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HAYEK'S TRAGIC CAPITALISM



“The Subway,” after the drawing by George Tooker

BEST KNOWN FOR HIS ANTI-SOCIALIST polemic *The Road to Serfdom* (1944), the economist and political philosopher Friedrich A. Hayek is often thought by foe and friend alike to have offered a plain and striking argument for capitalism: the least deviation from *laissez-faire* is the first falling domino that will inevitably lead to totalitarianism. The foes and friends draw different lessons from the fact that decades of regulation and welfare policy have never actually had this result. For the foes, it shows that Hayek was obviously wrong and his analysis unserious. For the friends, it shows that the dreaded socialist dictatorship must now be imminent rather than far-off—no doubt finally to arrive with whoever the next Democratic president turns out to be.

But in fact, Hayek never gave so silly an argument. Nor will one find in his work the chirpy optimism with which many libertarians and Reaganite conservatives ritualistically defend the market economy. Hayek’s case for free enterprise doesn’t fit any of the usual simplistic stereotypes. He not only explicitly and

persistently rejected *laissez-faire*, but could write as eloquently about the moral downside of capitalism and the emotional attractions of socialism as any left-winger. In an era in which—young socialist chic notwithstanding—global capitalism appears to have swept all before it, it is the triumphalist defenders of the free market rather than its critics who have the most to learn from Hayek’s cautious, nuanced apology.

Human Limitations

ALAPSED CATHOLIC, HAYEK GROUNDED his defense of capitalism in an anthropology that is just short of Augustinian in its pessimism. The deficiencies he attributed to human nature are both cognitive and moral. First, human knowledge is severely limited. According to Hayek, a mind can only ever understand what is less complex than it. Hence, no human mind can ever understand itself, much less the vast aggregate of human minds—each with its own unique and ever-evolving needs, and each with its own idiosyn-

cratic body of information concerning local economic circumstances—that constitutes an economic system. This is the deep reason why socialism is impossible in principle, and always leads to chaos when attempted. The central planner simply cannot have all the information required to allocate resources or direct economic activity rationally.

To remedy this problem, the planner has to *dictate*, rather than *learn*, what individual economic actors need and how they will behave. For the only sure way to know what they want and what they will do is to decide for them what they *should* want and what they *should* do. And the more closely the economic planner wants outcomes to conform to his plan, the more thorough this dictatorial control will have to be. This is the sense in which Hayek thought socialism entails “serfdom.” He was saying that centrally planning large-scale economic outcomes requires large-scale control of economic behavior. Planners will have to increase control, if they are intent on realizing the plan.

But of course, they could instead just give up large-scale central planning. That is exactly



what happened in Western regulatory welfare states. They never ended up becoming dictatorships, precisely because they pulled back from going whole hog for socialism. Hayek was hardly surprised by this. On the contrary, it was exactly what he was trying to convince them to do. He wouldn't have wasted time writing *The Road to Serfdom* if he thought the economic regulation that already existed made socialist dictatorship inevitable. Nor was he opposed in the first place to all regulatory and welfare measures. For example, in *The Road to Serfdom* itself he explicitly allows for regulations to ensure safe working conditions, and for a safety net for those unable to provide adequate food, shelter, and health care for themselves. The Hayek who thought that the smallest tax increase is but the first step toward the Gulag exists only in the imaginations of uncharitable critics and simple-minded admirers.

What Hayek was opposed to was governmental activity that would undermine the operation of the free-market price mechanism. In his view, prices generated in the market encapsulate the information that is unavailable to the central planner, and thereby enable rational economic activity. For example, the price of oranges in Omaha reflects the effects of blight on orange crops in Florida, a bumper crop of oranges in California, higher demand for oranges in New York City, lower demand in Fargo, increases in the price of fuel needed to transport oranges across the country, and so on. No human mind need gather and process all of this information, because the market price is generated in a way that already reflects all of it. Consumers in Omaha need only respond to the current price (by buying fewer oranges, say, because the price has gone up) in order to coordinate their activity with that of other economic agents elsewhere in the country. The invisible hand does what the planner cannot, precisely because it is an impersonal mechanism rather than a mind.

Our Deepest Yearnings

THIS STRENGTH IS ALSO A WEAKNESS. Precisely because they arise out of an impersonal process, market outcomes are amoral. Hayek thought it unwise to defend capitalism by emphasizing the just rewards of hard work, because there simply is no necessary connection between virtue of any kind, on the one hand, and market success on the other. Moreover, the functioning of the market economy depends on adherence to rules of behavior that abstract from the personal qualities of individuals. In par-

ticular, it depends on treating most of one's fellow citizens not as members of the same tribe, religion, or the like, but as abstract economic actors—property owners, potential customers or clients, employers or employees, etc. It requires allowing these actors to pursue whatever ends they happen to have, rather than imposing some one overarching collective end, after the fashion of the central planner.

Hayek did not deny that all of this entailed an alienating individualism. On the contrary, he emphasized it, and warned that it was the deepest challenge to the stability of capitalism, against which defenders of the market must always be on guard. This brings us to his account of the moral defects inherent in human nature. To take seriously the thesis that human beings are the product of biological evolution is, for Hayek, to recognize that our natural state is to live in small tribal bands of the sort in which our ancestors were shaped by natural selection. Human psychology still reflects this primitive

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environment. We long for solidarity with a group that shares a common purpose and provides for its members based on their personal needs and merits. The impersonal, amoral, and self-interested nature of capitalist society repels us. We are, according to Hayek, naturally socialist.

The trouble is that socialism is, again, simply impossible in modern societies, with their vast populations and unimaginably complex economic circumstances. Socialism is practical only at the level of the small tribal bands in which our psychology was molded. Moreover, whereas in that primitive sort of context, everyone shares the same tribal identity and moral and religious outlook, in modern society there is no one tribe, religion, or moral code to which all of its members adhere. Socialism in the context of a modern society would therefore also be tyrannical as well as unworkable, since it would require imposing an overall social vision with which at most only some of its members agree. A socialist

society cannot be a diverse society, and a diverse society cannot be socialist.

Why does capitalism exist at all, then, if it is in Hayek's view so contrary to our deepest yearnings? His answer is that it arose as an accidental byproduct of the idea of the dignity of the individual, which we inherited from Greek civilization and from Christianity. Capitalism was a kind of mutation, favored by natural selection of a *cultural* (as opposed to biological) sort, insofar as it generated so much wealth and innovation that capitalist societies have outcompeted the alternatives. The result, however, is a kind of cultural schizophrenia. The rules of capitalist society favored by cultural evolution are at loggerheads with the socialist instincts hardwired into us by biological evolution.

Socialist thinking is for Hayek something like original sin, a defect in our nature which constantly tempts us to undermine the capitalist order on which our very lives depend. It has to be unlearned with every generation, which requires creating an intellectual culture favorable to capitalism and putting constitutional limits on the ability of democratic majorities to interfere with market outcomes.

In *Hayek: The Iron Cage of Liberty* (1996), one of the better books on Hayek, Andrew Gamble suggests that the economist was essentially committed to a variation on Max Weber's "iron cage" thesis. Like Weber, Hayek thinks that the prosperity and order of modern civilization has come at the cost of secular disenchantment and ennui. Unlike Weber, Hayek emphasizes capitalist individualism rather than bureaucratization as the "iron cage" that locks us into this bargain.

A Kind of Fusionism

HAYEK DEVELOPED THESE THEMES most fully in his later writings, especially his three-volume *Law, Legislation, and Liberty* (1973-79)—perhaps his greatest work—and his last book, *The Fatal Conceit* (1988). It is also in these books that Hayek—who had, decades before, penned a famous essay titled "Why I Am Not a Conservative"—went in a strongly Burkean conservative direction. Just as market prices encapsulate economic information that is not available to any single mind, so too, the later Hayek argued, do traditional moral rules that have survived the winnowing process of cultural evolution encapsulate more information about human well-being than the individual can fathom. Those who would overthrow traditional morality wholesale and replace it with some purportedly more rational alternative exhibit the same hubris as the socialist



planner who foolishly thinks he can do better than the market.

Unsurprisingly, he took the institution of private property to be a chief example of the benefits of traditional morality. But he also came to emphasize the importance of the family as a stabilizing institution in otherwise coldly individualist market societies, and—despite his personal agnosticism—of religion as a bulwark of the morality of property and the family. He lamented the trend toward “permissive education” and “freeing ourselves from repressions and conventional morals,” condemned the ‘60s counter-culture as “non-domesticated savages,” and placed Sigmund Freud alongside Karl Marx as one of the great destroyers of modern civilization.

Hayek was committed, then, to a kind of fusionism—the project of marrying free market economics to social conservatism. Unlike the fusionism associated with modern American conservatism, though, Hayek’s brand had a skeptical and tragic cast to it. He thought religion merely useful rather than true, and defended bourgeois morality as a painful but necessary corrective to human nature rather than an expression of it. In his view, human psychology has been cobbled together by a contingent combination of biological and cultural evolutionary processes. The resulting aggregate of cognitive and affective tendencies does not entirely cohere, and never will.

Three Problems

FOR ALL ITS PURPORTED GRITTY REALISM, however, Hayek’s fusionism is no more stable than the more familiar kind. Even putting aside his agnosticism and his materialist assumptions about human nature (neither of which I share), his position is seriously problematic in at least three respects. The first concerns a criticism of Hayek pressed by Irving Kristol, echoing an earlier and more general analysis of capitalism famously developed by Daniel Bell. The market price mechanism requires treating economic value as nothing more than the aggregate of individual preferences. There is, on this account, no fact of the matter about what something is worth over and above what people are, for whatever reason, willing to pay for it.

This subjectivism about value has great utility when our focus is merely on satisfying the material needs and wants people actually happen to have. Hayek’s purely procedural conception of just action, however, effectively

treats value subjectivism as a completely general principle of social organization. The rules that govern capitalist societies must not treat any of the diverse ends people happen to have as objectively better or worse than any other. To acknowledge that there is some objective fact of the matter about what people ought to want, or some standard of value independent of the market, would open the door to justifying interference with the choices of economic actors, and thereby destroy the price mechanism.

So, capitalist society, as Hayek understands it, must operate on the principle that what is good or bad for its citizens is whatever they take to be good or bad for them. And the problem is that this subjectivist principle is a universal acid that inevitably eats away at all morality—including the moral principles Hayek thinks essential to the preservation of capitalist society. If there is no standard of good apart from what people happen to want, how can Hayek complain if what they happen to want is an egalitarian redistribution of wealth, or freedom from religion and traditional family arrangements? Kristol worried that capitalism had defeated socialism only to fall into nihilism. Bell argued that the tendency of capitalist individualism was toward a “pornotopia” in which bourgeois sobriety gives way to the pursuit of sensual gratification. The rise of the Social Justice Warrior who shrilly demands free college tuition, legalized dope, and the affirmation of his chosen “gender identity” on pain of an anti-discrimination lawsuit is, if Bell and Kristol are right, the logical outcome of the value subjectivism on which Hayek insisted.

A second, related problem with Hayek’s position is one emphasized by Roger Scruton. You first have to see yourself as part of a common society—defined by a shared language, territory, culture, and history—before you can see yourself as bound by the rules of that society. That includes the rules that govern the free market. But just as value subjectivism tends to undermine commitment to family and religion, so too does it eat away at national loyalties. Modern capitalist society has seen the rise of the cult of the sovereign individual, whose allegiances are only to those institutions he has chosen. And increasingly, he does not choose to give special allegiance to whatever capitalist nation he happens to have been born in. He may even take up an adversarial relationship toward that nation, castigating it for its real or imagined failings and pitting it against the “global community.” The rise of multinational corporations and the

free flow of populations across borders, often for the purposes of providing corporations with cheap labor, are other aspects of modern capitalist society that tend to undermine national loyalties.

That brings us to a third criticism of Hayek—leveled this time by Gamble—which is that he never adequately faced up to the dangers posed by corporate power. Most people cannot be entrepreneurs, and even those who can cannot match the tremendous advantages afforded by the deep pockets, legal resources, and other assets of a corporation. Vast numbers of citizens in actually existing capitalist societies simply must work for a corporation if they are going to work at all. But that entails an economic dependency of individuals on centralized authority, of a kind that is in some ways analogous to what Hayek warned of in his critique of central planning. As with socialism, conformity to the values of centralized authority becomes, in effect, a precondition of the very possibility of feeding oneself. By way of example, we may note that the political correctness Hayek would have despised is today more effectively and directly imposed on society by corporate Human Resources departments than by government.

The Same Basic Error

NONE OF THIS IMPLIES A CONDEMNATION of capitalism per se. The problem is one of *fetishizing* capitalism, of making market imperatives the governing principles to which all other aspects of social order are subordinate. The irony is that this is a variation on the same basic error of which socialism is guilty—what Pope John Paul II called “economism,” the reduction of human life to its economic aspect. Even F.A. Hayek, a far more subtle thinker than other defenders of the free economy, ultimately succumbed to this tendency. Too many modern conservatives have followed his lead. They have been so fixated on socialism and its economic irrationality that they have lost sight of other, ultimately more insidious, threats to Western civilization—including economism itself. To paraphrase G.K. Chesterton, a madman is not someone who has lost his economic reason, but someone who has lost everything but his economic reason.

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