

*MAKING THE INVISIBLE HAND VISIBLE*  
A CRITICAL REVIEW OF F.A. v. HAYEK'S  
«*THE FATAL CONCEIT — THE ERRORS*  
*OF SOCIALISM*»

(University of Chicago Press,  
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I

THE SIGNIFICANCE OF *THE FATAL CONCEIT*

*The Fatal Conceit* belongs undoubtedly to Friedrich August von Hayek's important works. However when the publication of Hayek's «Collected Works in German Language»<sup>1</sup> was devised, it was initially debated if a translation of *The Fatal Conceit* should be included or not. As the editor, Viktor Vanberg, explains in the foreword of the actual edition, the special circumstances of the genesis of the book, i.e. a substantial participation of its editor William Warren Bartley III, raises the question to which extent the book is an authentic work of Hayek. Some passages in *The Fatal Conceit* are written in a diction, Vanberg states, which distinctly differs from the characteristic clarity and noblesse of Hayek's other works<sup>2</sup>. Apart from that it is puzzling that W. W. Bartley is one of the most cited authors in *The Fatal Conceit* while there are no references to him in earlier works of Hayek<sup>3</sup>.

Although it is thus not clear if all formulations really flew from the pen of Friedrich Hayek, a translation of the book was neverthe-

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<sup>1</sup> Friedrich A. von Hayek, *Gesammelte Schriften in deutscher Sprache*, 14 volumes, J.C.B. Mohr, Tübingen 2001-2011. Two volumes are still to be published.

<sup>2</sup> Viktor Vanberg, *Vorwort des Herausgebers*, in: Friedrich A. von Hayek, *Die verhängnisvolle Anmaßung — Die Irrtümer des Sozialismus*, edited by Viktor Vanberg, translated by Monika Streissler, volume 7 of *Abteilung B: Bücher of Gesammelte Schriften in deutscher Sprache*, Mohr Siebeck, Tübingen 2011, page XII.

<sup>3</sup> *Ibid.*, page XIII.

less incorporated in the «Collected Works in German Language» because, so Vanberg, Hayek himself attached great importance to the project of this book and considered it as the capstone of an enterprise which he had pursued for decades<sup>4</sup>. In a note of May 1985 Hayek described *The Fatal Conceit* with these words: «This is to be the final outcome of what I planned about 1938 as *The Abuse and Decline of Reason* and of the conclusion which I published in 1944, the sketch on *The Road to Serfdom*. It is a work for which one has to be an economist but this is not enough»<sup>5</sup> — So even if this «capstone» has not got the shape Hayek would have given it if he had not been ill at that time and had finished it all by himself, the book provides an impressive summary of the conclusions Hayek has drawn after four decades of reflection over the abuse and decline of reason, thus far Viktor Vanberg.

*The Fatal Conceit* indeed is an indispensable stone not only in Hayek's edifice of social-philosophical thought but also in the edifice of the entire Austrian school of economics. Written at the age of 88 Hayek's last book can biographically be compared to Ludwig von Mises fourth great book *Theory and History*, written at the age of 75. While Mises in his late work wraps up his main message of the logical foundation of economics or «praxeology», as he calls the pure science of human action, Hayek in his late work *The Fatal Conceit* elaborates on his core idea of the division of knowledge and the evolution of the extended order and its sustaining institutions. Both approaches, Mises' reconstruction of economics through pure reasoning and Hayek's description of the unintended social evolution of appropriate institutions as law, rules of morality, property, money and markets, arrive at the same conclusions and complement one another. Together with Mises's book *Socialism — An Economic and Sociological Analysis* of 1922, which triggered the debate on the possibility of economic calculation under socialism, Hayek's *The Fatal Conceit — The Errors of Socialism* is the most powerful refutation of socialism. The shortcomings of Mises' *a priori* derivation of the anti interventionist position of the Austrian School are compensated by

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<sup>4</sup> Ibid., page XIII.

<sup>5</sup> Bruce Caldwell, *Hayek's Challenge — An Intellectual Biography of F. A. Hayek*, The University of Chicago Press, Chicago and London 2004, page 319.

Hayek's evolutionary approach and vice versa. Mises's and Hayek's approaches are but two sides of the same coin.

## II THOUGHTS ON *THE FATAL CONCEIT* CHAPTER BY CHAPTER

*The Fatal Conceit* is one big variation over the quote of David Hume, «The rules of morality are not the conclusions of our reason», which Hayek puts in front of the book as his starting point. In the introduction he sets out the scope of his message:

«To understand our civilisation, one must appreciate that the extended order resulted not from human design or intention but spontaneously: it arose from unintentionally conforming to certain traditional and largely moral practices, many of which men tend to dislike, whose significance they usually fail to understand, whose validity they cannot prove, and which have nonetheless fairly rapidly spread by means of an evolutionary selection — the comparative increase of population and wealth — of those groups that happened to follow them»<sup>6</sup>.

This statement at the beginning already contains the core message. Hayek introduces the term «extended order» as opposed to the order of a small group of for instance a family or a tribe. And he introduces the notion of «spontaneous order» as opposed to a designed order, an organisation, like a farm. Thus he explains how the extended order of a society or a market comes about: not by design but spontaneously, which is to say by cultural evolution, in a process of competition. The spontaneous extended human order is a product of human action but not of human design.

«The main point of my argument is, then, that the conflict between, on one hand, advocates of the spontaneous extended hu-

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<sup>6</sup> Friedrich A. von Hayek, *The Fatal Conceit — The Errors of Socialism*, volume I of *The Collected Works of F.A. Hayek*, ed. By W. W. Bartley III, The University of Chicago Press, Chicago 1988, page 6. Quoted in the following as Hayek, *The Fatal Conceit*.

man order created by a competitive market, and on the other hand those who demand a deliberate arrangement of human interaction by central authority based on collective command over available resources is due to a factual error by the latter about how knowledge of these resources is and can be generated and utilised»<sup>7</sup>.

So this is the error of socialism, its «fatal conceit», to believe, that a central authority could have at its disposal knowledge which in reality exists only dispersed in the minds of the members of the society or participants of the market. The attempt to coordinate the market or the society by central planing, that is without the knowledge of countless individuals, will eventually end in disaster.

«The dispute between the market order and socialism is no less than a matter of survival. To follow socialist morality would destroy much of present humankind and impoverish much of the rest»<sup>8</sup>.

These insights right at the outset of the book do not seem to differ a lot from the statement of Mises' proposition of the impossibility of economic calculation under socialism. But it is Hayek's contribution and speciality to broaden the perspective by investigating «the use of knowledge in society» in general. Hayek's article of 1945 with this very title<sup>9</sup> is considered by some scholars to be one of the most important articles in economics of all time<sup>10</sup>. In that article.

Hayek argued that information is decentralised, that each individual only knows a small fraction of what is known collectively, and that as a result, decisions are best made by those with local knowledge rather than by a central authority.

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<sup>7</sup> Ibid., page 7.

<sup>8</sup> Ibid.

<sup>9</sup> F.A. von Hayek, *The Use of Knowledge in Society*, in: *The American Economic Review*, vol. XXXV, No. 4, September 1945, pages 519-530.

<sup>10</sup> If he were allowed to take only one economic article with him on a deserted island, Prof. Steven Horwitz says in his lecture on Hayek, *The Market Order and the Fatal Conceit* (see on the Internet at YouTube, URL: [www.youtube.com/watch?v=5LO-daypMPko](http://www.youtube.com/watch?v=5LO-daypMPko)), it would be this article. Though, he adds, Mises' *Economic Calculation in the Socialist Commonwealth* he would sneak in his pocket as well.

Some 40 years later Hayek dedicates his last book, *The Fatal Conceit*, to this particular focus of his, the relationship between knowledge and markets or society and culture for that matter, and to his core conclusion, which is the insight in the unsurmountable limitation of knowledge for any individual and any central authority alike. The purpose of *The Fatal Conceit* is to expose the fundamentally flawed assumptions of central planning in economics and society about what we can know, and for this purpose he proves that the institutions which enable the functioning of the extended order are not arbitrary but a result of evolution. This is of course not a praise for irrationality but rather for the «proper use of rationality» by which Hayek means «reason that recognises its own limitations»<sup>11</sup>. The misconception of reason and its scope by which socialism is guided was called by Hayek already since 1973 «constructivist rationalism»<sup>12</sup>.

Hidden in the introduction to *The Fatal Conceit* Hayek draws a tremendously important analogy of his findings in the field of economics and social science to the biological sciences. He points at an interdisciplinary commonality the importance of which he himself might not have grasp in its full extent and which has not been elaborated properly until to today. Hayek writes:

«The contention that we are constrained to preserve capitalism because of its superior capacity to utilise dispersed knowledge raises the question of how we came to acquire such an irreplaceable economic order — especially in view of my claim that powerful instinctual and rationalistic impulses rebel against the morals and institutions that capitalism requires.»

The answer to this question, sketched in the first three chapters, is built upon the old insight, well known to economics, that our values and institutions are determined not simply by preceding causes but as part of a process of unconscious self-organisation of a structure or pattern. This is true not only of economics, but in a wide area, and is well known today in the biological sciences. [...]

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<sup>11</sup> Hayek, *The Fatal Conceit*, page 8.

<sup>12</sup> Ibid.

When I began my work I felt that I was nearly alone in working on the evolutionary formation of such highly complex self-maintaining orders. Meanwhile, researches on this kind of problem — under various names, such as autopoiesis, cybernetics, homeostasis, spontaneous order, self-organisation, synergetics, systems theory, and so on — have become so numerous that I have been able to study closely no more than a few of them»<sup>13</sup>.

The synonyms for self-organisation which Hayek mentions here stem from so different sciences as biology, medicine, ecology, agriculture, and economics, all having in common that their matter of interest belongs to the animated sphere of the world; they deal with life. The treasure unearthed until today lies in the insight that the fundamental assumptions of the Austrian school of economics, in particular its conclusive non-interventionism, are valid not only in the field of economics or praxeology, as for instance Mises suggests when in his proposition of methodological dualism he is contrasting social sciences versus natural sciences, but in all life sciences. Interventionism is a universal problem.

An ecologist of today for instance can very well understand the highly complex, though self-maintaining order of nature and how it came about by evolution and not by intelligent design. And he can explain how and why imprudent interventions of man destroys this complex order, but he would at the very same time ask for central planning when it comes to economics and the political question how to address environmental problems. An Austrian economist on the other hand, who has read his Hayek and could explain perfectly well the concept of spontaneous order in the realm of economical and societal phenomena, would at the very same time believe in the interventionism of for instance «modern» medicine which treats the highly complex self-maintaining living human body with physical and chemical means as if it was a dead machine.

There lies an explosive force in Hayek's incidental analogy between social science and other life sciences: the revolutionary insight, that the Austrian's critique of «scientism» — that is an inap-

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<sup>13</sup> Ibid., page 9.

propriate application of the methods of physics and chemistry — is not only valid for the social sciences but for all life sciences.

### III

#### CHAPTER ONE: BETWEEN INSTINCT AND REASON

In the first three chapters Hayek aims at analysing the evolutionary process that brought about the highly complex and irreplaceable economic order of the mass society of today, especially in view of his claim «that powerful instinctual and rationalistic impulses rebel against the morals and institutions that capitalism requires»<sup>14</sup>. His deliberations obviously rest on a thorough knowledge of anthropology, history, law, psychology, and many other fields, and live up to Hayek's own demand, he made elsewhere, that nobody can be a great economist who is only an economist.

Important statements of the first chapter are, that human beings have never lived as isolated primitive individuals, as Thomas Hobbes and others had it, but from the outset on in groups, small groups however, which require a morality that has become part of our biological instincts. That morality, which is still today the morality within a family, is however unsuited for the extended order we are living in today and which demands another morality. What Hayek now is showing is that this morality which is appropriate for living in an extended order has its own evolution and has become a part of our nature as well.

Interestingly enough Hayek's findings on how the evolution of behaviour works and how it differs from biological evolution is in its turn an example of how ideas evolve, for he is spelling out ideas which in the 1970th and 80th simultaneously and apparently independently saw the light of the day. Since Hayek does not use or mention the word «meme» we may assume that he had not read Richard Dawkin's book «The Selfish Gene» of 1976 which he in any case does not cite in *The Fatal Conceit*. There is however a remarkable accordance with Dawkin's concept of memes when Hayek ex-

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<sup>14</sup> Ibid.

plains the evolution of habitual modes of conduct along with the formation of the extended order:

«This evolution came about, then, through the spreading of new practices by a process of transmission of acquired habits analogous to, but also in important respects different from, biological evolution. I shall consider some of these analogies and differences below, but we might mention here that biological evolution would have been far too slow to alter or replace man's innate responses in the course of the ten or twenty thousand years during which civilisation has developed — not to speak of being too slow to have influenced the far greater numbers whose ancestors joined the process only a few hundred years ago. Yet so far as we know, all currently civilized groups appear to possess a similar capacity for acquiring civilisation by learning certain traditions. Thus it hardly seems possible that civilisation and culture are genetically determined and transmitted. They have to be learnt by all alike through tradition»<sup>15</sup>.

The adapted rules of conduct, which spread and evolve through «memes», as we can put it today, are not a product of reason Hayek insists again and again. They were not deliberately designed, nor are they a product of instinct. They are something in between to which Hayek wants to draw our attention:

«That is, I am chiefly concerned with cultural and moral evolution, evolution of the extended order, which is, on the one hand (as we have just seen), beyond instinct and often opposed to it, and which is, on the other hand (as we shall see later), incapable of being created or designed by reason»<sup>16</sup>.

Since the idea of cultural evolution is often confused with the wrong concept of «social Darwinism» it is important to note that this is a misinterpretation of what Hayek says and actually of Darwin's theory itself. Hayek also points out that it was actually the

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<sup>15</sup> Hayek, *The Fatal Conceit*, page 16. See also page 25: «The processes furthering the transmission and spreading of cultural properties by learning also, as already noted, make cultural evolution incomparably faster than biological evolution.»

<sup>16</sup> *Ibid.*, page 21.

idea of biological evolution which had been inspired by the study of processes of cultural development which had been recognised earlier, processes that lead to the formulation of institutions like language, law, morals, markets, and money<sup>17</sup>.

#### IV

### CHAPTER TWO AND THREE: THE ORIGINS OF LIBERTY, PROPERTY AND JUSTICE, AND THE EVOLUTION OF THE MARKET: TRADE AND CIVILISATION

As Hayek goes more into detail we learn of what kind these traditions are which lie between instinct and reason. Basically it is the rule of law, that is of abstract rules as opposed to concrete ends of for instance a ruler. In particular the principle of inviolability of private property was a major stepping stone in the evolution of the extended order. Hayek prefers to call it «several property» since it is more precise than «private property».

«The prerequisite for the existence of such property, freedom, and order, from the time of the Greeks to the present, is the same: law in the sense of abstract rules enabling any individual to ascertain at any time who is entitled to dispose over any particular thing»<sup>18</sup>.

It was Rome, Hayek carves out, «that gave the world the prototype of private law based on the most absolute conception of several property»<sup>19</sup>.

Here, however, we miss a critical analyse of that Roman absolute legal conception of several property and a discussion of the old Germanic legal form of acquisition in good faith, which allows under certain precondition for the loss of several property in favour of the reliability of trade. These two different legal emphasises of stability of possession — absolute stability of several property and stability of trade —, of which we can not say that the one is

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<sup>17</sup> Ibid., page 24.

<sup>18</sup> Ibid., page 30.

<sup>19</sup> Ibid., page 32.

«better» or fairer than the other, would have been a good example for Hayek's point, that there is no rationally best solution for rules of conduct but that each culture or market finds its most appropriate order spontaneously. What was best for the Roman people was not necessarily best for the Germanic people and vice versa.

However, some universal traits of the restraints on individual freedom which are a prerequisite of a prosperous extended order, the rule of law that is, have evolved over time. Hayek refers to David Hume who found three «fundamental laws of nature», as he called them: «the stability of possession, of its transference by consent, and of the performance of promises»<sup>20</sup>.

Though Hayek stresses «the spontaneous evolution of rules of conduct that assist the formation of self-organising structures» and points at the «dangers of "rational" interference with spontaneous order», he is not saying that the natural elements of the extended or macro-order are only individuals and that deliberate organisation is never important.

«The elements of the spontaneous macro-order are the several economic arrangements of individuals *as well as* those of deliberate organisations. Indeed, the evolution of individualist law consists in great measure in making possible the existence of voluntary associations without compulsory powers. But as the overall spontaneous order expands, so the sizes of the units of which it consists grow. Increasingly, its elements will not be economies of individuals, but of such organisations as firms and associations, as well as of administrative bodies. Among the rules of conduct that make it possible for extensive spontaneous orders to be formed, some will also facilitate deliberate organisations suited to operate within the larger systems. However, many of these various types of more comprehensive deliberate organisation actually have a place only within an even more comprehensive spontaneous order, and would be inappropriate within an overall order that was itself deliberately organised»<sup>21</sup>

The last sentence of this passage is very noteworthy, because it shows that Hayek is aware of the weak point or even a contradic-

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<sup>20</sup> Ibid., page 34.

<sup>21</sup> Ibid., page 37.

tion of his whole proposition. If not rationality but evolution legitimises the institutions of the extended order — property, justice etc. —, which thus has to be characterizes as a spontaneous order, why than are not for instance the welfare state or central banks, which are results of an evolutionary process as well and have become well established institutions over time, legitimate too? Hayek acknowledges that organisations as firms, association, and even administrative bodies are natural elements of the extended order, however only as long as they are voluntary units within a greater spontaneous order. This demarcation between good and bad organisations and administrative bodies is somewhat vague and builds a gateway to a critique of Hayek's text. Are not public sector institutions part of the extended order, and are not states, as they have evolved over time, only units of an even greater spontaneous order that comprises the whole world? How can we tell apart «good» organisations and «bad» organisations that have a long tradition as well? Here we see the limitation of Hayek's historical- evolutionary approach towards liberty and his justifications of its institutions and understand why his writing has to be flanked by the logical Misesian approach towards liberty and vice versa.

Nevertheless Hayek makes clear, that the state was more of an obstacle than an enabler of the extended order. He draws our attention to the decisive precondition for the evolution of the extended or macro-order: the increasing density of the population which was made possible by trade. The expansion of the human race over the surface of the earth might seem like an organic growth, Hayek says, but «it was accomplished by individuals following not instinctual demands but traditional customs and rules»<sup>22</sup>. Statists will not be amused to read the historical evidence Hayek provides for that trade is older than the state and that the role played by government is greatly exaggerated in historical accounts, «because we necessarily know so much more about what organised government did than about what the spontaneous coordination of individual efforts accomplished. [...] Governments have more often

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<sup>22</sup> Ibid., page 43.

hindered than initiated the development of long-distance trade»<sup>23</sup>. As China has done, while Europe owes its extraordinary expansion in the Middle Ages probably to its political anarchy, Hayek suggests<sup>24</sup>.

Finally in the first three chapter's historical derivation of how we came to acquire our irreplaceable economic order with its superior capacity to utilise dispersed knowledge, Hayek contributes a somewhat astonishing insight to the history of ideas. Aristotle, whom for instance Carl Popper presents as an intellectual forerunner of the «open society», is sketched by Hayek as someone who was blind for the true source of ethics beyond instinct and reason and who had no comprehension at all of the advanced market order in which he lived. Although acclaimed as the first economist and as a biologist, «Aristotle lacked any perception of two crucial aspects of the formation of any complex structure, namely, evolution and the self-formation of order»<sup>25</sup>.

The pre-Socratic philosophers in contrast already had a vague idea of evolution when they made a distinction between a spontaneously grown *kosmos* and a deliberately arranged order as that of an army, which they called *taxis*. In his major work *Law, Legislation and Liberty* of 1973 (1st volume) Hayek in fact had taken these two Old Greek words, *kosmos* and *taxis*, to label his dichotomy of spontaneous order on the one hand and deliberate organisation on the other. In *The Fatal Conceit* he writes that it actually took until the 18th century that Aristotle's misconception of order as necessarily being design, either by man or by god, was overcome and «the conception of a self-organised structure began to dawn upon mankind»<sup>26</sup> with David Hume (1711-1776) as a forerunner.

After having laid out in the first three chapters his own take on the true source of rules of conduct in the extended order, in the following two chapters Hayek deals with the false conceptions of how society works and should be engineered and thus lives up to the subtitle of this book, «The Errors of Socialism».

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<sup>23</sup> Ibid., page 44.

<sup>24</sup> Ibid., page 45.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid., page 47.

## V

CHAPTER FOUR AND FIVE: THE REVOLT OF INSTINCT  
AND REASON, AND THE FATAL CONCEIT

In the seventeenth and eighteenth century not only the Scottish Enlightenment came to understand and explain the central values and institutions of the extended order and how they came about by evolution but also conceptions were build, in particular by French thinkers, which challenged these values and institutions.

«The first of these developments was the growing importance, associated with the rise of modern science, of that particular form of rationalism that I call ‘constructivism’ or ‘scientism’ (after the French), which for the following several centuries virtually captured serious thought about reason and its role in human affairs. This particular form of rationalism has been the point of departure of investigations that I have conducted over the past sixty years, investigations in which I tried to show that it is particularly ill-considered, embedding a false theory of science and of rationality in which reason is *abused*, and which, most important here, leads invariably to an erroneous interpretation of the nature and coming into being of human institutions»<sup>27</sup>.

The foremost French exponents of that rationalistic intellectual tradition of constructivism or scientism are René Descartes (1596-1650), who fostered the belief that pure reason «can build a new world, a new morality, a new law, even a new purified language, from itself alone»<sup>28</sup>, Jean-Jacques Rousseau (1712-1778) who «led people to forget that rules of conduct necessarily constrain and that order is their product, and that these rules, precisely by limiting the range of means that each individual may use for his purposes, greatly extend the range of ends each can successfully pursue»<sup>29</sup>, and eventually in the 19th century Auguste Comte (1798-1857), «who introduced the term ‘positivism’ for the view that represented a ‘demonstrated ethics’ (demonstrated by reason,

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<sup>27</sup> Ibid., page 48.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid., page 49.

that is) as the only possible alternative to a supernaturally 'revealed ethics',<sup>30</sup>

As prominent mentors of social engineering in the English speaking world Hayek names — for some again astonishingly so — Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873) who usually are considered to be liberals.

But for Hayek they represent at best a rationalistic branch of liberalism whereas the true or classical liberalism is represented by so eminent thinkers as Edmund Burke (1729-1797), Alexis de Tocqueville (1805-1859), and Lord Acton (1834-1902), whom Hayek calls, like himself, «old Whigs»<sup>31</sup>. The rationalistic liberalism and the reasonable socialism however prevail until today and that is why Hayek has written this book.

«Indeed, the basic point of my argument — that morals, including, especially, our institutions of property, freedom and justice, are not a creation of man's reason but a distinct second endowment conferred on him by cultural evolution — runs counter to the main intellectual outlook of the twentieth century. The influence of rationalism has indeed been so profound and pervasive that, in general, the more intelligent an educated person is, the more likely he or she now is not only to be a rationalist, but also to hold socialist views (regardless of whether he or she is sufficiently doctrinal to attach to his or her views any label, including 'socialist'). The higher we climb up the ladder of intelligence, the more we talk with intellectuals, the more likely we are to encounter socialist convictions. Rationalists tend to be intelligent and intellectual; and intelligent intellectuals tend to be socialists»<sup>32</sup>.

Today, 30 years after Hayek has written this book, those who call themselves formally socialists are a minority — an anew growing one however —, but the litany of errors Hayek expands on for many pages in detail does still prevail. And the errors can still today be summarized, as Hayek does, «in four basic philo-

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<sup>30</sup> Ibid., page 52.

<sup>31</sup> 31 Ibid., see also Friedrich A. von Hayek, *Why I Am Not a Conservative*, Postscript of F.A. v. Hayek, *The Constitution of Liberty*, Routledge and Kegan Paul, London 1960.

<sup>32</sup> *The Fatal Conceit*, page 52 f.

sophical concepts that generally guide contemporary thinkers educated along scientific and constructivistic lines: rationalism, empiricism, positivism, and utilitarianism — concepts which have, during the past several hundred years, come to be regarded as representative expressions of the scientific ‘spirit of the age’<sup>33</sup>. On these grounds the attempts to redesign our traditional morals, law, and even language (e.g. gender mainstreaming) continues, only a little more subtle and refined than in the 20th century. So Hayek’s exposure of the fatal conceit is still relevant. And it sounds very familiar when he spots teachers, journalists and media representatives as the real bearers of constructivist rationalism and socialism. He calls them «professional second-hand dealers in ideas»<sup>34</sup>. The following chapter fathoms the deeper roots of those intellectual’s antipathy to the market order.

## VI

### CHAPTER SIX AND SEVEN: THE MYSTERIOUS WORLD OF TRADE AND MONEY, AND OUR POISONED LANGUAGE

«The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design»<sup>35</sup> This is probably the most often cited quote from *The Fatal Conceit*, and brings to the point not only Hayek’s epistemological insight but also why his message is so unpopular among economists and intellectuals. It is conceived as a humiliation to intellectuals to be told that they know too little to run the country as they believe they can do or wish to give advice to. And «Hands off!» is not a very promising motto for an economist’s career. But the socialist’s dislike for laissez faire economy goes even deeper. It is something more archaic and even arcane Hayek tries to get to grips with.

This is a chapter of which we can not be sure how much of it is really written by Hayek and how much by Bartley. But these deliberations about the intellectual’s disdain for the commercial and

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<sup>33</sup> Ibid., page 61.

<sup>34</sup> Ibid., page 55.

<sup>35</sup> Ibid., page 76.

their economic ignorance and distrust for money and finance is not essential to Hayek's core line of argument in this book anyway. This chapter is not so much about the «errors» of socialism but the psychology of socialists and thus stands in line with Ludwig von Mises' book «The Anti-Capitalistic Mentality» of 1956<sup>36</sup>. Again we profit from the complementary approaches of these two great social philosophers. Mises, reconstructing economics from the perspective of the individual's action, emphasises the possibly aggravating fact that free competition in the market economy allows for no excuse of one's failures as a main reason for the wide spread anti-capitalistic stance. Hayek, concerned with the limits to our knowledge and the highly abstract idea that culture and the extended order are not a product of rationality, holds ignorance responsible:

«However this may be, our main subject here, the persistent adverse opinion of 'pecuniary considerations', is based on ignorance of the indispensable role money plays in making possible the extended order of human cooperation and general calculation in market values. Money is indispensable for extending reciprocal cooperation beyond the limits of human awareness — and therefore also beyond the limits of what was explicable and could be readily recognised as expanding opportunities».

[..]

It is hence hard to believe that anyone accurately informed about the market can honestly condemn the search for profit. The disdain of profit is due to ignorance, and to an attitude that we may if we wish admire in the ascetic who has chosen to be content with a small share of the riches of this world, but which, when actualised in the form of restrictions on profits of others, is selfish to the extent that it imposes asceticism, and indeed deprivations of all sorts, on others»<sup>37</sup>.

The following chapter on «our poisoned language» is a very Hayekian again, which is to say, bears his handwriting through

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<sup>36</sup> Ludwig von Mises, *The Anti-Capitalistic Mentality*, The Ludwig von Mises Institute, Auburn, Alabama 2008.

<sup>37</sup> Hayek, *The Fatal Conceit*, page 106 f.

and through. His remarks on language have been picked up a lot since *The Fatal Conceit* has been published and like the analogy which he draws between social sciences and biological sciences at the beginning of this book (as we have highlighted above, see page 5) his interdisciplinary considerations about language bear explosive force for future research.

Best known and often copied is his criticism of the «weasel word» social<sup>38</sup> and the semantically nonsensical phrase «social justice», which Hayek had dealt with already at some length in the second volume of *Law, Legislation and Liberty*. The significance of this chapter on language, however, lies in the comprehension of language as a spontaneous order — result of human action but not of human design — that on the one hand reflects age-old tradition and experience of countless individuals, as Hayek has mentioned throughout the book again and again, and on the other hand influences and guides our deeds. Analysing our language is a tremendous important field of study for social sciences, for «all usage of language is laden with interpretations or theories about our surroundings. As Goethe recognised, all that we imagine to be factual is already theory: what we 'know' of our surroundings is our interpretation of them»<sup>39</sup>.

Hayek's evolutionary approach here again manoeuvres him in a dilemma, which, though it does not rebut his arguments, is not addressed sufficiently by himself (see above page 9) and thus gives room for future research and discussions. If language is a spontaneous order and thus needs to be humbly respected as the wise guideline that evolved out of millions and millions of individual decisions, then what's wrong with for instance the word «social» and its common use in all kinds of combinations? Why or on which ground should we reject this tradition as a bad tradition when we at the same time defend suprapersonal traditions in general as wise outcomes of cultural evolution or competition? And trying to eliminate a widespread use of words and phrases like «social justice» and to establish oneself new words in order to replace commonly used ones like «praxeology» or «catallac-

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<sup>38</sup> Ibid., page 114 ff.

<sup>39</sup> Ibid., page 106.

tics» for economics, isn't that a case of — *horribile dictu* — language engineering as well?

Hayek has convincingly proven — not least in this book —, that apart from the slow biological evolution there has been a comparatively fast evolution *sui generis* of culture, morality, law, rules of conduct, language, ideas or «memes», as we would say today, and he teaches us to humbly respect these suprapersonal traditions as basis of our civilisation and not to easily dump them in favour of supposedly rational reconstructions of society and language. But the comparatively fast cultural evolution is an ongoing process, and the Austrian School itself is highly involved in the business of «meme building». Ideas matter, as the saying goes. And the morality, the rules of conduct, the law, which will be the tradition in some distant future, develop today. In contrast to former centuries, however, today the evolution of the extended order and the evolution of our language takes place in bright daylight, that is to say under the omnipresent eyes of sciences and media, and Hayek's exposure and detailed explanation of how the «invisible hand» actually works has its own impact on the self-organising process. Like in Heisenberg's uncertainty principle the observation does influence the observed process. Is not the making of the extended order and the development of language a far more conscious process than it was in former centuries?

## VII

### CHAPTER EIGHT AND NINE: THE EXTENDED ORDER AND POPULATION GROWTH, AND RELIGION AND THE GUARDIANS OF TRADITION

That dilemma of the evolutionary approach, namely how to tell in times of change a beneficial institution or suprapersonal tradition from a detrimental one, remains unanswered. Is the state for instance, i.e. the territorial limited monopoly on the legitimate use of force, which has evolved in a long process of trial and error over many centuries and which exclusively predominates around the world today, a good tradition to keep, or shall we abolish the state in order to have a better life and be prepared for the world of tomorrow? We find no answer to that in this book. But Hayek pro-

vides criteria to assess suprapersonal traditions when looking backward: The traditions of those societies, which prospered and survived, were or are good traditions.

Evolution is a process of competition, and Hayek detects a simple secret of the success of a society: its size, that is: a sufficiently high number of its members that allows for detailed specialisation and division of labour.

«It is, then, not simply more men, but more different men, which brings an increase in productivity. Men have become powerful because they have become so different: new possibilities of specialisation — depending not so much on any increase in individual intelligence but on growing differentiation of individuals — provide the basis for a more successful use of the earth's resources»<sup>40</sup>

From that Hayek concludes that those traditions are the fittest which allow for the support of an ever greater number of people.

«We can hardly claim that to increase mankind is good in some absolute sense. We submit only that this effect, increase of particular populations following particular rules, led to the selection of those practices whose dominance has become the cause of further multiplication»<sup>41</sup>.

Eventually Hayek himself himself highlights the rationality *and* the limitation of his defence of traditional morals.

«For, as we have seen, we have never been able to choose our morals. Though there is a tendency to interpret goodness in a utilitarian way, to claim that 'good' is what brings about desired results, this claim is neither true nor useful. Even if we restrict ourselves to common usage, we find that the word 'good' generally refers to what tradition tells us we ought to do without knowing why — which is not to deny that justifications are always being invented for particular traditions. We can however perfectly well ask which among the many and conflicting rules that tradition treats as good

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<sup>40</sup> Ibid., page 122 f.

<sup>41</sup> Ibid., page 131.

tend, under particular conditions, to preserve and multiply those groups that follow them»<sup>42</sup>.

The answer to that question remains open in this book and refers us to praxeology as dealt with in other books of Hayek, Mises and the Austrian School. *The Fatal Conceit* does not positively teach us what to do but rather what not to do and that is: not to presumptuously rely on our individual rationality only but to recognise and respect the higher wisdom of cultural institutions and social traditions in which the experience of innumerable fellow men and of our ancestors has been, so to say, crystallised.

In the honourable task of sustaining the respect for beneficial traditions, Hayek finally points out, mystical and religious beliefs have played a positive role. In particular the main monotheistic religions, he believes, have helped to preserve and transmit beneficial traditions at least long enough to enable those groups following them to grow, and to have the opportunity to spread by natural or cultural selection.

«In any case, the religious view that morals were determined by processes incomprehensible to us may at any rate be truer (even if not exactly in the way intended) than the rationalist delusion that man, by exercising his intelligence, invented morals that gave him the power to achieve more than he could ever foresee»<sup>43</sup>.

So Hayek finishes this book with god as a metaphor or second best explanation for the invisible hand that conducts the extended order. His undertaking is nothing less than making that invisible hand visible.

## VIII CONCLUSION

The great merit of this book on the «errors of socialism» is to disclose the blindness of an age-old faulty understanding of how

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<sup>42</sup> Ibid., page 133.

<sup>43</sup> Ibid., page 137.

morals arise. From Aristotle over Rousseau to modern day intellectuals the naïve believe has prevailed that morals can and should be constructed. This excessive overestimation of what an individual mind can grasp and know has become popular especially with modern day social engineers of all kind. To debunk their fatal conceit by revealing the seemingly obscure or mystic processes of the self-organisation of morality without intended design by anybody is what Hayek is doing in this book over and over again. «How then do morals arise? What is *our* “rational reconstruction”?», he asks at one point, and answers:

«Apart from the constructivist contention that an adequate morality can be designed and constructed afresh by reason, there are at least two other possible sources of morality. There is, first, as we saw, the innate morality, so-called, of our instincts (solidarity, altruism, group decision, and such like), the practices flowing from which are not sufficient to sustain our present extended order and its population. Second, there is the evolved morality (savings, several property, honesty, and so on) that created and sustains the extended order. As we have already seen, this morality stands *between* instinct and reason, a position that has been obscured by the false dichotomy of instinct *versus* reason»<sup>44</sup>.

Hayek sheds light on that obscurity; he makes, so to speak, the invisible hand visible. And this analysis naturally turns into an intellectual support for the rule of law, for the abstract rules which evolved as a precondition of markets and the devising of labour possible.

A possible contradiction which this book does not address thoroughly enough, however, is the fact that the stance of constructivist rationalism builds a strong and old and very influential tradition too and thus has Hayek's *prima facie*-evidence of evolution on its side as well. The same is true with the widely felt nostalgia for the small group which Hayek talks of in an appendix to the book: «In a milder form, disappointment at the failure of our traditional morality to produce greater pleasure has recently found expres-

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<sup>44</sup> Ibid., page 70.

sion in nostalgia for the small that is beautiful, or in complaints about *The joyless Economy*»<sup>45</sup>. Is not the longing for easily understandable relationships, for simple and transparent circumstances of living, and an instinctual revolt against alienation of too sophisticated a division of labor, isn't that, when it captures masses of people and persists, a powerful tradition too which we need to appreciate as well?

In order to decide us for the rule of law tradition as opposed to all temptations of a case to case rule by chosen leaders we need more than the evidential capacity of cultural evolution, which Hayek presents here in this book, for government interventions too have evolved as part of a spontaneous order and are an age-old mode of conduct. In order to reject the tradition of interventionism we need theoretical and logical or «praxeological» arguments as well. One of which is Hayek's argument that knowledge is dispersed and can not be centralised in a planning authority. Many more are provided in Hayek's and the Austrian school's other books. Together they make the case.

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<sup>45</sup> Ibid page 152. See also page 113: «Bertrand de Jouvenel has well described this instinctive nostalgia for the small group — “the milieu in which man is first found, which retains for him an infinite attraction: but any attempt to graft the same features on a large society is utopian and leads to tyranny”.»