and the cold war with communism.

During the first half of this period, liberalism as a public doctrine was widely perceived to be losing ground in its battle with new collectivist doctrines whose common feature was that they justified an extended role for the state. The doctrine of liberalism as it had developed in the nineteenth century was generally regarded as having declining relevance to the circumstances of advanced industrial societies. In the 1930s the slogan 'Forward from Liberalism' expressed a sentiment shared by many different movements and parties. Liberalism was seen as belonging to an era that was past.

The ideological challenge to liberalism came not just from

totalitarian doctrines such as fascism and communism, but also from the programmes for social amelioration through state action which were increasingly adopted by parties of the Centre Right and Centre Left. As suffrages were extended and mass democracies created, so the pressure for increasing the scope and the scale of collectivist programmes of public provision in the fields of welfare, economic development, and military defence was intensified. The extension of democracy came to be seen as synonymous with the extension of the spending and regulatory powers of the state. Politicians became subject to the new discipline of winning support from the electorate and organized interests, making use of the new mass media. Old Liberal parties tended to be marginalized in a double sense. They were often slow to adjust to the requirements of the new mass politics, and they obstinately clung to their beliefs in the simple verities of free trade, balanced budgets, and *laissez-faire*. They were challenged by New Liberals, who developed liberal arguments to justify limited measures of intervention and redistribution, and by the collectivist wing of the socialist movement, which, in the new circumstances of an extended franchise, increasingly favoured using the agency of the state to achieve socialist goals.

The rise of collectivism as a public doctrine in the heartland of liberalism was the basic theme of A. V. Dicey's *Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century*.⁶ Dicey argued that from around 1860 collectivist doctrines had begun to supplant individualist doctrines in their hold on public opinion, and that, as a result, legislation was increasingly reflecting collectivist principles, a trend he deplored. He pointed in particular to legislation on trade unions and social security. Individualist principles were everywhere on the defensive as the collectivist tide flowed in.

The anxieties of many liberals at the beginning of the twentieth century echoed the fears which had long been expressed by both conservatives and liberals about the dangers of democracy. The potential domination of the poor and the ignorant through the ballot-box appeared to threaten the maintenance of property rights and the rule of the wise and the best. Conservatives adjusted more readily to the challenge of mass democracy, seeking ways of mobilizing voters which could cut across class. Old Liberals found it much harder, partly because of their lack of sympathy with any form of collectivism.

The new collectivist doctrines could have taken a very long time