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Source: *Canadian Journal of Political Science / Revue canadienne de science politique*, Jun., 1990, Vol. 23, No. 2 (Jun., 1990), pp. 297-315

Published by: Canadian Political Science Association and the Société québécoise de science politique

Stable URL: <https://www.jstor.org/stable/3228393>

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Hayek, Liberalism and Social Knowledge*

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Introduction

The Western liberal tradition has held fast to the belief that human reason could be a panacea for the problems confronting the human condition. Injustice, prejudice and human suffering could be eliminated or mitigated once significant doses of human reason were applied to social institutions and practices. Harold Laski in his classic work *The Rise of European Liberalism* claimed that “the liberal doctrine [was] the philosophical justification of . . . new practices” based on reason.¹ Beginning in the seventeenth century, Laski states, liberalism launched a concerted attack on

the claims of the nobility, the legal system, the habits of government, [and] the economic basis of society [all of which needed to be] examined afresh . . . on the dangerous assumption that most of the traditions they represented were evil. It was the age of reason; and the philosophers used the weapon of rational criticism to declare that freedom is good and restraint on its nature bad. They sought quite consciously to evade whatever limited the right of individual personality to make its own terms with life.²

Classical liberalism supported the notion that society as a whole would begin to prosper as the level of personal freedom or autonomy increased. Individuals left to their own devices to pursue their own goals, limited only by known and universally applied prohibitions against harming the same freedoms for others, would produce superior results for all, rather than allowing one authority to dictate terms to everyone. Likewise, instead of allowing hidebound traditions and customs to determine how people should live, early liberals also subscribed to

* The author would like to thank Winston Arzu, Mary Jo Borden and Jean Emery for their kind assistance in preparing this essay.

1 Harold J. Laski, *The Rise of European Liberalism* (London: Unwin Books, 1971), 17.

2 *Ibid.*, 107.

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Canadian Journal of Political Science / Revue canadienne de science politique, XXIII:2 (June/juin 1990).
Printed in Canada / Imprimé au Canada

a belief in human reason to shape, control and direct human development. As Voltaire once said, "if you want good laws, burn those you have and make new ones." The clear implication of his bold and hubristic statement was the belief that human reason could certainly do a better job of restructuring society's laws, institutions and practices; better, that is, than blindly following the existing hodgepodge of traditional practices. The liberal creed taught that once we jettisoned our irrational and mythical ideas about the ways society operated, and began to investigate how things actually operated, we could start the process of rationally reconstructing society and begin the process of solving the age-old problems plaguing humanity.

But in the process of throwing off one "superstition," have we not become equally attached to yet another? That is, has our uncritical belief in the power of human reason to design and shape human institutions led us into yet another equally forbidding trap and one that duplicates the myths of bygone eras? The answer to these questions, if we are to believe the classical liberal thinker, F. A. Hayek, is an unequivocal "yes." According to Hayek, many contemporary liberals and socialists have come to hold an uncritical and dangerous view of the power of human reason based on two major misunderstandings: first, a distorted understanding of the true nature of social knowledge; and second, an unappreciative or mistaken sense of the process played by cultural evolution in the creation of human civilization. The purpose of this article is to explore these themes developed by F. A. Hayek and to assess them critically within the context of the liberal tradition.

Hayek has attempted to identify two broad categories of social thought or rationalism in the liberal tradition.³ The first developed primarily in the hands of such French thinkers as Descartes, Rousseau and Comte, but is also found in the British utilitarian tradition associated with Jeremy Bentham and his followers. In Hayek's mind these thinkers are often indistinguishable from contemporary socialists and reform liberals who propose grand ideas about restructuring social institutions and call for economic planning to usher in "social justice." This tradition, which Hayek calls Cartesian or constructivistic rationalism, is, he claims, wedded to a naïve brand of rationalism which holds that human reason can "design-to-order" a range of benevolent social arrangements and institutions. Hayek has long argued that this inflated sense of social engineering is based on false assumptions about the capabilities of the human mind to absorb, analyze, understand and utilize knowledge about the social world we hope to restructure. Constructivists are confident about applying reason to human problems and, according to Hayek, are unwilling to accept the inherent and irremediable limits to our powers of reason and reform.

3 See F. A. Hayek, "Kinds of Rationalism," in F. A. Hayek, *Studies in Philosophy, Politics, and Economics* (Chicago: University of Chicago Press, 1967), 82-95.

Abstract. The Nobel prizewinner F. A. Hayek has spent his long career defending classical liberalism and the free market from those wishing to introduce planning and greater “rationality” into social life. As this study tries to show, Hayek’s defence of market liberalism is predicated on his theory of social knowledge and how liberal principles and processes are best suited to cope with our limited ability to utilize this knowledge. He argues that we can cope best with our ignorance by resisting the temptations to set up centralized decision-making mechanisms and by accepting the discovery procedure of the market mechanism. Unlike other attempts to defend classical liberalism, Hayek offers a radically new knowledge-based foundation. If Marx’s work could be labelled an economically-based sociology, Hayek’s work could be labelled an epistemologically-based politics. But is his epistemological defence simply an ideological move to defend against attacks levelled at capitalism, or has he provided an indisputable foundation to justify the maintenance of liberal orders?

Résumé. F. A. Hayek, lauréat du prix Nobel, s’est consacré pendant sa longue carrière à défendre les thèses du libéralisme classique et de la libre entreprise contre ceux qui prônent la planification et une structuration sociale plus rationnelle. Nous nous proposons dans cette étude de montrer que la défense du libéralisme de marché par Hayek est basée sur sa théorie du savoir en société selon laquelle, étant donné nos capacités limitées à exploiter les connaissances existantes, il convient mieux d’y appliquer les principes et procédés libéraux. Selon son raisonnement, nous pouvons pallier à notre ignorance en ne cédant pas à la tentation d’établir des techniques générales de prise de décision et en acceptant le mode de découverte du processus spontané du marché. À l’encontre d’autres tentatives de défense du libéralisme classique, Hayek apporte un fondement tout-à-fait nouveau basé sur la connaissance qu’il a de la société. Si l’oeuvre de Marx est une sociologie à base économique, celle de Hayek se présente comme une politique à base épistémologique. Se peut-il que sa défense épistémologique ne soit qu’une apologie idéologique pour contrecarrer les critiques du capitalisme? Ou y décelez-vous un fondement incontestable pour justifier le maintien de l’ordre libéral?

The main theme of Hayek’s work centres around his contention that it is factually and logically impossible to acquire the knowledge which would be necessary to accomplish the goals these thinkers promise. Hayek’s Nobel laureate address, “The Pretense of Knowledge,” was dedicated to this theme, a theme that can be traced throughout much of his life’s work. In this address he argued that many of the best thinkers of the past two centuries have acted “on the belief that we possess the knowledge and the power which enables us to shape the processes of society to our liking, knowledge which in fact we do not possess.”⁴ Hayek maintains that we simply cannot acquire the full knowledge required to master the outcomes of events we might wish to deliberately create. Social knowledge is not like the knowledge we typically work with in the natural sciences. In the social order, knowledge is fragmented, dispersed, constantly changing and, ultimately, subjective—that is, belonging to, and only making sense to, a particular person.

In contrast to this form of rationalism, Hayek juxtaposes another tradition of liberal thought—critical rationalism—with its roots in the eighteenth-century English tradition known today as the Scottish Moralists. In this school we find such notable figures as David Hume,

4 F. A. Hayek, *New Studies in Philosophy, Politics, Economics, and the History of Ideas* (Chicago: University of Chicago Press, 1978), 33.

Adam Smith, Bernard de Mandeville and Edmund Burke, and on the Continent such philosophers and social observers as Benjamin Constant, Alexis de Tocqueville and Immanuel Kant. These social theorists were able to resist the temptations of Cartesian rationalism and Benthamite social planning, maintaining a healthy dose of scepticism about the exaggerated claims made on behalf of human reason. Their insights into the human condition recognized that the best products of civilization were the products of human actions, but not of preconceived human design. Languages, moral and legal codes, and various economic arrangements did not come from the designing boards of all-knowing human creators who consciously worked out the details of these complex and intricate social processes. Instead, these products were the unplanned artifacts of social evolution. When free individuals are allowed the liberty to try out new ways of dealing with life's challenges, the best and most useful methods of coping will, by a process of selection and emulation, be adopted by others noting the clear advantages of following these or similar practices. Unlike the constructivists who support grand schemes to improve the human condition, critical rationalists have come to see that the most productive steps in human development have largely been unplanned. The human agents engaged in trying out an eventually successful new idea or practice were largely lucky and often unaware of how and why their innovations turned out to be an improvement.

The Scottish moral philosophers were the first to recognize how spontaneous orders, like the market order, worked to provide economic actors with the freedom to experiment with new ideas, methods and techniques to enhance the overall economic well-being of people who are unknown to them. As Adam Smith pointed out, the wealth of nations in the modern world does not occur when states impose order on trade and market exchanges; it takes place when countless individuals pursuing their own objectives mysteriously promote the overall common good. This phenomenon, known as Smith's "invisible hand," reputedly works to produce many results which no one had intended or foreseen. Critical rationalists try to understand and explain how these processes evolve from human actions and how background conditions (for example, the rule of law) support their development, always careful to note that they are results of evolutionary growth and not rational design or planning.

Hayek's own work is a continuation and refinement of these insights; it warns that we must appreciate the reasons for surrendering most of our "pretentious" claims about rationally designing a free and prosperous order. Hayek's work is a relentless warning about how we must learn to "cope with our ignorance" and to recognize how the liberal tools of the market, the rule of law and limited government assist us when confronted with imperfect knowledge.

Epistemology and Politics

While the relationship between theories of knowledge and politics appears at first glance to be remote, many modern thinkers take their linkage quite seriously. Thomas Spragens, for example, makes the point in *The Irony of Liberal Reason* that “epistemology and political conceptions do have significant points of contact.”⁵ While he claims that “men may not seek out epistemological treatises for guidance on immediate political issues,” we need to recognize that our “tacit assumptions about the who, the what, and the how of reliable knowledge [can] profoundly shape [our] basic orientation and attitude towards a whole range of important political concerns.”⁶ Roberto Mangabeira Unger makes a similar point in *Knowledge and Politics* when he claims that to speak of a “relationship between knowledge and politics seems odd to us,” yet the “decisive question for political thought is, what can we know?”⁷ In short, the connections between knowledge and politics must be studied and integrated if we are to understand better and assess critically our social existence.

Hayek could not agree more. Hayek’s defence of classical liberal principles is founded on the proposition that they are best suited to the nature of social knowledge. If he is correct in describing social knowledge as limited, fragmented and fleeting, then he can use these characteristics of social knowledge to draw out many implications for our social, political, moral and economic life. The genius of liberal institutions and practices, he contends, is that they help us to cope with the ignorance we invariably encounter in all walks of life.

Hayek’s theory of knowledge is undoubtedly Kantian.⁸ He supports the view that the human mind must possess a priori categories or mental concepts which allow us to make sense of the external world. He rejects out of hand the notion that the mind is simply a mirror-like mechanism on which the objects of the outer world are reflected. In his essay “The Primacy of the Abstract” he argues

I do not wish to deny that in our conscious experiences . . . concrete particulars occupy the central place and the abstractions appear to be derived from them. But this subjective experience seems to me to be the source of the error with which I am concerned. . . . What I contend, in short, is that the mind must be capable of performing abstract operations in order to perceive particulars, and that this capacity appears long before we can speak of conscious awareness of particulars. When we want to explain what makes us tick, we must start with the

5 Thomas A. Spragens, *The Irony of Liberal Reason* (Chicago: University of Chicago Press, 1981), 10.

6 Ibid.

7 Roberto Mangabeira Unger, *Knowledge and Politics* (New York: Free Press, 1975), 3.

8 See John N. Gray, *Hayek on Liberty* (Oxford: Martin Robertson, 1986), 4-8.

abstract relations governing the order which, as a whole, gives particulars their distinct place.⁹

Following Kant, Hayek agrees that there must be mental categories or rules of perception which are logically prior to, and responsible for, our ability to perceive and interpret external stimuli. But Hayek adds a twist to this standard account. Whereas most theories of knowledge attempt to ground some element of certainty or reliability either by claiming some permanency in the objects of the natural world as perceived by the human mind or by claiming that all human minds operate according to some universal and invariable principles, Hayek offers a third possibility. While accepting that the mind's abstract categories are primary and logically prior to our understanding of the world around us, these categories in turn are not unaffected by external stimuli. As the mind's classificatory equipment processes incoming stimuli, Hayek argues that the mind's cognitive maps are themselves restructured and refitted by events in light of their kind, number, intensity and association with other events.

This theory was first expounded by Hayek in *The Sensory Order*, in which he described the human mind as resembling a "physiological switchboard" made up of neural fibres which are active in the interpretation of all incoming stimuli. He suggested that our classificatory apparatus is altered or further defined in subtle ways by the impulses or experiences received by our sensory order. All past experiences are perceived, and then incorporated into our switchboard to help in the classification and interpretation of all future experiences. Although some boundaries established by our a priori categories are common and invariable to all minds, Hayek argued, it is "beyond question" that individuals "differ in significant aspects" because of the uniqueness of their individual experiences.¹⁰ The importance of this view to the nature of human knowledge lies in his insistence on the dynamic, variable and individualistic (or subjective) character of knowledge coming from our cognitive processes. As we will see, it is the genesis of the views he develops in other areas.

Knowledge in the Extended Order

Although different minds have similar cognitive machinery, individual differentiation does occur. Yet opportunities to broaden, deepen and better utilize information arrive only with the movement away from the clan, the tribe or the small group. When isolated and held together by the bonds of group solidarity, small units are able to survive, but probably

9 Hayek, *New Studies*, 36-37.

10 Friedrich A. Hayek, *The Sensory Order* (Chicago: University of Chicago Press, 1951), 134.

not flourish, due to their extremely limited ability to improvise and develop new methods of improving their standard of living. As the world becomes less parochial, the key to greater success comes from the ability of groups to merge and exchange ideas and practices with other groups. But as the small, isolated tribe or extended family gives way to larger and more numerous groups, and as face-to-face contacts decrease, the morals, rules and traditions which governed the small clan must also undergo significant changes. As interactions among individuals lose their personal character and become exchanges between two individuals who often do not know each other, a different, more open and spontaneous method of interaction is needed.

In an extended order with more and more actors, each with a countless number of personalized bits of knowledge about an infinite number of things, the process of co-ordinating and processing this information becomes a major problem. One possible approach to this situation would be to centralize as much information as possible in order to “rationalize” its use as fully as possible. This approach can and does work in many areas, especially in the disciplines known as the “hard” or natural sciences. But in other areas, in particular the economy, the centralization and centralized use of information fails to produce conditions favourable to greater prosperity and success for those who rely on this method. Hayek’s work in economic theory has long been noted for its appreciation of the problems of utilizing knowledge in an efficient manner, and with the dilemmas involved in economic planning. In an early essay entitled “Economics and Knowledge” he stated that the central question for social inquiry was to explain how “the combination of fragments of knowledge existing in different minds bring about results which, if they were to be brought about deliberately, would require a knowledge on the part of the directing mind which no single person can possess.”¹¹

Planners assume that the information crucial to directing the flow of economic events is easily gathered like the information relevant to solving an engineering problem. In truth, relevant knowledge is constantly changing. This presents a peculiar problem because economic data are never in “concentrated or integrated form but [exist] solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.”¹²

This has one major effect: relevant knowledge is never given or possessed in its totality by any one person. Since the circumstances of time and place cannot be avoided, it is impossible in practice for one individual or planning board to be omniscient. Economists not blinded

11 Friedrich A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), 54.

12 *Ibid.*, 77.

with a “pretense of knowledge,” Hayek submits, will realize that the best way to handle this situation of “dispersed, incomplete, and often contradictory knowledge” is to allow individuals the freedom to pursue and use the information most relevant to their goals. Due to this insurmountable problem, the task confronting planners (and macro-economic managers as well) to collect, assess and then use economic information in a timely manner is a dubious goal.

During the 1930s, Hayek and his mentor Ludwig von Mises took part in what has become known as the “socialist calculation debates” over whether or not a nation’s economy could be centrally planned without a market mechanism to generate accurate prices. This is not the place to replay the arguments used by both sides. Suffice it to say that Hayek’s contribution to the debate was grounded in an epistemological point: namely, a market system is superior to a planned economy because the former can better discover, communicate and use the fragmented and dispersed bits of information which an extended economic system must, by definition, confront. For a planned economy to function, planners would have to respond daily, if not hourly, to constant changes in economic information. As Hayek stated,

The chief reason why we cannot hope by central direction to achieve anything like the efficiency in the use of resources which the market makes possible is that the economic order of any large society rests on a utilization of the knowledge of particular circumstances widely dispersed among thousands or millions of individuals. . . . [Only] the market and the competitive determination of prices have provided a procedure by which it is possible to convey to the individual managers of productive units as much information in condensed form as they need in order to fit their plans into the order of the rest of the system.¹³

In order to “discover” and to “make usable” important bits of economic information in its dispersed form, there needs to be a “discovery procedure.” Again, Hayek explains that

We have come to understand that the market and the price mechanism provide in this sense a sort of discovery procedure which both makes the utilization of more facts possible than any other known system, and which provides the incentive for constant discovery of new facts which improves adaptation to the ever changing circumstances of the world in which we live. Of course this adaptation is never perfect . . . but it is certainly much better than any which we know how to bring about by any other means.¹⁴

Complexity requires a procedure which allows individuals the flexibility to respond quickly to “special opportunities, special bargains, and all the little advantages offered by . . . special local conditions.”¹⁵ Freedom to act, and the incentive to search for knowledge (namely, rewards), is the sine qua non of the market order.

13 Hayek, *New Studies*, 236.

14 Ibid.

15 Hayek, *Individualism and Economic Order*, 193.

But if Hayek “won” the debate against the socialist planners, he discovered it to be a hollow victory; the issue became a political one immediately after the Second World War. Politicians, bureaucrats, journalists and other opinion leaders were turning in droves against the free market and were looking to the policy experts with their economic levers to “rationalize” the chaos of the market. The postwar world enthusiastically accepted the Keynesian approach to economic management in the belief that government controls would introduce “orderliness and predictability” to economic affairs. At this point Hayek realized that the battle was turning on a different set of issues, and that new (non-economic) arguments would have to be developed to defend the liberal order. In addition, Hayek saw that he would have to address the question of why so many gifted intellectuals, imbued with the modern standards of reason, still rejected so many of his arguments in favour of the market order.

In his latest book, *The Fatal Conceit*, Hayek expresses his belief that he has unravelled but not solved the difficulty. As he argues, the practices of traditional morality and of capitalism do *not* meet the requirement of rationality “from the perspective of [today’s] reason and science.”¹⁶ This “perspective” with its “logic” of what passes for sound judgment rejects the mechanisms underpinning the operations of the spontaneous market order. As a result, traditional morals and the free market are simply termed “unreasonable” and “unscientific.” Based on ideas emanating from rationalism, empiricism, positivism and utilitarianism, a new “scientific spirit” has become the dominating paradigm. Hayek, following Anthony Quinton’s lead, describes these “Four Horsemen” of modern scientism in the following way:

rationalism denies the acceptability of beliefs founded on anything but experience and reasoning, deductive or inductive. *Empiricism* maintains that all statements claiming to express knowledge are limited to those depending for their justification on experience. *Positivism* is defined as the view that all true knowledge is scientific, in the sense of describing the coexistence and succession of observable phenomena. And *utilitarianism* “takes the pleasure and pain of everyone affected by it to be the criterion of the action’s rightness.”¹⁷

Four propositions can be derived from these tests of modern scientism: (1) it is unreasonable to follow what one cannot justify using the accepted canons of science supported by empirical evidence; (2) it is unreasonable to follow what one does not understand; (3) it is unreasonable to follow a particular course unless its *purpose* is fully specified in advance; and (4) it is unreasonable to do anything unless its *effects* are not only fully known in advance but also fully observable and known to be beneficial.¹⁸ The problem with these requirements, according to

16 F. A. Hayek, *The Fatal Conceit* (Chicago: University of Chicago Press, 1989), 66.

17 *Ibid.*, 61; emphasis in the original.

18 *Ibid.*, 61-62.

Hayek, is that “not one of them shows any awareness that there might be limits to our knowledge” or that maybe “the most important task of science might be to discover what these limits are.”¹⁹ These “errors of scientism,” he points out, betray “a curious lack of curiosity about how our extended order actually came into being, how it is maintained, and what the consequences might be of destroying those traditions that created and maintained it.”²⁰

Consequently, Hayek thinks that the defence of classical liberalism often “fails” because the audience which is imbued with these four mainstays of modern thought is insufficiently critical. To the modern mind liberalism appears to be irrational because it fails the four tests that all acceptable theories must pass. In addition, many modern thinkers have difficulty recognizing or accepting any limitations in the use of human knowledge, and they have strong reservations about the value and importance of cultural evolution in the construction of human institutions and processes. Those embracing scientism are very sceptical of “proofs” which are provided *ex post facto*, namely, by historical reconstructions of how social and cultural processes have evolved based on human emulation. Simply put, the outlook necessary to explain and defend the logic of the liberal order “runs counter to the main intellectual outlook of the twentieth century.”²¹

The explanation for this problem, Hayek argues, is that modern thinkers have erroneously adopted the paradigm of physics in assessing and judging their social theories, when a better model could be drawn from biology with its focus on evolutionary development. While Hayek notes that cultural evolution differs from biological evolution, he does point out that

all evolution, cultural as well as biological, is a process of continuous adaptation to unforeseen events . . . [and this is why] evolutionary theory can never put us in the position of rationally predicting and controlling future evolution. All it can do is to show how complex structures carry within themselves a means of correction that leads to further evolutionary developments which are, however, in accordance with their very nature, themselves unavoidably unpredictable.²²

In order to assess the viability of explanations in biology, we do not need to pass the four tests mentioned above; with the random process of natural selection, the direction and the outcome of evolution are unpredictable and only accounted for after the fact. As W. W. Bartley has argued,

science is, on this account, utterly unjustified and unjustifiable. It is a shot in the dark, a bold guess going far beyond all evidence. The question of its justification

19 *Ibid.*, 62.

20 *Ibid.*

21 *Ibid.*, 52.

22 Hayek, *The Fatal Conceit*, 25.

is irrelevant . . . the issue, rather, is of the viability of the mutation—or of the new theory.²³

The issue is one of demonstrating how the new mutation (or new social process) has developed and why it has survived. But in the biological sciences “survival in this process does not justify [that] the survivor” will always remain. As Bartley states, “the process that begins with unjustified variations ends in justified survivors.”²⁴ And, according to Hayek, the same goes for assessing the viability of social processes and the theories developed to support them.

Even if we accept Hayek’s argument that liberalism cannot pass the tests posed by modern thought (and should not have to pass them), are other political theories or ideologies better suited or equipped to “pass the tests” of rationality, positivism, utility and empiricism? Put another way, can we explain the general appeal of socialism because, as a system of thought, it is predicated on a conceptual design which meets the demands of the four tenets of scientism? Does socialism “pass” the tests of modern thought in ways that liberalism cannot? And, if so, is obtaining a passing mark determined by which paradigm of scientific thought (physics or biology) holds court in important intellectual circles? Does liberalism fail because modern thinkers have become fixated on the paradigm of physics or engineering when they search for a standard with which to adjudicate theoretical fitness? Clearly, this is the thesis being advanced by Hayek in order to explain why classical liberalism has failed to excite the modern thinker: with judge and jury both being directed by the wrong scientific paradigm, liberalism cannot receive a fair hearing.

Hayek has explained the problem in terms of the utopian, or the seductive, appeal that social engineering has had on the minds of the intellectual community.²⁵ Intellectuals conceive of themselves as unrestricted in their quest to find and push the right social and economic levers that will produce desirable ends. As Hayek asserts,

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 and the higher we climb up the ladder of intelligence, the more likely we are to encounter socialist convictions. Rationalists tend to be intelligent and intellectual; and intelligent intellectuals tend to be socialists.²⁶

The modern outlook is “socialistic” in character because the modern intellectual world has been infused with the laudable goal of eradicat-

23 W. W. Bartley, III, “Philosophy of Biology versus Philosophy of Physics,” in Gerard Radnitzky and W. W. Bartley, III (eds.), *Evolutionary Epistemology, Rationality, and the Sociology of Knowledge* (Lasalle, Ill.: Open Court, 1987), 24.

24 Ibid.

25 Hayek, “The Intellectuals and Socialism,” in Hayek, *New Studies in Philosophy, Politics and Economics*, 178-94.

26 Hayek, *The Fatal Conceit*, 53.

ing the social evils around us. Unfortunately, the eradication of social problems requires a different strategy and methodology from those used in dealing with problems in the physical world. Hayek's hope is to elucidate a different kind of outlook which could be called "invisible-hand engineering."

But first, what should we make of his contention that rationalism, empiricism, positivism and utilitarianism are part of a philosophical outlook he calls "the fatal conceit"? At first glance it seems obvious that anyone, or any society, would wish, if it were possible, to organize their plan of life around the principles Hayek attributes to modern thinking. Who in their right mind would not wish to base most of their actions on having prior knowledge of the costs and benefits of their future actions? While the Benthamite attempt to devise a calculus for formulating public policy inevitably fails, it is certainly prudent for any individual to consider the consequences of certain actions, if only to avoid fatal steps. And it seems sensible empirically to submit one's actions to a pre-test, to acquire some evidence about the effects of a particular action before embarking on its implementation. But in addition to these rather pedestrian concerns, a more serious question remains. Is Hayek's critique of these hallmarks of modern thought an endorsement of their opposite number? Are we to operate according to the dictates of "irrationalism," "blind-belief," "anti-positivism" and "non-utility," if these strange phrases, in fact, capture the antitheses of the traits Hayek wishes to condemn? This is certainly not what Hayek wishes to convey, but some help may be in order to clarify his point.

First, Hayek is not saying that individuals should dispose of these traits or ways of thinking in dealing with the world around us. We should calculate how our action will affect us and others, and we should to the best of our ability structure our actions around "reasonable" expectations. And while the use of reason and calculations about the immediate future are strategies which various individuals can use with a measure of success, a wider social use of individualistic reasoning and calculation poses many limitations. As we move into larger and more complex social settings, we confront not only a greater number of variables, but also many which are resistant to empirical treatment. For example, farmers know that planting more corn will increase their workload and net crop; they might also anticipate an increase in earnings if they offer their crop for sale. But in a larger economic setting with a free market, single farmers might not understand how their actions to increase production can have a negative impact on prices if other farmers make similar calculations. In an extended order, individual planning runs into many problems because we cannot always predict, or have foreknowledge about, how the many unknown and unknowable events or actions will affect us as individuals. In a small community it is possible to act with a great deal of certainty, but as the variables connected to any system

begin to multiply, we face greater and greater levels of uncertainty. The social engineer in such a setting is confronted with a task which cannot be tackled or solved adequately by most of the methods of modern reasoning. Although these methods may be generally applicable to the phenomena associated with the natural sciences, their usefulness in the social world is far more limited than we realize or wish to believe. As we go from the micro to the macro, the suitability of these methods—which seem so sensible at the individual or micro-level—begins to diminish steadily. And at some point their utility becomes counter-productive to the goals of those trying rationally to plan or to direct socially desirable outcomes. Needless to say, this point is widely accepted, but it also tends to be soon forgotten in the excitement of social reconstruction.

Second, one does not necessarily need to think Hayek wishes us to engage in “irrational” behaviour, or to operate on the basis of “blind faith.” To make his point he overstates the case against the traits of modern thinking. Certainly he would not encourage any precipitous rejection of these modes of thinking. Instead, Hayek argues that we need to be more aware of their limited social application; his objection to these modern approaches is the failure to consider and recognize that limitations may exist. Hayek is only claiming that problems arise from not showing any awareness that there might be limits to our knowledge and by not accepting the limitations human reason may have in our social worlds.²⁷

If this is the case, a number of questions still remain. First, how is knowledge about social affairs best discovered and utilized? How do we evaluate our social institutions and what can we do to make them function more effectively? And if the traits of rationalism, positivism, empiricism and utilitarianism have limitations in social matters, what do we replace them with?

According to Hayek, knowledge “arises in a process of experiential interaction of widely dispersed, different and even conflicting beliefs of millions of communicating individuals.”²⁸ Since the most useful knowledge is inherently “resistant” to centralized collection, we need to explain the mechanisms or methods best suited to capitalize on decentralized social knowledge. That is, we need to sketch in rough terms how various decentralized mechanisms work to facilitate the use of fragmented bits of knowledge, and how they prove to be relatively “compatible” with the nature of social knowledge. Hayek has attempted to do this over the years in describing how the market mechanism functions to discover useful information and distribute it widely. How this spontaneous or unguided mechanism works, and how effective it is, often escapes our understanding about how complex human institu-

27 *Ibid.*, 62.

28 *Ibid.*, 80.

tions operate and develop without a designer. Hayek's reading of history focusses on how the most important human products or institutions have evolved over time without a guiding hand of a human creator, without a blueprint or even an end product in mind. Languages, legal codes, monetary systems, morals and systems of economic exchange and trade are all examples of social or cultural institutions and processes which have evolved slowly over the centuries. Simply put, no one "invented" them in the conventional sense of the word.

Hayek clearly suggests that we need to invest more time in studying or tracing how these institutions and processes have evolved. First, the study of cultural evolution will assist in deflating many of the mistaken ideas about the actual role of human reason and planning in the production of these products. Second, and more important, he believes that work in this area will strengthen our understanding and defence of the principles of classical liberalism. That is, we will have a greater understanding of why the liberal agenda—the rule of law, limitations on the coercive powers of the state, protection of private property and extensive political freedoms—is so vital to human progress.

Yet, the central problem remains unsolved. How do we escape the attraction of modern thought and convince intellectuals to support and adopt procedures that defy the "logic" of modern thinking? How do we demonstrate the advantages of the liberal agenda when, as Hayek notes, it is "so contrary to [our] expectation[s] that they [can] be explained only retrospectively, through analyzing the spontaneous formation itself?"²⁹ The defence and justification apparently rests on a different type of evidence or a different kind of "demonstration." The judging process he has in mind is one of viability and adaptability, involving the long-range study of the comparative consequences or advantages of practising various ways of life. Namely, we need the skills of a cultural anthropologist capable of explaining how the agenda of classical liberalism evolved and gained acceptance over time, not in a small group, but in large social groupings. These retrospective studies would show how various social arrangements, in a competitive battle with other ways of dealing with human issues, better satisfied basic human needs—yet without the full understanding or knowledge of those utilizing them in the competition. In a small group or community where everyone knows everyone else, where the goals of the group are widely supported and where the relevant information for group success is available to everyone, then, and only then, can the projects of social engineers stand a chance of succeeding. But once the microcosmos begins to break down, and the number of individuals and interpersonal connections begins to multiply, the face-to-face methods of the small group will be put to a test. If they produce successes they will be

29 *Ibid.*, 86.

continued and, if not, new arrangements will be developed to replace them.

If Hayek's argument has any force, the test or demonstration seems to rest on the "survival of the fittest"—not, of course, in terms of various individuals struggling against one another for basic survival, but the competitive struggle among various social, moral, legal and economic practices as they assist or hinder followers to reach higher levels of success. The fitness of any social practice in the extended order is measured by its ability to attract more and more followers. In a fair contest, Hayek is confident that liberal practices will prevail because they are better matched to the problems associated with utilizing dispersed social knowledge. Those predicated on a mistaken view or a misunderstanding of the nature of social knowledge will eventually show their weaknesses and then will be abandoned. Recent history in the Soviet bloc seems to support Hayek's claim as we see more and more people expressing a desire for more pluralism and an extension of liberal principles and practices. In addition, states using centralized economic planning methods are discarding them as misguided failures at large-scale economic management, and are moving in the direction of greater economic decentralization.

Epistemological Liberalism

Eugene Miller has criticized Hayek's knowledge-based defence of liberalism as resting on a very "insecure epistemological foundation" which, he claims, "endangers those very principles of liberty that he wishes to defend."³⁰ By opting for "an evolutionary interpretation of all phenomena of culture and mind on an insight into the limits of the power of human reason," Miller contends that Hayek must be considered an extreme relativist. Without a stable or permanent conception of the value of liberalism, Miller believes that Hayek's support of classical liberalism lacks any foundation worthy of the name. In part, this follows from his theory of the mind where Hayek, as John Gray notes, claims that "the mental frameworks by which we categorize the world are neither universal nor invariant, but alterable in an evolutionary fashion."³¹

If Hayek can be rescued from this serious charge we need to understand exactly what is permanent and unchanging in his theory, upon which he can base his political conclusions. Strange as it may sound, the foundation is an "empirical claim" arguing that we face a world of uncertainty, a world that we can never know in any complete or

30 For a critique of Hayek's epistemology see Eugene F. Miller, "Hayek's Critique of Reason," *Modern Age* 20 (1976), 385-94.

31 Gray, *Hayek on Liberty*, 21.

comprehensive way. Following Socrates, the only thing about which we can be certain is our limited, and limiting, powers of reasoning and knowing. Once we come to grasp and respect these limitations, we can begin to appreciate how the “indefensible mechanisms” of liberalism, shaped by the process of competition and evolution, assist us in coping with our ignorance.

Yet Hayek’s view of evolution is partially flawed and ideologically biased. If the process of cultural evolution is to be accepted as Hayek describes it, then it must be a never-ending process which can theoretically lead us in many directions. Like biological evolution, cultural evolution is never a completed process; nor can we ever say or claim that our current institutions or practices are the best for which we can hope. We can explain how and why liberal practices work and how they came into existence, but we cannot pretend to defend them as the end product of the evolutionary process. Hayek must accept this if he wants to be consistent. He must be a “relativist” as Miller argues because a theory based on an evolutionary methodology cannot claim that the historical process is finished. Either the liberal order can be further refined or replaced by an improved method of processing and utilizing information (that is, better suited to deal with the dilemmas of dispersed social knowledge), or else Hayek wishes to end the evolutionary process by declaring liberalism the winner.

But Hayek is reluctant to accept the logical conclusion of his own thinking. Instead, he violates his own rule about making knowledge claims by making one of his own, namely, a claim that all extended orders are best served by the liberal agenda and that no new, non-liberal institutions or practices could possibly develop and replace them. In short, he is using a hidden claim about human development which his own theory should prevent him from making. In spite of his defence of undesigned evolutionary change, the only development Hayek truly wishes to consider is the protection of classical liberalism. The justification is clearly not based on a true theory of social and political life. The defence is biased by his own claim to have special knowledge about which types of social arrangements and structures are best suited to promoting human progress in the long run. How can he know this? If, as Hegel argued, history can only be explained and understood after the dusk has fallen (and Hayek seems to agree with Hegel on this point if nothing else), then how can Hayek support this claim? At best, he should admit that evolutionary developments could create better methods of dealing with our limited powers of reasoning and knowing, and accept the possibility that new evolutionary developments could be successful and not found within his brand of liberalism.

Hayek has on occasion discussed ways of reforming or improving upon certain liberal institutions. For example, in volume three of *Law, Legislation and Liberty* he presents an interesting idea for a new rule-

making legislative body situated above a lower house that is assigned to handle the routine administrative functions of the state.³² This new body would be an elective constitutional court whose members would be selected for a 15-year term and given all the time needed to consider the fundamental laws of the state and cautiously to implement changes in these fundamental rules. Thus, it would be insulated from direct political pressures and would have the sole task of deliberating upon any proposed major changes affecting the rule of law. This would prevent interference into these important matters by politicians working under pressure to deliver on their election-year promises. He offers this idea, it seems, as a possible way of reforming and rejuvenating the current House of Lords in the United Kingdom. And while this is not the place to debate the pros and cons of his proposal, it does illustrate that Hayek has been willing to consider political reforms.

But on the whole Hayek's heart is not committed to searching for new methods of structuring human existence. His usual humility quickly disappears with his undisguised confidence in supporting and maintaining a classical liberal order. His stubbornness on this point, of course, is what Karl Mannheim called an ideology: a set of ideas which provides a veneer of normality, morality and superiority to the ruling regime when, in fact, their claims to such titles are suspect. It may be possible to make a judgment about liberalism's superiority in terms of "coping with ignorance" vis-à-vis an alternative system; but one is not justified in crowning liberalism as superior for all time. If liberalism means being open to new ideas and a willingness to contemplate change, then Hayek's epistemological liberalism based on cultural evolution is not pointed to the future. It appears destined to defend the traditional order.

Conclusion

Hayek's ontology, the nature and the fundamental properties of reality, is clearly based on an epistemological foundation. Unlike others who have offered defences for liberalism, Hayek defends individual liberty and the free market on the basis of coping with human ignorance. As he argued in his *Constitution of Liberty*,

the case for individual freedom rests chiefly on the recognition of the inevitable ignorance of all of us concerning a great many of the factors on which the achievement of our ends and welfare depends. . . liberty is essential in order to leave room for the unforeseeable and unpredictable. . . . It is because every individual knows so little and, in particular, because we rarely know which of us

32 F. A. Hayek, *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice*, Vol. 3: *The Political Order of a Free People* (Chicago: University of Chicago Press, 1979), chap. 17.

knows best that we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it.³³

The omniscient person, he tells us, would not need liberty. But any extended society having a measure of success will find it is based on maximizing individual freedom within the context of known general rules. From this perspective, liberty and the liberal agenda are instrumental in advancing social progress; they are not self-indulgent egoism. Paradoxically, people demonstrate their egoism in their desire to play the part of the comprehensive social engineer—that is, when they follow their heart’s desire to plan and construct the utopian world. Hayek’s contribution to the “engineering debate” is to support what can be called “invisible-hand engineering,” namely, his explanations, insights and appreciation of the process of the slow evolutionary “give and take” practised by millions of unknown “creators” in the macrocosmos. Social methods and practices which leave individuals room to be innovative when confronted with the unforeseeable and the unpredictable will, he claims, prove their worth over time. Unfortunately, we can never know with much certainty which practices will produce the best results. As such, we are left without a full ideological defence for liberalism, but are given instead an argument for practising liberalism.³⁴

Needless to say, the rules surrounding the practice of liberalism are rather old and well-worn. But, whereas others have tried to base their defence of liberalism on theological premises (Locke), or utilitarian appeals (Mill) or sociological “truisms” (Spencer), Hayek’s defence is unique since it rests on a new paradigm generally known as evolutionary epistemology.³⁵ And what makes this defence worthy of serious treatment is its clear attempt to link together the points of contact between theories of knowledge, methodology, rationality and the structures of our economic and political worlds. In the same way that the body of Marx’s thought can be described as an economically-based sociology, Hayek’s work must be considered as an epistemologically-based theory of politics.³⁶ Hayek’s contribution to these issues is found in his analysis of critical rationalism and his support for epistemological liberalism. His work represents a valuable contribution to political theory by demonstrating how classical liberalism provides both an example of social evolution and a working illustration of how liberal practices assist us in

33 Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), 29.

34 See John N. Gray, *Liberalisms: Essays in Political Philosophy* (London: Routledge, 1989), 264.

35 On this topic see the essays in Radnitzky and Bartley (eds.), *Epistemology, Rationality, and the Sociology of Knowledge*.

36 For a discussion of this point see Bruce Mazlish, *The Meaning of Karl Marx* (New York: Oxford University Press, 1984), 118.

coping with the perennial epistemological problem: “that we never know what we are doing.”³⁷

Unlike other admirers of human reason, Hayek joins hands with the noted eighteenth-century sceptic, David Hume, in supporting a cautious assessment about the powers of human reason. Both thinkers have argued persuasively for a very modest view of human reasoning capabilities. “Reason,” Hayek claims, “can only help us to see the alternatives”; it can never act in isolation to solve the complex problems of the human condition.³⁸ And the cautious Mr. Hume once quipped that “reason itself is utterly impotent”; it can act only as an instrument, never as the ultimate judge in settling important moral and political problems.³⁹ As such, the ongoing task for the critical rationalist is to apply healthy doses of humility and caution to the schemes of our modern-day Voltaires in order to keep them from falling into the fatal conceits of epistemological arrogance.

37 W. W. Bartley reports that when asked by people what he has learned from Karl Popper and Hayek he replies simply: “I learnt from Popper that we never know what we are talking about, and I learnt from Hayek that we never know what we are doing.” See W. W. Bartley, III, “Alienation Alienated: The Economics of Knowledge versus the Psychology and Sociology of Knowledge,” in Radnitzky and Bartley (eds.), *Evolutionary Epistemology, Rationality, and the Sociology of Knowledge*, 425.

38 Hayek, “Kinds of Rationalism,” in Hayek, *New Studies*, 87.

39 Quoted in *ibid.*, 88.