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Hayek and liberalism

Chandran Kukathas

In particular you should not assume that in times of crisis
exceptions should be made to principles

– F. A. Hayek, “The Rediscovery of Freedom”

F. A. Hayek occupies a peculiar place in the history of twentieth-century liberalism. His influence has, in many respects, been enormous. *The Road to Serfdom*, his first political work, not only attracted popular attention in the west but also circulated widely (in samizdat form) in the intellectual underground of Eastern Europe during the years between the end of the war and the revolutions of 1989. His critique of central planning has been thoroughly vindicated, if not by the demise of communist economic systems, then at least by the recognition by socialists of many stripes of the importance of market processes.¹ Books and articles on his thought continue to appear and there is plenty of evidence that his ideas are widely discussed in Europe, South America, and even in the United States. Hayek’s political influence has been no less remarkable. He persuaded Antony Fisher to abandon his plans for a political career and to devote himself instead to establishing an organization for the dissemination of classical liberal ideas. The Institute of Economic Affairs founded by Fisher not only played an important role in changing the policymaking climate in Britain but also became the model for many classical liberal “think-tanks” around the world. But Hayek also influenced political leaders and activists more directly through his writings and public speeches,² and also through personal correspondence. By any reasonable standard, Hayek has been a significant public intellectual whose influence has roamed across the disciplines of social science into the realms of public policy.

Yet in spite of all this, Hayek is also a figure who has gone unrecognized by most contemporary political theorists as a contributor to liberal thought – or indeed to political thought – in the twentieth century. His work has not attracted commentary of the quality or quantity of that elicited by the work of John Rawls. One is unlikely to see university courses on Hayek's political thought and, as likely as not, his name will fail to appear in books and papers discussing issues in liberal political theory. In the academic mainstream of contemporary political theory, Hayek is a marginal figure. In Rawls' work, including *Political Liberalism* (Rawls 1993), Hayek does not rate a mention; nor are Hayek's ideas and concerns addressed in any of the major critiques of liberalism which have appeared over the last three decades.³

All this raises a number of questions about Hayek and modern liberalism. Why has Hayek not been taken more seriously by modern liberals or by their critics? Is Hayek in fact an important figure in twentieth-century liberalism and, if he is, what has been his contribution? What, in the end, is Hayek's liberal legacy? My purpose here is to show that Hayek has something important to contribute to liberal thought in the twentieth century. To do this I begin, in the first section, with a brief account of the fundamental tenets of Hayek's liberalism. I then turn, in the second section, to explain how Hayek came to this liberalism and how the genesis of Hayek's commitment to liberal ideals shaped the development of his political thinking. The third section examines modern liberal theory more broadly conceived and tries to explain what have been its primary concerns (and presuppositions), particularly since the work of John Rawls. This should afford us a firm base from which to look at why Hayek and contemporary liberal theory have failed to engage one another. From here I shall turn, in the fifth section, to broach more directly the question of what Hayek has to offer.

HAYEK'S LIBERALISM

Hayek's liberalism is best understood as a response to socialism. The distinctive feature of socialism, in his understanding, is its aspiration to organize society in accordance with some common purpose. What he finds implausible about the socialist ideal is the thought that attempts at such organization will achieve their purported goals.

What he finds objectionable about socialism is that it is incompatible with individual freedom as he understands it.

Implicit in all this are two assumptions, which Hayek has tried to bring out explicitly in his social and political philosophy. First, order is possible without design or central command. Hayek, more than any other thinker in this century (with the possible exception of Ludwig von Mises), attempted to show the feasibility of a social order understood as a means-connected system without a common hierarchy of ultimate ends.⁴ Indeed, Hayek has gone further, arguing that demands for conscious control or direction of social processes can never be met and that attempts to gain control or to direct social development can only result in the loss of liberty and, ultimately, in the destruction of civilizations. In some respects, Hayek's theory here is not especially novel: he offers an account of invisible-hand processes which Mandeville, Hume, and Adam Smith had identified as crucial to the understanding of social order as the undesigned product of human interaction. Hayek's distinctive contribution is his account of social institutions and rules of conduct as bearers of *knowledge*. Society may profitably be viewed as a network of practices and traditions of behavior that convey information guiding individual conduct. These institutions not only facilitate the matching of means with established ends, but also stimulate the discovery of human ends. Hayek's argument is that it is vital that society not be brought under the governance of a single conception of the ends of life which is held to subsume all the various purposes human beings pursue, for this can only stifle the transmission and growth of knowledge.

The second assumption underlying Hayek's political philosophy is that individual freedom is not to be understood in terms of man's capacity to control his circumstances, nor in terms of collective self-government. Rather, freedom obtains when the individual enjoys a protected sphere or domain within which others may not interfere, and he may engage in his separate pursuits in accordance with his own purposes.

This liberalism stands in clear contrast to the socialism of Karl Marx. For Marx, human freedom would only be achieved when man gained control of those social forces which, as products of his own creation, had worked to dominate and control him. Alienation would be overcome, and freedom achieved, only when the autonomous life

of social objects and forces was destroyed. This would be accomplished under socialism, when we would see the conscious, purposive ordering of production by the producers. As Marx put it in *Capital*, "the life process of society, which is based on the process of material production, does not strip off its mystical veil until it is treated as production by freely associated men, and is consciously regulated by them in accordance with a settled plan."⁵ Hayek's liberalism suggests that this hope is delusory. Man will never acquire the capacity to control or redesign society because of the limited powers of human reason. The fact that no single mind can know more than a fraction of what is known to all individual minds sets limits to the extent to which conscious direction can improve upon the results of unconscious social processes. Liberalism as a social philosophy, in Hayek's conception, rests on this understanding of the "spontaneous" character of social processes. Any answer to the question of what are the best social and political arrangements for human beings must be based on this understanding. The answer that Hayek gives is that human relations should be governed by arrangements which preserve liberty, with liberty understood as "independence of the arbitrary will of another."⁶ More precisely, Hayek argues that a liberal society is one governed by the rule of law, and that justice is served only if the law operates to delimit the scope of individual freedom. In short, liberalism upholds the idea of a free society in which individual conduct is regulated by rules of justice so that each may pursue his own ends or purposes in peace.

The ideal of equality has a place in this scheme of things only insofar as Hayek concedes that "The great aim of the struggle for liberty has been equality before the law."⁷ Individual differences provide no reason for the government to treat them differently: "people should be treated alike in spite of the fact that they are different."⁸ What has to be recognized, however, is that this cannot but lead to inequality in the actual positions people occupy. The equality before the law which freedom requires leads to material inequality. Hayek's argument is that "though where the state must use coercion for other reasons, it should treat all people alike, the desire of making people more alike in their condition cannot be accepted in a free society as a justification for further and discriminatory coercion."⁹ His objection is not to equality as such, but to all attempts to impose upon society a chosen pattern of distribution.

The objection to institutions for the distribution of goods according to merit is of a similar nature. If the principle of reward according to merit were to be accepted as the just foundation for the distribution of incomes, for example, we would end up with attempts to control remuneration that would, in their turn, create the necessity for even more controls on human activity.¹⁰ "This would produce a kind of society which in all essential respects would be the opposite of a free society – a society in which authority decided what the individual was to do and how he was to do it."¹¹

The fear of this outcome is also the basis for rejecting demands for equal distribution based on the contention that membership in a particular community or nation entitles the individual to a particular material standard that is determined by the general wealth of the group to which he belongs. Membership of some national community does not, in Hayek's liberalism, confer rights or entitlements to any sort of share of national wealth. "The recognition of such claims on a national scale would in fact only create a kind of collective (but not less exclusive) property right in the resources of the nation that could not be justified on the same grounds as individual property."¹² Moreover, the result of such recognition would be that, "Rather than admit people to the advantages that living in their country offers, a nation will prefer to keep them out altogether."¹³

The liberal ideal, in Hayek's conception, has no room for such nationalist sentiments. On the contrary, it must resist them. Indeed, it is a characteristic of the liberalism Hayek upholds, and which he describes as "liberalism in the English sense," that it is "generally opposed to centralization, to nationalism and to socialism."¹⁴

There is, of course, more to Hayek's liberalism than this brief outline reveals. To understand the character of this liberal philosophy more fully, however, requires a deeper investigation not only of its tenets but also of its origins.

THE GENESIS OF HAYEK'S LIBERAL COMMITMENTS

A little has now been written about the intellectual origins of Hayek's ideas. Hayek himself has discussed his indebtedness to earlier economists of the Austrian School – including, most famously, Ludwig von Mises, Friedrich von Wieser, and Carl Menger.¹⁵ And Jeremy Shearmur has investigated aspects of Hayek's intellectual

background in a number of papers, as well as in his study of Hayek's thought.¹⁶ We also have two popular biographies of Hayek by Alan Ebenstein, as well as Bruce Caldwell's magisterial study of the origins and development of Hayek's economic thinking.¹⁷ Yet to understand Hayek's liberalism, it is important to understand not only its origins in the world of European ideas, but also its genesis in Hayek's life and, more particularly, in his practical concerns.

Hayek's first major political work, *The Road to Serfdom*, was not published until 1944. By this time Hayek, having turned forty-five, was an established scholar, a Fellow of the British Academy, and an economist whose reputation had rivaled that of Keynes. We need to ask what it was that prompted an economist whose original interests lay in trade-cycle research to turn his attention to political theory – and, indeed, to devote himself to political theory for the next forty-five years.

An important part of the answer to this question is that it was not his theoretical preoccupations that led him to his political writings but his practical ones. In the 1930s, observing the Nazis' seizure of power, Hayek clearly became increasingly concerned about political developments in Europe. In his own terms, he saw "civilization" coming under threat from two significant forces: nationalism and totalitarianism. The danger lay not merely in the victory of a particular political party but in the victory of ideas which had the capacity to undermine European civilization. By the time war erupted in September 1939, Hayek had some clearly formulated views about the nature of the problem, and about how it had to be confronted. Addressing the problem was something that dominated Hayek's intellectual and political energies for the next twenty years – up until the publication in 1960 of *The Constitution of Liberty*.

The problem, as Hayek perceived it, was how to combat the ideas that provided the basis for totalitarian institutions. The answer, he thought, would have to involve at once subjecting those ideas to sustained criticism, and developing and promoting the liberal alternative. It is very important to note here two things: first, Hayek did not see this as essentially or primarily a philosophical task, but rather as an intellectual task which required the contribution not only of philosophers but also of economists and other social scientists, as well as (perhaps most importantly) historians. Second, Hayek believed quite firmly that for this task to meet with success

it was necessary that the battle of ideas be engaged not merely in academia but in the broader public realm.

These points come out very clearly in some correspondence between Hayek and the British Broadcasting Service less than a week after the declaration of war following the German invasion of Poland. On September 9, 1939 Hayek wrote to Mr. F. W. Ogilvie of the BBC offering to help with its propaganda broadcasts into Germany.¹⁸ Enclosed was an additional memorandum (dated September 1939) entitled "Some Notes on Propaganda in Germany."¹⁹ Hayek also wrote to the Director General of the Ministry of Information,²⁰ again enclosing his memorandum on propaganda in Germany, and to the Minister of Information, Lord Macmillan,²¹ offering his services as a propagandist.

The advice Hayek offered in his "Notes on Propaganda" is instructive. The purpose of the propaganda, he thought, should be to defend and explain the principles of liberal democracy. To be effective it would have to show how the principles that Great Britain and France stood for were also those held dear by the great German poets and thinkers. He also stressed that accuracy was vital: the German people were largely ignorant of the more discreditable acts of the Nazi regime and needed to be made aware of the facts in a sober, dispassionate, and matter-of-fact way. That this process of "propaganda" seemed too academic, he thought, did not matter. The important thing to do was to tell the truth, to admit mistakes when they were made, and to be sober and accurate in a way that Nazi propaganda was not.²²

Hayek's advocacy has two interesting features. First, it is persistent: indeed, he felt strongly enough about the problem to continue the correspondence into 1940 (at one point warning that he would continue to make a nuisance of himself until the BBC got it right!). Second, it betrays a very strong conviction that for propaganda to be effective it must be truthful and accurate. Thus in a letter to Ogilvie on September 22, 1939 he expressed distress at hearing the current anti-Nazi broadcasts, stressed again the need for propaganda telling Germans what had been happening in Germany since 1933, and recommended establishing a committee of British, German, and neutral scholars to do this.²³ When a Major Gifford wrote to Hayek saying that the value of the creation of a commission would not be in proportion to the size of the "machinery" needed to set it up, he

responded that the only way to convince Germans was by presenting not just examples of Nazi crimes but details, names, and overwhelming evidence – enough to persuade them of the terrible nature of the regime.²⁴

What is also revealing about this correspondence, however, is Hayek's practical interest in Germany and its fate. His concern was not simply how propaganda might best be employed to sap German morale and to weaken its capacity to sustain a war effort – though that may well have been important. The problem for him was how to strengthen the internal forces of German resistance to Nazism. As the war wore on, and it became clear (at least to Hayek) that Germany was going to be crushed, it became even more important in his mind that something be done to recover and restore German moral and intellectual life. However, Hayek's concern was not simply for Germany's own well-being. The fate of Germany was entangled with the fortunes of Europe, and Germany could not be lost if Europe was to survive the war. This concern was presented very clearly in a paper Hayek read to the Political Society at King's College, Cambridge University, on February 28, 1944. There he wrote:

Whether we shall be able to rebuild something like a common European civilization after this war will be decided mainly by what happens in the years immediately following it. It is possible that the events that will accompany the collapse of Germany will cause such destruction as to remove the whole of Central Europe for generations or perhaps permanently from the orbit of European civilization. It seems unlikely that, if this happens, the developments can be confined to Central Europe; and if the fate of Europe should be to relapse into barbarism, though ultimately a new civilization may emerge from it, it is not likely that this country would escape the consequences. The future of England is tied up with the future of Europe, and, whether we like it or not, the future of Europe will largely be decided by what will happen in Germany. Our efforts at least must be directed towards regaining Germany for those values on which European civilization was built and which alone can form the basis from which we can move towards the realization of the ideals which guide us.²⁵

Hayek's concern at this point was that certain moral ideals were in danger of being lost, particularly in Germany, and that the effects of this loss would be to push people into nationalist camps that would provide harbor for totalitarian ideas. What was needed, he thought,

was the reassertion and reestablishment of those moral ideas that were antithetical to totalitarianism.

But it would not be enough to pursue this task in a single country. In the case of Germany the problem was that Nazism had left behind a "moral and intellectual desert" in which the "many oases, some very fine, [were] almost completely isolated from each other."²⁶ The absence of any common tradition – beyond opposition to the Nazis and to communism – made it difficult for people of good will to accomplish very much: "nothing will probably be more conspicuous than the powerlessness of good intentions without the uniting element of those common moral and political traditions which we take for granted, but which in Germany a complete break of a dozen years has destroyed, with a thoroughness which few people in this country can imagine."²⁷ For this reason it was important that Germany be brought back into the fold of European civilization, so that it might draw upon the resources of that wider tradition. Isolation could have disastrous consequences. (After the First World War, Hayek suggests, "the expulsion of all Germans from several learned societies and their exclusion from certain international scientific congresses was among the strongest of the forces which drove many German scholars into the nationalist camp.")²⁸

Having made these points in an academic paper, however, Hayek then took up the task of finding practical means of reintegrating Germany into European cultural life. His Cambridge paper was sent out to a number of academics and public figures,²⁹ seeking comments on his proposals for the reintegration of Germany. Moreover, he raised the idea of establishing an international society to the furtherance of this end.

The difficulty of persuading others to join in such an endeavor at the time should not be underestimated. Michael Polanyi, for example, wrote back expressing his unwillingness to meet other Germans – saying that he could forgive but not forget.³⁰ And Hayek was well aware of the suspicion with which Germany and Germans had come to be regarded – as he makes clear in a review published in March 1945, "Is There a German nation?" The review begins: "Difficult as it is for the ordinary man to believe that all he has heard of the Germans can be true, it becomes almost impossible for those who have direct acquaintance with a particular side of German life."³¹ And once again Hayek argued that most Germans approved of little in Hitler's

program but were taken in by appeals to nationalist sentiment, and that the problem this has created can be remedied only by a concerted effort on the part of Europeans to put “the common house in order.”³²

Whatever the difficulties, Hayek set about trying to organize an international society of liberal-minded intellectuals. He was able eventually to raise the money to fund a meeting of sympathetic scholars in April 1947 – a meeting that saw the founding of the Mont Pèlerin Society. But a great deal of Hayek’s energies between the publication of *The Road to Serfdom* in 1944 and the formation of the Mont Pèlerin Society were spent working toward or arguing for the reintegration of German scholarship – and particularly historical scholarship – into the intellectual life of Europe.

Hayek’s writings and activities in this period covering the rise and fall of Nazi Germany are important because they reveal how much his efforts as a political theorist emerge out of the worries and fears of an active public intellectual. Especially revealing is his “Memorandum on the Proposed Foundation of an International Academy for Political Philosophy tentatively called ‘The Acton–Tocqueville Society.’ ” Dated 1945, it sets out Hayek’s basic proposals to bring German scholars and German cultural life back into the fold, to fight “totalitarianism,” and to preserve the liberal tradition. The tone of the memorandum is one of anxious urgency, as is made clear in the opening paragraph:

In large parts of the European Continent the former common civilization is in danger of immediate disintegration. In the rest of the Western World, where it still seems secure, many of the basic values on which it is founded are already threatened. Even among those who are aware of these dangers there exists an uncertainty of aim and a lack of assured basic convictions which makes their isolated endeavours to stem the tide largely ineffective. The most sinister sign is a widespread fatalism, a readiness to treat as inevitable tendencies that are merely the results of human decisions, and a belief that our wishes can have no power to avert the fate which an inexorable law of historical development has decreed for us. If we are not to drift into a state which nobody wants, there is clearly urgent need for a common effort at reconsideration of our moral and political values, a sorting out of those which must in all circumstances be preserved and never sacrificed or endangered for some other “advances,” and a deliberate effort to make people aware of the values which they take for granted as the air they breathe and which may yet be endangered if no deliberate effort is made to preserve them.³³

Throughout the memorandum Hayek expresses his concern that, even after victory in war, the situation is precarious because totalitarian ideas have gained a foothold and a mighty effort is still needed to combat their influence. This comes out even more clearly in a second memorandum, probably written in 1946, entitled "The Prospects of Freedom."³⁴ Here he quotes the words of "a great man whom we have recently lost," Lord Keynes, who had written of the power of ideas, observing that "the world is ruled by little else," and that "it is ideas and not vested interests, which are dangerous for good and evil."³⁵ Hayek was entirely in agreement with Keynes on this point, and this also helps account for his eagerness to get on with the task of developing alternatives to totalitarian ideas – particularly since there was always a lengthy "interval between the time when ideas are given currency and the time when they govern action."³⁶

So it is out of his anxiety and fears about the future of Europe and modern civilization, and a conviction that that future depended upon the salvaging of a tradition of humane values whose vitality had been sapped by war and the influence of totalitarianism, that Hayek's liberal social and political philosophy emerges. And this, I think, accounts for a number of important and persistent features of his thought. First, it accounts for Hayek's repeated attempts to *restate* the principles of liberalism rather than to offer a new liberal theory. *The Constitution of Liberty* opens with the words: "If old truths are to retain their hold on men's minds, they must be restated in the language and concepts of successive generations." And *Law, Legislation, and Liberty* is, in a similar vein, subtitled *A New Statement of the Liberal Principles of Justice and Political Economy*. In these, and other, works Hayek sees himself not as setting out to devise a new theory of justice or social order *de novo*, but as seeking to keep alive and refine a tradition of ideas of whose importance as a bulwark against totalitarianism he was profoundly convinced. It is his concern with the moral and spiritual³⁷ threat of totalitarianism over and above any concern with abstract philosophical problems of liberal theory that also shapes his attempt to draw, through his restatements, as many sympathizers as possible into the liberal camp. Thus, in his first "Memorandum on the Proposed Foundation of an International Academy," he asserts that although "Without some . . . common basis no fruitful discussion of the problems with which we are concerned is possible, . . . within these limits

there ought to be room for many shades of opinion from, to mention only two instances, some 'liberal socialists' at one end to some 'liberal catholics' on the other. The group should, in other words, combine all people who are united in the opposition to totalitarianism of any kind."³⁸ Hayek's ambition has not been to redefine the liberal tradition but to halt the drift of people away from it.³⁹

Secondly, Hayek's anxieties about totalitarianism help to account for his interpretation of liberalism as an outlook at whose heart is a refusal to seek to control or shape human development. The idea of providing society with a "conscious" direction toward a particular aim is what, in Hayek's thinking, unites collectivist doctrines such as fascism and communism which, in seeking to organize society, refuse "to recognize autonomous spheres in which the ends of the individuals are supreme"; and these doctrines are "totalitarian."⁴⁰ Liberalism is, therefore, presented as a tradition that recognizes the significance of human ignorance, and appreciates that civilization is something which emerges without the help of a designing mind. Indeed, Hayek tries to argue, particularly in *The Constitution of Liberty*, that civilization's creative powers depend upon social processes not being brought within the control of human reason.⁴¹

Thirdly, Hayek's concerns about the influence of totalitarianism and the dangers facing European civilization account for the persistent internationalist – and anti-nationalist – character of his liberal thought. This is where Hayek's thought is, perhaps, most distinctive within – and out of step with – modern liberalism. Early on in his assessment of the problem of totalitarianism Hayek decided that the threat it posed could only be met by an international movement, and that a relapse into national isolationism would be fatal for free societies and give succor to collectivist forces. This is why he asked, as early as 1939:

But now when nationalism and socialism have combined – not only in name – into a powerful organization which threatens the liberal democracies, and when, even within these democracies, the socialists are becoming steadily more nationalist and the nationalists steadily more socialist, is it too much to hope for a rebirth of real liberalism, true to its ideal of freedom and internationalism...?⁴²

But if these concerns are what have shaped Hayek's thinking, they are also what have kept him in important ways out of step with much

of contemporary liberal thought. To understand why this has been so, however, requires a closer look at recent developments in liberal theory.

CONTEMPORARY LIBERAL THEORY

Liberal theory, over the past quarter-century, has been dominated by the work of John Rawls. For the most part, political theorists have approached liberalism by considering the problems, methods, and conclusions developed by Rawls in *A Theory of Justice*. The literature reveals two major concerns among political philosophers. The first is with the substantive question of the nature of the just regime, which leads these writers to ask what is the proper role of government, what rights individuals have, and how the benefits and burdens of social life should be distributed. The second concern has been with the procedural or methodological problem of *justifying* such arrangements. The two concerns are not always easily distinguished, however, since methodological strictures are often adopted because they lead to certain substantive conclusions – or, at least, rule out others.

The debates over these questions have focused for much of the time on the issue of “neutrality.” Many have argued that neutrality is fundamental to liberalism. Two kinds of claims have been asserted. The first is that the liberal state must exemplify neutrality inasmuch as its laws must not prefer any particular conception of the good life as superior to others: the various conceptions of the good to be found in a pluralist society must be accorded equal respect. “Liberalism dictates official neutrality among the projects to which individuals might come to commit themselves.”⁴³ The second claim is that the principles governing a liberal polity must be principles chosen under “neutral” conditions: they must be principles whose selection is not determined by any particular conception of the good life, even though the principles themselves will rule out some ways of life (indeed, they would be pointless if they did not). Rawls’ original theory is most readily interpreted in this way.

Yet many liberals have rejected neutrality as unattractive or philosophically unpersuasive. William Galston, for example, has argued that a coherent defense of liberalism requires a stonger commitment to a particular, liberal, conception of the good life; and Stephen

Macedo has tried to show that a liberal regime presupposes the existence (and encourages the development) of distinctively liberal virtues.⁴⁴ For the most part, however, criticisms of neutrality have come from critics of liberalism, who see the idea of state neutrality as neither attainable nor desirable, and procedural neutrality as philosophically incoherent. These critics have challenged liberalism's fundamental assumptions, arguing that any plausible conception of a political order cannot aspire merely to neutrality among competing conceptions of the good life. A society, they insist, is more than an association of individuals bound together by contractual ties; it is a community that coheres because people share common practices and beliefs. At some deep level, they suggest, people must share an understanding of the character of the good life if they are to be able to associate in human communities. Politics is not simply about protecting or enforcing individual rights but about securing the common good. And they emphasize that we cannot justify political arrangements without referring to common purposes or ends.

This challenge from the so-called communitarian critics⁴⁵ of liberalism has had a substantial impact on contemporary liberal theory. It has persuaded some that, if liberalism is defensible, it can only be so for existing liberal societies, which should endorse the practices and values of their own traditions.⁴⁶ To a significant extent it has also persuaded Rawls to re-present his own theory of justice as a response to certain important features of the modern world – notably, its pluralism and its religious diversity. In *Political Liberalism* (Rawls 1993), the principles of justice as fairness are offered as the basis for securing an “overlapping consensus” which would make for the stability and social unity of a democratic regime.

In the discussions and debates over the basis and the content of liberal theory, it would be fair to say, the dominant issues have concerned the moral foundations of liberalism. Or, to put the matter less grandly, liberal theorists have focused on the moral justification for particular social entitlements and obligations of governments and individuals within a democratic state. In all of this, a number of presuppositions about the important concerns of theory ought to be recognized. First, it is assumed that pluralism is a significant – perhaps the most important – issue, since there are within a society different conceptions of the good associated with different ways of life or preferences. Second, it is assumed that the question of how to

deal with pluralism is raised – and must be handled – within the context of existing states, which are treated, for the purpose of argument, as closed societies. Indeed, the question posed is often: what should the government do? Third, questions concerning the institutional arrangements appropriate for a liberal society are not generally approached. Rawls, for example explicitly set aside the question of what kind of economic system was appropriate if society were to be governed by his principles of justice. Issues of institutional design are typically left out of consideration: questions about the structure of authority and the mechanisms necessary for its operation and its delimitation (for example, federalism, the division of legislative and executive powers, independent associations within civil society) are not discussed by Rawls, nor, for that matter, by most prominent liberal writers.⁴⁷

What all this amounts to is a liberal theory whose style and preoccupations are a good way from Hayek's method and indeed from his very concerns. First, for Hayek the main problem confronting the modern world was not diversity or pluralism but totalitarianism. Diversity, far from being a problem, was potentially a solution – provided the right institutions were in place. Secondly, Hayek refused to theorize on the basis of a working assumption that society was a closed system whose internal principles of justice might usefully be specified before theory was extended into the international realm. For Hayek, liberalism was not merely a universalist creed but an internationalist one which did not recognize the moral significance of national boundaries. Thus Hayek tries to develop an account of liberalism as the tradition of the Open Society. This is not to say that Hayek ignores the existence of national boundaries; it is rather that his theory recognizes national states not as presupposed by liberalism but as problems which liberal theory must deal with. Thirdly, then, Hayek places great importance on problems of social theory which liberalism must address if its general concerns are to be met.

Seen in this light, it is not surprising that Hayek and contemporary liberal theory have failed to engage or connect. This is a pity because Hayek has more to offer than modern liberals have generally recognized. We should turn then to look in more detail at what Hayek has to say to appreciate better his contribution to modern liberalism.

HAYEK AND MODERN LIBERALISM

The motivation for Hayek's efforts to defend liberal principles, as we saw earlier, was a concern about the state of the postwar world. Hayek's fear was that the forces of nationalism and separatism could still triumph, and destroy modern civilization. The only way to combat these forces was with the ideas which were their antithesis: the universalist, egalitarian, and libertarian ideas of liberalism.

To espouse these ideas was to espouse the idea of an "abstract order." This point is especially important for Hayek, for he noted very early that if moral values were to be shared across a wide range of people, the scope for agreement on substantive questions would be reduced. This, he argued in *Law, Legislation, and Liberty*, was one of the reasons why liberal ideas were difficult to defend.

"The resistance against the new morals of the Open Society was strengthened also by the realization that it not only indefinitely enlarged the circle of other people in relation to whom one had to obey moral rules, but that this extension of the scope of the moral code necessarily brought with itself a reduction of its content."⁴⁸ The human craving would always be for a more personal, a more particularistic, morals. In Hayek's terms, there is a fundamental conflict between tribal morals and universal justice which has manifested itself throughout history "in a recurrent clash between the sense of loyalty and that of justice."⁴⁹

Nonetheless, the nature of the extended society as an abstract order, Hayek thinks, has to be recognized. An abstract order is one governed by abstract rules of just conduct. Abstract rules of just conduct are so called because when they come into dispute the issue is settled by appealing to other rules that share some abstract features with the present issue. Disputes are thus settled without any appeal to, or agreement about, the importance of the particular aims pursued by the disputing parties.⁵⁰ The persistent application of abstract rules over time produces an abstract order which, as a whole, serves no particular end, but which nevertheless facilitates the peaceful pursuit of diverse ends. The nature of the extended society as an abstract order has to be explicitly recognized, however, because it must be understood that this order is *not* a community. The abstract order is Hayek's term to characterize what he otherwise calls the Open Society or the Great Society. And his writings in

general counsel against attempting to turn this kind of society into a community in which substantive or concrete goals or purposes are held in common. This would be a danger to liberty; worse, "all attempts to model the Great Society on the image of the familiar small group, or to turn it into a community by directing the individuals towards common visible purposes, must produce a totalitarian society."⁵¹

There are two other related reasons why Hayek is so insistent in his work on the importance of not closing the borders of the Open Society to turn it into a community, and of not going down the path of nationalism. The first has to do with Hayek's views about the growth of knowledge. The expansion and development of human knowledge he thinks is generally stifled by attempts to control it or direct it. The growth of knowledge is greatest when spontaneous interaction among individuals and institutions to solve problems of adaptation leads to solutions which were unforeseen and unexpected.⁵² The threat to this process comes from attempts to organize the social process; and the greatest attempt – and threat – comes from the state. "In the past, the spontaneous forces of growth, however much restricted, could usually still assert themselves against the organized coercion of the state."⁵³ But the fear Hayek expresses is that, with the development of the technological means of control available to government, the balance of power may change. "We are not far from the point where the deliberately organized forces of society may destroy those spontaneous forces which have made advance possible."⁵⁴ The restriction of human interaction within the confines of state borders in the name of community is thus something Hayek views with suspicion, if not alarm.

The second reason for Hayek's insistence on the importance of keeping open the Open Society and avoiding the nationalist road has to do with his sympathy with Lord Acton's views on nationalism and the state, and his hostility to John Stuart Mill's. In his *Considerations of Representative Government* Mill had argued that "It is in general a necessary condition of free institutions that the boundaries of government should coincide in the main with those of nationalities."⁵⁵ For Hayek, one of the problems with Mill was that he had accepted more of nationalist doctrines than was compatible with his liberal program. Acton, however, had seen more clearly that liberty required diversity rather than uniformity – or even consensus.

He had argued, rightly, that “the combination of different nations in one State is as necessary a condition of civilized life as the combination of men in society,” and that “this diversity in the same State is a firm barrier against the intention of the Government beyond the political sphere which is common to all into the social department which escapes legislation and is ruled by spontaneous laws.”⁵⁶ Diversity was the bulwark of resistance to social organization.

But the question is: how does one deal with the fact that the state exists, and exists in the context of other states? Boundaries have been, and will continue to be, drawn. What does liberalism have to say about this? In Hayek’s view it has a good deal to say; and what it has to say is largely in defense of the idea of interstate federation.

“The idea of interstate federation as the consistent development of the liberal point of view should be able to provide a new *point d’appui* for all those liberals who have despaired of and deserted their creed during the periods of wandering.”⁵⁷ So wrote Hayek in 1939, when he was convinced that the rebirth of “real liberalism, true to the ideal of freedom and internationalism” required the development of some form of federal union of states. Hayek had a number of theoretical arguments to advance in defense of this view; but his concerns were also very much practical, particularly during the years surrounding the war, and this is reflected in a number of writings of this period. It is worth looking at both dimensions to understand why Hayek saw liberal ideas as the great hope for European civilization, and why he saw federalism as an integral part of them.

The clearest application of federalist ideas to the solution of practical problems is to be seen in Hayek’s assessment of what to do about the problem of Germany, whose return to the fold of European civilization, as we have already noted, he thought vitally important for everyone. In an essay entitled “A Plan for the Future of Germany” he suggested that there were three aspects to the long-term policy problem of guiding the Germans back: political, economic, and educational or psychological.⁵⁸ The political problem was largely one of directing German ambitions away from the ideal of a highly centralized German Reich unified for common action. But here there was a dilemma:

The direct method of breaking Germany into parts and prohibiting their reunion would almost certainly fail in the long run. It would be the surest way to reawaken the most violent nationalism and to make the creation of

a reunified and centralized Germany the main ambition of all Germans. We should be able to prevent this for some time. But in the long run no measure will succeed which does not rest on the acquiescence of the Germans; and it surely must be our fundamental maxim that any successful settlement must have a chance of continuing when we are no longer ready to maintain it by the continuous exercise of force.⁵⁹

In Hayek's view, there was only one solution to this dilemma. This would involve, in the first instance, placing Germany's common central government under Allied control, but making clear to the Germans that they could progressively escape this control by developing representative and democratic institutions on a smaller scale in the individual states of which the Reich was composed. Over time, however, all these states would, at varying rates, earn their emancipation from direct Allied control and the Allied control would become more and more like that of a "government of a federation or even of a confederation."⁶⁰ Moreover, Hayek thought, it would be preferable if, upon emancipation, the German states had the option of joining some other federation of European states that was ready to receive them. In the course of time, he suggested, they might become a part of a much more comprehensive European federation which included France and Italy.⁶¹ The aim would be to so "entangle" the states with their non-German neighbors that they would become "far from anxious once again to merge their individuality in a highly centralized Reich."⁶² A policy of crucial importance here is free trade. This is not for the economic benefits it would bring but because giving the power of foreign trade to the states would give them too much power over the economic system. And to retain a common tariff system for the whole of Germany's economic system would build up a highly centralized and self-sufficient system – which was precisely what had to be prevented.⁶³

Whatever the merits or difficulties of Hayek's practical proposals, they do reveal some important general concerns, and a view about the desirable course of liberalism. His most general concern was undoubtedly the danger of the rebirth of a powerful totalitarian state. The solution was to decentralize power through the development of federal institutions. And he clearly thought that "an essentially liberal economic regime [was] a necessary condition for the success of any interstate federation."⁶⁴ But more importantly, he also

thought, and argued explicitly, that the converse was no less true: "the abrogation of national sovereignties and the creation of an effective international order of law is a necessary complement and the logical consummation of the liberal program."⁶⁵

These matters are addressed most directly by Hayek in his essay on "The Economic Conditions of Interstate Federalism." Here he makes plain that the "main purpose of interstate federation is to secure peace: to prevent war between the parts of the federation by eliminating causes of friction between them and by providing effective machinery for the settlement of any disputes which may arise between them and to prevent war between the federation and any independent states by making the former so strong as to eliminate any danger of attack from without."⁶⁶ To achieve this, federation had to involve not only political but also economic union. The most important reason for this was that economic seclusion or isolation of any state within a union would produce a solidarity of interests among the inhabitants of that state, and conflicts with the interests of other states.

Economic frontiers create communities of interest on a regional basis and of a most intimate character: they bring it about that all conflicts of interests tend to become conflicts between the same groups of people, instead of conflicts between groups of constantly varying composition, and that there will in consequence be perpetual conflicts between the inhabitants of a state as such instead of between the various individuals themselves arrayed, sometimes with one group of people against another, and at other times on another issue with the second group against the first.⁶⁷

The removal of economic barriers would do a great deal to reduce the potential for conflict.

Political union and the abrogation of national sovereignty, on the other hand, would work to reduce the scope of intervention in economic activity. Planning or central direction of economic activity presupposes the existence of common values, "and the degree to which planning can be carried is limited to the extent to which agreement on such a common scale of values can be obtained or enforced."⁶⁸ Diversity within a federation, however, would militate against the sharing of common substantive values to any extent that would make extensive planning possible. And this would offer certain safeguards for individual freedom.

All this is possible, however, only if there is widespread agreement on some values. These are the values which lie at the core of liberal political philosophy, and which include the respect for the idea of individual freedom and an opposition to totalitarianism. Federation would not be possible without some minimal level of acceptance of these values. Indeed, it is questionable whether a voluntary federation of non-liberal states would be at all possible. For this reason it was important not only to work to secure the conditions which made consensus on substantive goals or ends on the national level less likely, but also to secure widespread acceptance of the fundamental principles of liberalism across all boundaries. This, of necessity, meant presenting liberalism as an ideal that was in no way confined in its outlook to the interests of nations or national groups. It would be best to present it as what it was: a doctrine of individual liberty.

While the plausibility and consistency of Hayek's arguments ought not to be taken for granted – and important criticisms have been made of a number of aspects of Hayek's liberalism – it is, nonetheless, worth noting why they should be taken seriously and why his work is deserving of closer study.⁶⁹

Hayek's liberalism repays examination, first, because it mounts a comprehensive attempt to address a large range of complex and interrelated problems in moral, social, and political theory. More seriously than any other liberal thinker since Weber, he has grappled with the difficulties confronting liberalism as a philosophical doctrine in a world in which ethical demands have often come into conflict with economic and political reality. Hayek has certainly addressed the ethical problems of liberty and justice; but he has attempted to deal with them not as isolated philosophical problems but in relation to issues of social and economic organization, and problems of national and international political conflict. In this respect his work presents an important challenge to contemporary liberal theory, which has, for much of the past thirty years, been locked in abstract discussions of liberalism's moral foundations and has neglected to relate these questions to institutional issues.

Secondly, Hayek's views should be considered because, in addressing institutional questions, he has not made the mistake of confining the problems of liberalism within national boundaries. The question is not: what should a liberal democratic regime do? Nor is it: what should be the institutions of a liberal democratic society?

The question is: what are the appropriate institutions if the most important liberal values are to survive? Fundamental discussion of the nature, role, and authority of the state should be addressed from this standpoint. Hayek has accurately perceived that, in the modern world, moral, economic, and political systems do not – indeed, cannot – exist in isolation. His social philosophy thus attempts to address questions of moral, economic, and political theory in a way which takes this fact as an important given. In some ways it might be said that Hayek’s work as a political thinker and activist has been intended to recover and strengthen the liberal tradition by building a coalition – or an overlapping consensus – of ideas which might nourish it. That consensus, however, was always, in his mind, an international consensus since the traditions of liberalism were themselves fundamentally not nationalist.

Finally, then, Hayek should be taken seriously because he has correctly identified as the most serious problems confronting civilization in the twentieth century the problems of nationalism and totalitarianism. Even with the dereliction of European communism at the end of the twentieth century, the problems which remain or are reemerging in the shape of ethnic conflict, separatist national movements, and regional trading blocs stem from practices and ideas which the liberal tradition has consistently criticized: ideas hostile to individualist, universalist, and egalitarian moral principles. While thinkers like Hannah Arendt have also recognized the threat and moral danger posed by totalitarianism, it is in Hayek’s work that we have the most thorough attempt to understand the logic of its institutional alternative.

NOTES

1. See for example the work of David Miller (1989b) arguing for a form of “market socialism.”
2. See for example Stockman 1986.
3. None of the so-called communitarian critics of liberalism have taken Hayek to be an important target. An interesting exception is Crowley (1987), although this work focuses on Hayek and Sidney and Beatrice Webb, and argues (mistakenly, in my view) that they share premises which compromise their different *liberal* theories.
4. I borrow this phrasing from Larmore 1987, p. 107.

5. Marx 1967, p. 80.
6. Hayek 1960, p. 12.
7. Hayek 1960, p. 85.
8. Hayek 1960, p. 86.
9. Hayek 1960, p. 87.
10. This is a point David Hume recognized in his *Enquiries Concerning the Principles of Morals*, where he writes: "The most rigorous inquisition too is requisite to watch every inequality on its first appearance; and the most severe jurisdiction, to punish and redress it . . . so much authority must soon degenerate into tyranny, and be exerted with great partialities" (1976, p. 194).
11. Hayek 1960, p. 100.
12. Hayek 1960, p. 101.
13. Hayek 1960, p. 101.
14. Hayek [1946] 1948, p. 28.
15. See Hayek 1992, part I, especially Hayek's essays on "The Economics of the 1920s as Seen from Vienna" and "The Austrian School of Economics," and also the essays on Carl Menger, Friedrich von Wieser, Ludwig von Mises, and Ernst Mach.
16. See for example Shearmur 1986.
17. See Ebenstein 2001 and 2003; Caldwell 2004a.
18. Letter to Ogilvie is unpublished. It may be found in the Hoover Institution, Stanford University, Hayek Archive, box 61, folder 5.
19. Hoover Institution, Hayek Archive, box 61, folder 4.
20. Letter to Director General, Ministry of Information, September 9, 1939, Hoover Institution, Hayek Archive, box 61, folder 5. Interestingly, Hayek notes in this letter that the Austrian intelligentsia generally had, unfortunately, been deluded by "Hitlerism" and could be of little help.
21. Letter to Macmillan, September 12, 1939, Hoover Institution, Hayek Archive, box 61, folder 5.
22. "Some Notes on Propaganda in Germany," Hoover Institution, Hayek Archive, box 61, folder 4.
23. Letter to Ogilvie, September 22, 1939, Hoover Institution, Hayek Archive, box 61, folder 5. In another letter to Ogilvie sent on the same day Hayek complained that BBC broadcasts were too mild – but argued against violent and abusive broadcasts. Three weeks later, in a letter to Ogilvie dated October 15, he noted the improvement in BBC propaganda broadcasts, but argued that they could still be better. (For example, he argued against using one of the voices which Germans might think sounded Jewish.)
24. Letter to Major Gifford (Ministry of Information?), January 3, 1940, Hoover Institution, Hayek Archive, box 61, folder 5.

25. Hayek 1992, p. 201.
26. Hayek 1992, p. 202.
27. Hayek 1992, p. 202.
28. Hayek 1992, p. 207.
29. These included David Mathias, G.N. Clark, E.K. Bramstedt, Denis Brogan, F.M. Stenton, Ernest Barker, Charles Welsley, G.P. Gooch, E.L. Woodward, Michael Polanyi, G.M. Trevelyan, and Herbert Butterfield, all of whom replied with comments on Hayek's paper. Their letters may be found in the Hoover Institution, Hayek Archive, box 61, folder 7.
30. Letter from Polanyi to Hayek, July 11, 1944, Hoover Institution, Hayek Archive, box 61, folder 7.
31. In Hayek 1992, pp. 219–22, at p. 219. The review, first published in *Time and Tide*, March 24, 1945, was of Edmond Vermeil's *Germany's Three Reichs*.
32. Hayek 1992, pp. 221–22.
33. Unpublished memorandum dated August 1945, London School of Economics, pp. 1–13, at p. 1. The MSS is held at the Hoover Institution, Hayek Archive, box 61, folder 8. Marked "confidential," the memorandum was never published, although it was distributed among a number of people sympathetic to Hayek's efforts to form an international society.
34. In a letter to A. Hunold dated October 9, 1946, in which he was seeking help with funding for his proposed international society, Hayek enclosed copies of this and also his earlier memorandum for consideration. It may be found in the Hoover Institution, Hayek Archive, box 61, folder 9.
35. Quoted in Hayek's memorandum, "Prospects of Freedom," at p. 2.
36. "Prospects of Freedom," p. 3. Hayek continues: "It is usually a generation, or even more, and that is one reason why on the one hand our present thinking seems so powerless to influence events, and why on the other so much well meant effort at political education and propaganda is mis-spent, because it is almost invariably aimed at a short run effect."
37. It may seem like an exaggeration to suggest that Hayek saw totalitarianism as a spiritual threat. Yet this is precisely what he suggests in a two-page "Explanatory Memorandum" he wrote for an International Liberal Conference at Wadham College, Oxford, April 9–14, 1947. Noting the decline of liberalism, the progress of collectivist ideas, and the tendency "towards national isolationism and away from the broader conception of international cooperation," Hayek remarked that the causes of this were deep. They lie less in the actions of rulers than in "a mass retreat from the spirit and tradition of liberalism which has been the ruling force in European civilization since the Middle Ages. The conception of the free individual living in a free society, and of free

- societies working together for their mutual good is being replaced by the doctrine of the compulsory subordination of the individual to the group, and the consequent disintegration of the world into antagonistic societies. Men and women are losing faith in the old doctrine of personal freedom coupled with personal responsibility, and are giving up their hard-won right of personal choice in favour of communal control . . . The crisis in human relationships is, therefore, largely a spiritual one, and is less concerned with the activities of particular parties than with the basic outlook on life of the average citizen."
38. "Memorandum on the Proposed Foundation of an International Academy," pp. 7–8.
 39. This was essentially Hayek's response to Pierre Goodrich's criticisms of a draft of *The Constitution of Liberty*. In a letter to Goodrich dated April 4, 1959 Hayek wrote: "I don't think it is considerations of political expediency or possibility or any temporizing which make me draw the line at a point which admittedly still leaves much that I dislike inside the range of the permissible. The fact is that in my present state of thinking I cannot yet state with any clarity a general criterion which would exclude all that I dislike. I believe much would be gained and further drift prevented if agreement among sensible people could be achieved on the criteria which I suggest, even if in the long run they should not be proven altogether sufficient."
 40. Hayek [1944] 1962, p. 42.
 41. See especially ch. 2, "The Creative Powers of a Free Civilization." Even in 1946, in "Prospects of Freedom," pp. 6–7, Hayek had lamented that "The current interpretation of recent history as much as the very language in which we now discuss public affairs are so much permeated with the conception that nothing can be satisfactory unless it is 'consciously controlled' by some super-mind, that even if we to-day defeated all the schemes for government control of economic life existing or proposed, we would to-morrow be faced by another crop, not less dangerous or harmful."
 42. From Hayek [1939] 1948, pp. 270–1.
 43. Lomasky 1987, p. 167.
 44. See Galston 1992 and Macedo 1990.
 45. The literature of communitarianism is voluminous. For a useful survey see Mulhall and Swift 1992.
 46. See for example, John Gray, who has argued this in Gray 1989.
 47. In Rawls 2001, Rawls does indicate that his theory is incompatible with certain kinds of institutional arrangements, including both free market capitalism and the welfare state; and that he is most sympathetic to the idea of a property-owning democracy.

48. Hayek 1976b, p. 146.
49. Hayek 1976b, p. 147. This idea is also a guiding theme of Hayek 1988.
50. Hayek 1976b, p. 15.
51. Hayek 1976b, p. 147.
52. This is the general line of argument of ch. 2 of *The Constitution of Liberty*, "The Creative Powers of a Free Civilization." It is arguably a general theme of the entire work; at one point Hayek contemplated using the title of ch. 2 as the title (and later as the subtitle) of the book.
53. Hayek 1960, p. 38.
54. Hayek 1960, p. 38.
55. Quoted in Hayek [1939] 1948, p. 270n.
56. Acton, in *The History of Freedom and Other Essays*, quoted in Hayek [1939] 1948, p. 270n.
57. Hayek [1939] 1948, p. 271.
58. First published, with the subtitle "Decentralization Offers Some Basis for Independence," in the *Saturday Review of Literature*, June 23, 1945, pp. 7–9, 39–40; this reference to the reprinted essay in Hayek 1992, pp. 223–36, at p. 223.
59. Hayek 1992, p. 225.
60. Hayek 1992, pp. 225–26.
61. Hayek 1992, p. 226.
62. Hayek 1992, p. 226.
63. Hayek 1992, p. 227. Compare Oakeshott's observation: "But of all the acquisitions of governmental power inherent in collectivism, that which comes from its monopoly of foreign trade is, perhaps, the most dangerous to liberty; for freedom of external trade is one of the most effective safeguards a community may have against excessive power. And just as the abolition of competition at home draws the government into (and thus magnifies) every conflict, so collectivist trading abroad involves the government in competitive commercial transactions and increases the occasions and the severity of international disharmony." See Oakeshott 1991, p. 400.
64. Hayek [1939] 1948, p. 269.
65. Hayek [1939] 1948, p. 269.
66. Hayek [1939] 1948, p. 255.
67. Hayek [1939] 1948, p. 257.
68. Hayek [1939] 1948, p. 264.
69. I have offered a detailed critique of Hayek's political theory in Kukathas 1989; for a different, though no less critical, analysis, see Kley 1994.