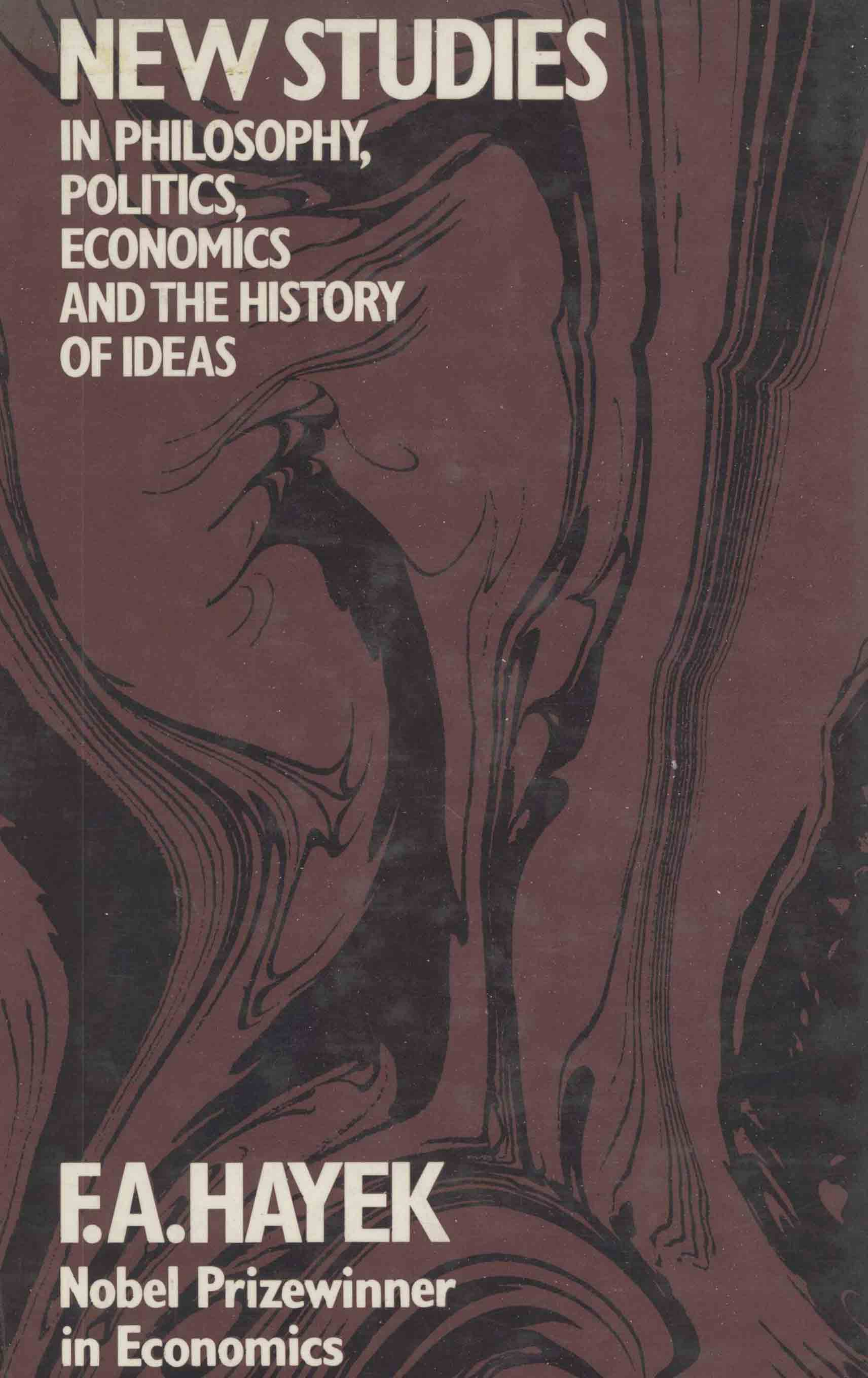
NEW STUDIES
IN PHILOSOPHY, POLITICS, ECONOMICS AND THE HISTORY OF IDEAS



F.A. HAYEK

Nobel Prizewinner
in Economics

F. A. Hayek

NEW STUDIES

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Preface

This long-contemplated further volume of *Studies* has been delayed mainly by uncertainty about whether I ought to include the various essays preparatory to my inquiry on *Law, Legislation and Liberty* which for years I doubted my ability to complete. Much the greater part of what I published during the last 10 years were preliminary studies for that work which had little importance once the chief conclusions had found their final form in that systematic exposition. With two volumes published and the third near completion I feel now sufficiently confident to leave most of those earlier attempts dispersed as they are and have only included in this volume two or three of them which seem to me still to provide additional material.

On the whole the present volume thus deals again equally with problems of philosophy, politics and economics, though it proved to be a little more difficult to decide to which category some of the essays belonged. Some readers may feel that some of the essays in the part on philosophy deal more with psychological than with strictly philosophical problems and that the part on economics now deals chiefly with what as an academic subject used to be called 'money and banking'. The only difference in formal arrangement from the first volume is that I have thought it appropriate to give the kind of articles which in the earlier volume I had placed in an appendix the status of a fourth part under the heading 'History of Ideas' and to amend the title of the volume accordingly.

Of the articles contained in this volume the lectures on 'The Errors of Constructivism' (chapter 1) and 'Competition as a Discovery Procedure' (chapter 12) have been published before only in German, while the article on 'Liberalism' (chapter 9) was written in English to be published in an Italian translation in the *Enciclopedia del Novicento* by the Istituto della Enciclopedia Italiana at Rome. To them as well as to all the other publishers of the original versions named in the footnotes at the beginning of each chapter I am greatly indebted for permission to reprint.

Freiburg i.B.
April 1977

F. A. HAYEK

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PART ONE

Philosophy

CHAPTER ONE

The Errors of Constructivism[*]

I

It seemed to me necessary to introduce the term 'constructivism'[1] as a specific name for a manner of thinking that in the past has often, but misleadingly, been described as 'rationalism'.[2] The basic conception of this constructivism can perhaps be expressed in the simplest manner by the innocent sounding formula that, since man has himself created the institutions of society and civilisation, he must also be able to alter them at will so as to satisfy his desires or wishes. It is almost 50 years since I first heard and was greatly impressed by this formula.[3]

At first the current phrase that man 'created' his civilisation and its institutions may appear rather harmless and commonplace. But as soon as it is extended, as is frequently done, to mean that man was able to do this because he was endowed with reason, the implications become questionable. Man did not possess reason before civilisation.

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[*] An inaugural lecture delivered on 27 January 1970 on the assumption of a visiting professorship at the Paris-Lodron University of Salzburg and originally published as *Die Irrtümer des Konstruktivismus und die Grundlagen legitimer Kritik gesellschaftlicher Gebilde*, Munich, 1970, reprinted Tübingen, 1975. The first two paragraphs referring solely to local circumstances have been omitted from this translation.

[1] See my Tokyo lecture of 1964 on 'Kinds of rationalism' in *Studies in Philosophy, Politics and Economics*, London and Chicago, 1967.

[2] I have come across occasional references to the fact that the adjective 'constructivist' was a favourite term of W. E. Gladstone, but I have not succeeded in finding it in his published works. More recently it has also been used to describe a movement in art where its meaning is not unrelated to the concept here discussed. See Stephen Bann, *The Tradition of Constructivism*, London, 1974. Perhaps, to show that we use the term in a critical sense, 'constructivistic' is better than 'constructivist'.

[3] In a lecture by W. C. Mitchell at Columbia University in New York during the year 1923. If I had even then some reservations about this statement it was mainly due to the discussion of the effects of 'non-reflected action' in Carl Menger, *Untersuchungen über die Methoden der Socialwissenschaften und der politischen Ökonomie insbesondere*, Leipzig, 1883.

The two evolved together. We need merely to consider language, which today nobody still believes to have been 'invented' by a rational being, in order to see that reason and civilisation develop in constant mutual interaction. But what we now no longer question with regard to language (though even that is comparatively recent) is by no means generally accepted with regard to morals, law, the skills of handicrafts, or social institutions. We are still too easily led to assume that these phenomena, which are clearly the results of human action, must also have been consciously designed by a human mind, in circumstances created for the purposes which they serve – that is, that they are what Max Weber called *wert-rationale* products.[4] In short, we are misled into thinking that morals, law, skills and social institutions can only be justified in so far as they correspond to some preconceived design.

It is significant that this is a mistake we usually commit only with regard to the phenomena of our own civilisation. If the ethnologist or social anthropologist attempts to understand other cultures, he has no doubt that their members frequently have no idea as to the reason for observing particular rules, or what depends on it. Yet most modern social theorists are rarely willing to admit that the same thing applies also to our own civilisation. We too frequently do not know what benefits we derive from the usages of our society; and such social theorists regard this merely as a regrettable deficiency which ought to be removed as soon as possible.

2

In a short lecture it is not possible to trace the history of the discussion of these problems to which I have given some attention in recent years.[5] I will merely mention that they were already familiar to the ancient Greeks. The very dichotomy between 'natural' and 'artificial' formations which the ancient Greeks introduced has dominated the discussion for 2,000 years. Unfortunately, the Greeks' distinction between natural and artificial has become the greatest obstacle to further advance; because, interpreted as an exclusive alternative, this distinction is not only ambiguous but definitely false. As was at last clearly seen by the Scottish social philosophers of the eighteenth century (but the late Schoolmen had already partly seen it), a large part of social formations, although the result of human action, is not of human design. The consequence of this is that such formations, according to the interpretation of the traditional terms, could be described either as 'natural', or as 'artificial'.

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[4] See Max Weber, *Wirtschaft und Gesellschaft*, Tübingen, 1921, chapter 1, paragraph 2, where we get little help, however, since the 'values' to which the discussion refers are soon in effect reduced to consciously pursued particular aims.

[5] See particularly my essays on 'The results of human action but not of human design' and 'The legal philosophy of David Hume' in *Studies on Philosophy, Politics and Economics*, and my lecture on 'Dr Bernard Mandeville', published in this book, p. 249.

The beginning of a true appreciation of these circumstances in the sixteenth century was extinguished, however, in the seventeenth century by the rise of a powerful new philosophy – the rationalism of René Descartes and his followers, from whom all modern forms of constructivism derive. From Descartes it was taken over by that unreasonable 'Age of Reason', which was entirely dominated by the Cartesian spirit. Voltaire, the greatest representative of the so-called 'Age of Reason', expressed the Cartesian spirit in his famous statement: 'if you want good laws, burn those you have and make yourselves new ones'.[6] Against this, the great critic of rationalism, David Hume, could only slowly elaborate the foundations of a true theory of the growth of social formations, which was further developed by his fellow Scotsmen, Adam Smith and Adam Ferguson, into a theory of phenomena that are 'the result of human action but not of human design'.

Descartes had taught that we should only believe what we can prove. Applied to the field of morals and values generally, his doctrine meant that we should only accept as binding what we could recognise as a rational design for a recognisable purpose. I will leave undecided how far he himself evaded difficulties by representing the unfathomable will of God as the creator of all purposive phenomena.[7] For his successors it certainly became a human will, which they regarded as the source of all social formations whose intention must provide the justification. Society appeared to them as a deliberate

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[6] Voltaire, *Dictionnaire philosophique*, s.v. 'Loi', reprinted in *Œuvres philosophiques de Voltaire*, ed. Hachette, Paris, n.d., XVIII, p. 432.

[7] Descartes was somewhat reticent about his views on political and moral problems and only rarely explicitly stated the consequence of his philosophical principles for these questions. But compare the famous passage at the beginning of the second part of *Discours de la méthode* where he writes: 'je crois que, si Sparte a été autrefois très florissante, ce n'a pas été à cause de la bonté de chacune de ses lois en particulier, vus que plusieurs étaient fort étrange et même contraire à bonnes meurs; mais à cause que, n'ayant été inventée que par un seul, elles tendaient toutes à même fin'. The consequences of the Cartesian philosophy for morals are well shown in Alfred Espinas, *Descartes et la Morale*, Paris, 1925.

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construction of men for an intended purpose – shown most clearly in the writing of Descartes' faithful pupil, J.-J. Rousseau.[8] The belief in the unlimited power of a supreme authority as necessary, especially for a representative assembly, and therefore the belief that democracy necessarily means the unlimited power of the majority, are ominous consequences of this constructivism.

3

You will probably most clearly see what I mean by 'constructivism' if I quote a characteristic statement of a well-known Swedish sociologist, which I recently encountered in the pages of a German popular science journal. 'The most important goal that sociology has set itself', he wrote, 'is to predict the future development and to shape (*gestalten*) the future, or, if one prefers to express it in that manner, to create the future of mankind.'[9] If a science makes such claims, this evidently implies the assertion that the whole of human civilisation, and all we have so far achieved, could only have been built as a purposive rational construction.

It must suffice for the moment to show that this constructivistic interpretation of social formations is by no means merely harmless philosophical speculation, but an assertion of fact from which conclusions are derived concerning both the explanation of social processes and the opportunities for political action. The factually erroneous assertion, from which the constructivists derive such far-reaching consequences and demands, appears to me to be that the complex order of our modern society is exclusively due to the circumstance that men have been guided in their actions by foresight – an insight into the connections between cause and effect – or at least that it could have arisen through design. What I want to show is that men are in their conduct *never* guided *exclusively* by their understanding of the causal connections between particular known means and certain desired ends, but always also by rules of conduct of which they are rarely aware, which they certainly have not consciously invented, and that to discern the function and significance of this is a difficult and only partially achieved task of scientific effort. Expressing this differently – it means that the success of rational striving (Max Weber's *zweckrationales Handeln*) is largely due to the observance of values, whose role in our society ought to be carefully distinguished from that of deliberately pursued goals.

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[8] Cf. R. Derathé, *Le Rationalisme de J.-J. Rousseau*, Paris, 1925.

[9] Torgny T. Segerstedt, 'Wandel der Gesellschaft', *Bild der Wissenschaft*, vol. VI, no. 5, May 1969, p. 441. See also the same author's *Gesellschaftliche Herrschaft als soziologisches Konzept*, Neuwied and Berlin, 1967. Earlier examples of the constantly recurring idea of mankind or reason determining itself, particularly by L. T. Hobhouse and Karl Mannheim, I have given on an earlier occasion (*The Counter-Revolution of Science*, Chicago, 1952), but I had not expected to find the explicit assertion by a representative of this view such as the psychologist B. F. Skinner ('Freedom and the control of men', *The American Scholar*, vol. XXVI, no. 1, 1955–6, p. 49) that 'Man is able, and now as never before, to lift himself up by his own bootstraps'. The reader will find that the same idea appears also in a statement of the psychiatrist G. B. Chisholm, to be quoted later.

I can only briefly mention the further fact, that success of the individual in the achievement of his immediate aims depends, not only on his conscious insight into causal connections, but also in a high degree on his ability to act according to rules, which he may be unable to express in words, but which we can only describe by formulating rules. All our skills, from the command of language to the mastery of handicrafts or games – actions which we 'know how' to perform without being able to state how we do it – are instances of this.[10] I mention them here only because action according to rules – which we do not explicitly know and which have not been designed by reason, but prevail because the manner of acting of those who are successful is imitated – is perhaps easier to recognise in these instances than in the field directly relevant to my present concerns.

The rules we are discussing are those that are not so much useful to the individuals who observe them, as those that (if they are *generally* observed) make all the members of the group more effective, because they give them opportunities to act within a social *order*. These rules are also mostly not the result of a deliberate choice of means for specific purposes, but of a process of selection, in the course of which groups that achieved a more efficient order displaced (or were imitated by) others, often without knowing to what their superiority was due. This social group of rules includes the rules of law, of morals, of custom and so on – in fact, all the values which govern a society. The term 'value', which I shall for lack of a better one have to continue to use in this context, is in fact a little misleading, because we tend to interpret it as referring to particular aims of individual action, while in the fields to which I am referring they consist mostly of rules which do not tell us positively what to do, but in most instances merely what we ought not to do.

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[10] See my essay on 'Rules, perception and intelligibility' in *Studies in Philosophy, Politics and Economics*.

Those taboos of society which are not founded on any rational justification have been the favourite subject of derision by the constructivists, who wish to see them banned from any rationally designed order of society. Among the taboos they have largely succeeded in destroying are respect for private property and for the keeping of private contracts, with the result that some people doubt if respect for them can ever again be restored.[11]

For all organisms, however, it is often more important to know what they must not do, if they are to avoid danger, than to know what they must do in order to achieve particular ends. The former kind of knowledge is usually not a knowledge of the consequences which the prohibited kind of conduct would produce, but a knowledge that in certain conditions certain types of conduct are to be avoided. Our positive knowledge of cause and effect assists us only in those fields where our acquaintance with the particular circumstances is sufficient; and it is important that we do not move beyond the region where this knowledge will guide us reliably. This is achieved by rules that, without regard to the consequences in the particular instance, generally prohibit actions of a certain kind.[12]

That in this sense man is not only a purpose-seeking but also a rule-following animal has been repeatedly stressed in the recent literature.[13] In order to understand what is meant by this, we must be quite clear about the meaning attached in this connection to the word 'rule'. This is necessary because those chiefly negative (or prohibitory) rules of conduct which make possible the formation of social order are of three different kinds, which I now spell out. These kinds of rules are: (1) rules that are merely observed in fact but have never been stated in words; if we speak of the 'sense of justice' or 'the feeling for language' we refer to such rules which we are able to apply, but do not know explicitly; (2) rules that, though they have been stated in words, still merely express approximately what has long before been generally observed in action; and (3) rules that have been deliberately introduced and therefore necessarily exist as words set out in sentences.

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[11] Cf., for example, Gunnar Myrdal, *Beyond the Welfare State*, London, 1969, p. 17: 'The important property and contract taboos, so basic for a stable liberal society, were forcibly weakened when big alterations were allowed to occur in the real value of currencies'; and *ibid.*, p. 19: 'Social taboos can never be established by decisions founded upon reflection and discussion'.

[12] I have treated these problems more extensively in my lecture on 'Rechtsordnung und Handelnsordnung' in E. Streissler (ed.), *Zur Einheit der Rechts- und Staatswissenschaften*, Karlsruhe, 1967; reprinted in my *Freiburger Studien*, Tübingen, 1969, as well as in my *Law, Legislation and Liberty*, vol. I, *Rules and Order*, London and Chicago, 1973.

[13] R. S. Peters, *The Concept of Motivation*, London, 1958, p. 5.

Constructivists would like to reject the first and second groups of rules, and to accept as valid only the third group I have mentioned.

4

What then is the origin of those rules that most people follow but few if anyone can state in words? Long before Charles Darwin the theorists of society, and particularly those of language, had given the answer that in the process of cultural transmission, in which modes of conduct are passed on from generation to generation, a process of selection takes place, in which those modes of conduct prevail which lead to the formation of a more efficient order for the whole group, because such groups will prevail over others.[14]

A point needing special emphasis, because it is so frequently misunderstood, is that by no means every regularity of conduct among individuals produces an order for the whole of society. Therefore regular individual conduct does not necessarily mean order, but only certain kinds of regularity of the conduct of individuals lead to an order for the whole. The order of society is therefore a factual state of affairs which must be distinguished from the regularity of the conduct of individuals. It must be defined as a condition in which individuals are able, on the basis of their own respective peculiar knowledge, to form expectations concerning the conduct of others, which are proved correct by making possible a successful mutual adjustment of the actions of these individuals. If every person perceiving another were either to try to kill him or to run away, this would certainly also constitute a regularity of individual conduct, but not one that led to the formation of ordered groups. Quite clearly, certain combinations of such rules of individual conduct may produce a superior kind of order, which will enable some groups to expand at the expense of others.

This effect does not presuppose that the members of the group know to which rules of conduct the group owes its superiority, but merely that it will accept only those individuals as members who observe the rules traditionally accepted by it. There will always be an amount of experience of individuals precipitated in such rules, which its living members do not know, but which nevertheless help them more effectively to pursue their ends.

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[14] See on these 'Darwinians before Darwin' in the social sciences my essays 'The results of human action but not of human design' and 'The legal philosophy of David Hume' in *Studies in Philosophy, Politics and Economics.*

This sort of 'knowledge of the world' that is passed on from generation to generation will thus consist in a great measure not of knowledge of cause and effect, but of rules of conduct adapted to the environment and acting like information about the environment although they do not say anything about it. Like scientific theories, they are preserved by proving themselves useful, but, in contrast to scientific theories, by a proof which no one needs to know, because the proof manifests itself in the resilience and progressive expansion of the order of society which it makes possible. This is the true content of the much derided idea of the 'wisdom of our ancestors' embodied in inherited institutions, which plays such an important role in conservative thought, but appears to the constructivist to be an empty phrase signifying nothing.

5

Time allows me to consider further only one of the many interesting interrelations of this kind, which at the same time also explains why an economist is particularly inclined to concern himself with these problems: the connection between rules of law and the spontaneously formed order of the market.[15] This order is, of course, not the result of a miracle or some natural harmony of interests. It forms itself, because in the course of millennia men develop rules of conduct which lead to the formation of such an order out of the separate spontaneous activities of individuals. The interesting point about this is that men developed these rules without really understanding their functions. Philosophers of law have in general even ceased to ask what is the 'purpose' of law, thinking the question is unanswerable because they interpret 'purpose' to mean particular foreseeable results, to achieve which the rules were designed. In fact, this 'purpose' is to bring about an abstract order – a system of abstract relations – concrete manifestations of which will depend on a great variety of particular circumstances which no one can know in their entirety. Those rules of just conduct have therefore a 'meaning' or

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[15] Cf. my lecture 'Rechtsordnung und Handelnsordnung', cited above in note 12.

'function' which no one has given them, and which social theory must try to discover.

It was the great achievement of economic theory that, 200 years before cybernetics, it recognised the nature of such self-regulating systems in which certain regularities (or, perhaps better, 'restraints') of conduct of the elements led to constant adaptation of the comprehensive order to particular facts, affecting in the first instance only the separate elements. Such an order, leading to the utilisation of much more information than anyone possesses, could not have been 'invented'. This follows from the fact that the result could not have been foreseen. None of our ancestors could have known that the protection of property and contracts would lead to an extensive division of labour, specialisation and the establishment of markets, or that the extension to outsiders of rules initially applicable only to members of the same tribe would tend towards the formation of a world economy.

All that man could do was to try to improve bit by bit on a process of mutually adjusting individual activities, by reducing conflicts through modifications to some of the inherited rules. All that he could deliberately design, he could and did create only within a system of rules, which he had not invented, and with the aim of improving an existing order.[16] Always merely adjusting the rules, he tried to improve the combined effect of all other rules accepted in his community. In his efforts to improve the existing order, he was therefore never free arbitrarily to lay down any new rule he liked, but had always a definite problem to solve, raised by an imperfection of the existing order, but of an order he would have been quite incapable of constructing as a whole. What man found were conflicts between accepted values, the significance of which he only partly understood, but on the character of which the results of many of his efforts depended, and which he could only strive better to adapt to each other, but which he could never create anew.

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[16] Cf. in this connection K. R. Popper, *The Open Society and Its Enemies*, Princeton, N.J., 1963, vol. I, p. 64: 'Nearly all misunderstandings [of the statement that norms are man-made] can be traced back to one fundamental misconception, namely to the belief that "convention" implied arbitrariness'; also David Hume, *A Treatise on Human Nature*, in *Works*, ed. T. H. Green and T. H. Grose, London, 1890, vol. II, p. 258: 'Though the rules of justice be *artificial*, they are not *arbitrary*. Nor is the expression improper to call them *Laws of Nature*; if by natural we understand what is common to any species, or even if we confine it to mean what is inseparable from the species.'

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