

"The Tradition of Spontaneous Order"

First Pub - Date 1982

Publisher - Literature of Liberty; Vol. v, no. 2, pp. 7-58. Arlington, VA: Institute for Humane Studies

Pub. Date 1982

Comments - Barry, Norman (University of Buckingham)

Copyright - The text of this edition is copyright ©1982, The Institute for Humane Studies. Republished with permission of original copyright holders;

About this Book - The theory of spontaneous order has a long tradition in the history of social thought, yet it would be true to say that, until the last decade, it was all but eclipsed in the social science of the twentieth century. For much of this period the idea of spontaneous order—that most of those things of general benefit in a social system are the product of spontaneous forces that are beyond the direct control of man—was swamped by the various doctrines of (to use Friedrich A. Hayek's phrase in *Law, Legislation and Liberty*) 'constructivistic rationalism.' No doubt the attraction of this rival notion of rationalism stems partly from the success of the physical sciences with their familiar methods of control, exact prediction, and experimentation. It is these methods which have an irresistible appeal to that hubris in man which associates the benefits of civilization not with spontaneous orderings but with conscious direction towards preconceived ends. It is particularly unfortunate that the effect of constructivistic rationalism should have been mainly felt in economics. This is unfortunate not merely because attempts to direct economics have repeatedly failed but also because the discipline of economics has developed most fully the theory of spontaneous order.... [From the text]

TABLE OF CONTENTS

Cover

INTRODUCTION: THE RECENT REVIVAL OF SPONTANEOUS ORDER

THE MAIN ELEMENTS IN THE THEORY OF SPONTANEOUS ORDER

'Invisible Hand' Social Patterns & Methodological Individualism

Spontaneous Order & 'Reason'

Spontaneous Order & 'Law'

Two Senses of Spontaneous Order: Noncoercive Emergent Patterns vs. 'Survival of the Fittest'

SCHOLASTICISM AND THE MARKET AS SPONTANEOUS ORDER

The 'School of Salamanca': Scholastic Economic Thought & the Market

Molina: The Market & Natural Law Ethics

THE RISE OF COMMON LAW

Hale contra Hobbes: On Reason & Sovereignty

PRIVATE VICES, PUBLIC BENEFITS

Mandeville: Self-Interest & the Invisible Hand
Mandeville's 'Fable of the Bees': Passions & Interests
Mandeville's Role in Spontaneous Order Theory

JOSIAH TUCKER (1712-1799)

Tucker's Mix of Constructivist and Spontaneous Approaches
Spontaneous Order & the Scottish Enlightenment

DAVID HUME (1711-1776)

ADAM FERGUSON (1723-1816)

Ferguson's Conjectural History as Spontaneous Order

ADAM SMITH (1723-1790)

Smith's Systematic Social Science: Economic & Legal Order
Smith's Invisible Hand and Natural Liberty
The Limits to Smith's Spontaneous Order

BETWEEN SMITH AND Menger

Bastiat and de Molinari
Herbert Spencer

CARL Menger (1840-1921)

F. A. HAYEK

KNOWLEDGE AND SOCIETY

Co-ordinating Dispersed Knowledge: Rationale for Market & Liberty
Ambiguity in Explaining Legal Orders: Spontaneous Order vs. Relativistic Evolution

THE FREE EXCHANGE SYSTEM

'Catallaxy' vs. 'Economy', Market Co-ordination vs. Neoclassical Equilibrium
Co-ordinating Market Knowledge: Competition & Entrepreneurship
Disruptions of Catallaxy
Austrian Perspective on Intervention: Dis-coordination of Economic Knowledge
Hayek on Monetary Disorder

THE STRUCTURE OF LEGAL ORDER

Social Cosmos: Spontaneous Order vs. Constructivistic Rationalism
Spontaneous 'Nomos' vs. Rationalist Law Common Law vs. Statute Law
Cultural Transmission of Rules of Conduct
Hayek's Traditionalist Evolutionism and Liberalism
Law and Liberty: The Problem of Criteria To Distinguish Liberal and Non-Liberal Orders

THE BREAKDOWN OF THE COSMOS

Political Interventionism vs. Market Self-Correction
The Myth of Social Justice
The Problem of Controlling Government

CONCLUSION

BIBLIOGRAPHY

Books
Articles

Footnotes

Introduction: The Recent Revival of Spontaneous Order

B.1

The theory of spontaneous order has a long tradition in the history of social thought, yet it would be true to say that, until the last decade, it was all but eclipsed in the social science of the twentieth century. For much of this period the idea of spontaneous order—that most of those things of general benefit in a social system are the product of spontaneous forces that are beyond the direct control of man—was swamped by the various doctrines of (to use Friedrich A. Hayek's phrase in *Law, Legislation and Liberty*) 'constructivistic rationalism.'^[1] No doubt the attraction of this rival notion of rationalism stems partly from the success of the physical sciences with their familiar methods of control, exact prediction, and experimentation. It is these methods which have an irresistible appeal to that *hubris* in man which associates the benefits of civilization not with spontaneous orderings but with conscious direction towards preconceived ends. It is particularly unfortunate that the effect of constructivistic rationalism should have been mainly felt in economics. This is unfortunate not merely because attempts to direct economics have repeatedly failed but also because the discipline of economics has developed most fully the theory of spontaneous order.

B.2

The last ten years have seen a rehabilitation of the *economic* philosophy of classical liberalism; indeed Hayek, its major contemporary exponent, was awarded the Nobel Prize for Economic Science in 1974. But the necessary accompaniment of that economic theory, the philosophy of law and social institutions, has been largely ignored by the social science establishment. This oversight has occurred despite the fact that, for example, the bulk of Hayek's own work in the last thirty years has consisted of a theoretical reconstruction of the *social* philosophy of classical liberalism and despite the fact that he has himself stressed that a knowledge of economic principles of resource allocation alone is quite inadequate for the understanding of the order of a free society. Indeed, the contemporary concern with specialization in the social sciences is itself an important barrier to the acceptance of the doctrine of spontaneous evolution precisely because this theory straddles so many of the artificial boundaries between academic disciplines.

The Main Elements in the Theory of Spontaneous Order

B.3

The simplest way of expressing the major thesis of the theory of spontaneous order is to say that it is concerned with those regularities in society, or orders of events, which are neither (1) the product of deliberate human contrivance (such as a statutory code of law or a *dirigiste* economic plan) nor (2) akin to *purely natural* phenomena (such as the weather, which exists quite independently of human intervention). While the words *conventional* and *natural* refer, respectively, to these two regularities, the 'third realm,' that of *social* regularities, consists of those institutions and practices which are the result of human action but not the result of some specific human intention.^[2]

'Invisible Hand' Social Patterns & Methodological Individualism

B.4

Despite the complexity of the social world, which seems to preclude the existence of regularities which can be established by empirical observation, there is a hypothetical order which can be reconstructed out of the attitudes, actions, and opinions of individuals and which has considerable explanatory power. What is important about the theory of spontaneous order is that the institutions and practices it investigates reveal well-structured social patterns, which appear to be a product of some omniscient designing mind yet which are in reality the spontaneous coordinated outcomes of the actions of, possibly, millions of individuals who had no intention of effecting such overall *aggregate* orders. The explanations of such social patterns have been, from Adam Smith onwards, commonly known as 'invisible hand' explanations since they refer to that process by which "man is led to promote an end which was no part of his intention."^[3] It is a major contention of the theory of spontaneous order that the aggregate structures it investigates are the outcomes of the actions of *individuals*. In this sense spontaneous order is firmly within the tradition of methodological individualism.

Spontaneous Order & 'Reason'

B.5

The role of 'reason' is crucially important here because the theorists of spontaneous order are commonly associated with the anti-rationalist tradition in social thought. However, this does not mean that the doctrine turns upon any kind of irrationalism, or that the persistence and continuity of social systems is a product of divine intervention or some other extraterrestrial force which is invulnerable to rational explanation. Rather, the position is that originally formulated by David Hume. Hume argued that a pure and unaided human reason is incapable of determining *a priori* those moral and legal norms which are required for the servicing of a social order. In addition, Hume maintained that tradition, experience, and general uniformities in human nature themselves contain the guidelines for appropriate social conduct. In other words, so far from being irrationalist, the Humean argument is that rationality should be used to "whittle down" the exaggerated claims made on behalf of reason by the Enlightenment *philosophes*. The danger here, however, is that the doctrine of spontaneous evolution may collapse into a certain kind of relativism: the elimination of the role of reason from making universal statements about the appropriate structure of a social order may well tempt the social theorist into accepting a given structure of rules merely because it is the product of traditional processes.

B.6

The 'rationalism' to which the theory of spontaneous order is in intellectual opposition precedes the Enlightenment and perhaps is most starkly expressed in seventeenth-century natural law doctrines. In Thomas Hobbes' model of society, for example, a simple 'natural' reason is deemed to be capable of constructing those rules which are universally appropriate for order and continuity. It is assumed that this reason can only conceive of a legal order in terms of rules emanating from a determinate sovereign at the head of a hierarchical system. That hidden wisdom immanent in a dispersed and evolutionary system is therefore systematically ignored in the pursuit of a statute or code structure. That other seventeenth-century natural law theorists

took a more generous view of human nature, and hence produced rule structures more amenable to liberty and rights, does not alter the fact of their common anti-traditionalist and rationalist epistemology.

B.7

The theory of spontaneous order, then, is concerned with those 'natural processes' which are not the product of reason or intention. The classic example is the free market economy in which the co-ordination of the aims and purposes of countless actors, who cannot know the aims and purposes of more than a handful of their fellow-citizens, is achieved by the mechanism of prices. A change in the price of a commodity is simply a signal which feeds back information into the system enabling actors to 'automatically' produce that spontaneous co-ordination which *appears* to be the product of an omniscient mind. The repeated crises in *dirigiste* systems are in essence crises of information since the abolition of the market leaves the central planner bereft of that economic knowledge which is required for harmony. There is no greater example of the *hubris* of the constructivist than in this failure to envisage order in a natural process (which is not of a directly physical kind). As Hayek says in "Principles of a Liberal Social Order":

Much of the opposition to a system of freedom under general laws arises from the inability to conceive of an effective co-ordination of human activities without deliberate organization by a commanding intelligence. One of the achievements of economic theory has been to explain how such a mutual adjustment of the spontaneous activities of individuals is brought about by the market, provided that there is a known delimitation of the sphere of control of each individual. [\[4\]](#)

Spontaneous Order & 'Law'

B.8

Following on from this account of reason to explain spontaneous orders is a related account of 'law.' There are terminological problems here because theorists of spontaneous order do not always use the term 'natural law' to describe those general rules that govern a free society precisely because the phrase has, as we have already observed, rationalistic overtones. The 'natural' law of spontaneous order theory refers to regularities in the social world brought about by men generating and adapting those rules appropriate to their circumstances. Thus law properly so-called is neither (1) the dictate of pure reason in which the structure of a legal order is designed independently of experience, nor is it (2) the positive law of, say, the Command School in which all law is deliberately created by an act of will. The theory of spontaneous order claims that in both deductivist natural law and positive law, legal structures are likely to be less regularized and more arbitrary and capricious. This capriciousness arises precisely because, to the extent that these legal structures ignore existing legal orders, they depend on a supermind both taking account of all possible human circumstances and devising appropriate rules from first principles. Rules appropriate for a spontaneous order, by contrast, are more likely to be discovered than deliberately created.

B.9

There is, of course, implicit in all the writers in this tradition the notion of an ethical payoff: that is, we are likely to enjoy beneficial consequences by cultivating spontaneous, natural mechanisms and by treating the claims of an unaided reason with some skepticism. Well-being, in other words, is the product of a special kind of *accident*. This is a quasi-utilitarian argument used to counter the more conventional utilitarian thesis that the public good can be rationalistically summed up from the preferences of individuals and directly promoted by centralized positive law. The theory of spontaneous order claims that the very complexities of social affairs mean that such a rationalistic project is almost certain to be self-defeating, even if one could assume the existence of benevolent and well-intentioned legislators. As Adam Smith put it: "I have never known much good done by those who affected to trade for the public good."[\[5\]](#)

Two Senses of Spontaneous Order: Noncoercive Emergent Patterns vs. 'Survival of the Fittest'

B.10

One important issue has a bearing on the explanatory power of the doctrine of spontaneous order. This centers on the fact that the theory has two interrelated meanings, which the writers under discussion do not clearly distinguish. In one sense we speak of a spontaneous order to refer to a complex aggregate structure which is formed out of the uncoerced actions of individuals, whereas in another sense we speak of the *evolutionary growth* of laws and institutions through a kind of Darwinian 'survival of the fittest' process (and the biological analogy is not inappropriate). In both these meanings we are describing social structures that are similar in not being of conscious design and which emerge independently of our wills, but the explanations are significantly different.[\[6\]](#) One version shows how institutions and practices can *emerge* in a causal-genetic manner while the other shows how they in fact *survive*.

B.11

We can perhaps illustrate this difference in the meanings of spontaneous order by comparing a market order with a legal order. Now the invisible hand explanation of the emergence of a market order is highly plausible because there is a mechanism, the price system, to bring about the requisite co-ordination. However, it is not obviously the case that there is an equivalent mechanism to produce that legal and political order which is required for the co-ordination of individual actions. Thus the legal system that a community has may have *survived* yet not necessarily be conducive to the hypothetical order of classical liberalism. Evolutionary undesigned processes may very well produce dead-ends, and the escape from these dead-ends would involve more expansive use of reason than that conventionally associated with the doctrine of spontaneous order.

Scholasticism and the Market as Spontaneous Order

B.12

Hayek has always claimed that his explanation of a more or less self-correcting social system continues a long tradition. While acknowledging it is absurd even to speculate on the beginnings of a tradition, Hayek often refers to the original Spanish schoolmen as the founders of the theory of spontaneous order.

The 'School of Salamanca': Scholastic Economic Thought & the Market

B.13

At one time the received wisdom concerning scholasticism was that this rationalistic moral philosophy, which stressed virtue and, for example, condemned usury, was incapable of generating a theory which traced systematically the social regularities that emerge from the pursuit of self-interest. But in the last thirty years or so the story has been substantially rewritten so that a more accurate interpretation of the scholastic general doctrine would see it as anticipating later individualistic theories. This is true of its economic theory, for a close analysis of it reveals a commitment to, and a clear understanding of, the theory of subjective value, of economic competition, and the quantity theory of money, among other things. The scholastic economic philosophy reached its apogee in sixteenth-century Spain where the theologian-economists of the 'School of Salamanca' developed the first *general* theory of value, embracing both goods and money, and accommodated traditional Catholic natural law teaching to an economic doctrine more appropriate to the needs of a developing commercial society.

B.14

Such is the similarity between scholastic thought and late nineteenth-century economic theory that it would not be inaccurate to say that there is a continuous stream of subjectivist economics that runs from the thirteenth-century to Carl Menger and the Austrian School of economics, and that the obsession with an objectivist labor costs theory of value in 'classical' economics was a quite unnecessary and time-consuming detour. In his *History of Economic Analysis*, Joseph Schumpeter, who was one of the first writers to recapture scholastic economics for the modern world, wrote that all that was missing from the scholastic doctrine was the concept of the margin.^[7] It was also Schumpeter who saw that the Catholic natural law philosophy was basically utilitarian and concerned with justifying human institutions, such as property, on public interest grounds, and that the concept of 'reason' for the later schoolmen was 'sociological' rather than abstract. Reason's object was to trace out regularities that are revealed when men are left to their natural inclinations.

B.15

In addition to Schumpeter, the work of Raymond de Roover and Marjorie Grice-Hutchinson has pioneered in rehabilitating scholastic economics.^[8] From their work it is clear that, although there were elements of cost of production theories in scholastic economics, the dominant view (which can be traced from Aristotle to St. Augustine through to St. Thomas Aquinas) interpreted the value of a good not as something that inhered in the thing itself but as a product of 'common estimation' or subjective opinion, and of the thing's perceived scarcity. Thus the 'just' price was the competitive price that emerged from the interaction of subjective supply and demand. As Diego de Covarrabias (1512-1572) put it: "The value of an article does not depend on its essential nature but on the estimation of men, even if that estimation be foolish. Thus in the Indies, wheat is dearer than in Spain because men esteem it more highly, though the nature of the wheat is the same in both places."^[9] The 'ethical' element in the theory related not to a moralistic idea that price ought to equal labor cost but to the argument that the 'just' price would emerge only under conditions of more or less perfect competition (the schoolmen were in fact strident

critics of monopoly), and where there is no deceit, fraud, or force. One reason why the schoolmen were reluctant to embrace a cost of production theory rather than a subjectivist theory was that it would actually give merchants an excuse to raise prices above their market-clearing level and would therefore exploit consumers.

Molina: The Market & Natural Law Ethics

B.16

The earliest exponents of subjectivism were Buridan (1300-1358), Saravia de la Calle (c. 1540) and Domingo de Soto (1495-1560); but the clearest expositor of the competitive view was the Portuguese Jesuit Luis de Molina (1535-1600). Molina, of the School of Salamanca, also showed an advanced analytical understanding of competition.^[10] The achievement of those writers was to mitigate the moralizing element in Catholic social science and to show that the customary practices of trade were not against 'nature.'

B.17

The School of Salamanca was similarly successful in breaking out of moral theology in its theory of money. While Jean Bodin (1530-1596), the French political theorist, is normally credited with the first formulation of the quantity theory, it is now clear that this originated with the Spanish schoolmen. Influenced by the rise in the price level in Spain brought about by the influx of gold and silver from the New World, the Dominican Martin de Azpilcueta (1493-1587), wrote in 1556 that "money is worth more where and when it is scarce than where and when it is abundant."^[11] Once again, however, it was Molina who systematically placed the explanation of the value of money within the general theory of value and developed a theory of foreign exchange that anticipated the purchasing power parity doctrine. An important consequence of this latter point was that profits on exchange dealings between foreign currencies were adjudged to be not usurious and therefore not contrary to natural law. Molina also showed that the value of money was necessarily inconstant and that to "control it would do a great deal of harm to the republic";^[12] therefore its value ought to be left to vary freely.

B.18

Of course, to say that important elements of modern value theory were contained in scholastic theory does not make these economists classical liberals. Although the just price was the market price there is ample justification in natural law for the suspension of the market and for the public regulation of prices, especially in famines and emergencies. De Roover concedes that since scholastic doctrine authorizes interference with the market to protect buyers and sellers this could license a wholesale suspension of the competitive system.^[13] Certainly, scholastic economic theory was too closely linked with ethics and natural law to produce a systematic theory of the *self-regulating* market order. In her later work, Marjorie Grice-Hutchinson claims that a theory of the general harmony of the market order was absent from the sixteenth-century Spanish scholastics and does not appear until 1665 with the work of Francisco Centani.^[14]

B.19

It is important to note, however, that two eminent scholars, Schumpeter and Hayek, both regard Molina's social theory as a natural law doctrine which looks forward *not* to seventeenth-century rationalism but to the theory of spontaneous order. Molina's economics is an investigation of *nature*, in the sense of there being sequences of events which would occur "*if they were allowed to work themselves out without further disturbance.*"^[15] Here the maxims of natural law appear to be less the dictates of an unaided reason than the implications of a benign nature.

The Rise of the Common Law

B.20

It is with the emergence of the common law in England that the scholastic hints at an anti-rationalistic natural law are transformed into a substantive jurisprudence. The outstanding figure here is Sir Matthew Hale (1609-1676); for in his argument for the common law he specifically claimed that it possessed a greater inner wisdom and rationality than the anti-traditionalist and *a priori* theories of law precisely because it accommodated facts and circumstances unavailable to the unaided reason. In explicating this argument, he inaugurated a tradition of jurisprudence which we normally associate with Adam Smith and Edmund Burke and, in the present day, Hayek. The major contention of these writers is that genuine law is, in some sense or other, discovered rather than made.

B.21

Hale's important argument against rationalism in the law is in the form of a reply to Hobbes' *Dialogue of the Common Laws* and is conveniently reprinted in the fifth volume of Sir William Holdsworth's *History of English Law*.^[16] Among Hale's other works is the *History of the Common Law*, published in 1715, in which he continues the style of argument found in the reply to Hobbes.

Hale contra Hobbes: On Reason & Sovereignty

B.22

Hale's *Reflections* on Hobbes' system are in two parts: one dealing with the role of *reason* in the law and the other consisting of a critique of the Hobbesian version of *sovereignty*.

B.23

In the first part on *reason* and the law Hale clearly adumbrates an empirical and historical view of the law. No body of existing law can be constructed by pure abstract reasoning because the immense complexity of a legal process makes it impossible to represent its elements in a few simple maxims. The understanding of law therefore requires an 'artificial' reason, not the abstract syllogistic reasoning of the philosophers. Rationalism must fail because law requires the application of general principles to particular cases and this depends largely upon experience. It is because the law must be predictable and certain that there is a presumption in favor of experience and what is *known*. In anticipating an argument later made famous by Hayek, Hale maintains that because of our ignorance we are thrown back on experience and that it is better to

rely on a body of stable and known rules "though the particular reason for the institution appear not."^[17] Furthermore, in a conservative attack on ill-thought out legal reforms, Hale likened a social order to an organic entity which could suffer *unanticipated* damage to its component parts if pure reason were to be the criterion for innovation. This is so because the mind cannot comprehend the totality of a social order, which is itself the product of many minds. He argues that "it is a reason for me to preferre a Lawe by which a Kingdome hath been happily governed four or five hundred yeares than to adventure the happiness and Peace of a Kingdome upon Some new Theory of my owne....."^[18]

B.24

In his reply to Hobbes on *sovereignty* Hale wished to show that Hobbes' definition in politically absolutist terms was both inapplicable to English conditions and inexpedient. While he admits that only the king and parliament can make law "properly so-called," the courts "have great weight and authority in expounding, declaring and publishing what the law of this kingdom is....."^[19] The concession to the sovereignty thesis is more apparent than real for his observation that only the king and parliament may make new laws is immediately qualified by a long argument to show that this power is limited by natural law and expediency. He explicitly ties in the 'law' with traditional liberty and property and maintains that the "obligation of Naturall Justice bindes Princes and Governors." The greatest flaw in the sovereignty model is that it sees law exclusively in terms of enactment.

B.25

In fact, it is almost certainly the case that Hale misunderstood Hobbes' argument about sovereignty. Hale meant by the sovereign the power of the king, and it was easy for him to show, that the king was limited by morality and the existing law. However, Hobbes meant by his sovereignty theory that in any legal system there must be a supreme body, which could *logically* take any form, which is the author of all law, and which itself cannot be bound or limited by any law. Thus to speak of an unlimited sovereign in this sense as being subject to natural law would be self-contradictory.

B.26

Indeed, the concept of 'parliamentary sovereignty' did develop in this way and this poses problems for anti-constructivist, evolutionary theories of law: for it is the unplanned emergence of an all-powerful parliament which in Britain has done so much to undermine the common law itself. While it would be absurd to censure Hale on this score it is important to note the implications of extreme versions of his traditionalism. For extreme traditionalism may well commit the social theorist to the acceptance of institutions that have survived a particular historical process merely because they have survived, even though 'reason' may indicate their inappropriateness for the liberal order.

Private Vices, Public Benefits

Mandeville: Self-Interest & the Invisible Hand

B.27

Bernard Mandeville (1670-1733) is often regarded as a major precursor of the ideas in law, economics, and social philosophy of what came to be known as the 'Scottish Enlightenment.' However, he presented his social theories in the guise of an outrageous demonstration of the social benefits that accrue from vicious and self-interested motivations. He argued that prosperity was inconsistent with the traditional moral virtues and that all human action, despite displays of altruistic affectations, was purely self-regarding. From psychological assumptions not unlike those of Hobbes, he produced a social theory which included elements of *laissez-faire* economics, an early outline of the division of labor and, according to Hayek, early versions of the invisible hand explanation of an equilibrating economic system and the theory of the spontaneous evolution of rules and institutions. While writers such as Hume and Smith were eager to refute his ethical doctrines they were more influenced than they were prepared to admit by his general social theory.

Mandeville's 'Fable of the Bees': Passions & Interests

B.28

The Fable of the Bees: or, Private Vices, Public Benefits was originally published as a poem, *The Grumbling Hive: or, Knaves Turned Honest*, in 1705. At the time of the poem's publication a fierce campaign was under way to rid England of vice, luxury, sin, and corruption, and to encourage the selfless pursuit of virtue and the public good. Hence Mandeville's claim that prosperity depended upon the pursuit of those very vices:

Thus every part was full of vice
Yet the whole mass a paradise

and his argument that the actions of the meanest and vilest contributed something to well-being,

The worst of all the multitude
Did something for the common good

seemed particularly outrageous to an audience that associated the public interest with the virtue of self-sacrifice.

B.29

In 1714 the poem was republished as *The Fable of the Bees* with an additional essay and detailed prose commentaries on its various aspects. Successive editions, with new material, were published throughout the 1720s; the final edition to appear in Mandeville's lifetime was published in 1732.^[20] Whatever particular interpretation is made of his social theory its revolutionary significance lay in Mandeville's argument that the 'passions' of men were not

disruptive and harmful and that order did not require the suppression of man's natural instincts but only the channeling of them in an appropriate framework. The recognition of the value of the passions was an essential step in the development of the social philosophy of capitalism. Although, unlike later writers, Mandeville did not reject the traditional view that virtue involved self-sacrifice and the suppression of the baser instincts, he thought that not only were most men incapable of that virtue but also that its successful pursuit would quickly produce poverty and misery. Since commerce depended on 'selfishness' it was incompatible with virtue.

B.30

Mandeville started from the assumption of the basic constancy of human nature: men were egoistic and did not naturally follow that morality which others thought necessary for social order. He argued that behind overt acts of altruism, charity, and selfless promotion of the ends of the public, could be found purely selfish motivations. Morality was therefore a contrivance "broached by skillful politicians, to render men useful to each other as well as tractable."[\[21\]](#)

B.31

However, the pursuit of the natural vices paradoxically leads to progress because it increases consumption and encourages the development of the division of labor (".....what a number of people, how many different trades, and what a variety of skills and tools must be employed to have the most ordinary Yorkshire cloth"). The habit of 'luxury,' condemned by many because it led to increased and allegedly 'unnecessary' foreign imports was thought by Mandeville to be quite harmless and in his refutation of the 'bullionists' he produced an early version of the automatically-equilibrating tendency inherent in free international trade: "Buying is bartering, and no nation can buy goods of others that has none of her own to purchase with....."[\[22\]](#)

Mandeville's Role in Spontaneous Order Theory

B.32

It is not, however, the ethics or the economics which have suggested to twentieth-century social theorists that Mandeville's work is in the tradition of spontaneous order. Hayek, for example, regards the social theory that Mandeville constructs from the postulate of self-interest as being simply one exemplification of a general theory which explains how a coherent aggregate structure can emerge accidentally from the actions of individuals (be they altruistic or egoistic).

B.33

It is true that there are many passages in *The Fable of the Bees* which suggest both (1) that aggregate structures can emerge in an unintended manner and (2) that enduring laws and institutions are a product of evolution rather than design. Mandeville's discussion of free trade would be an example of the first point. As regards the second point, Hayek claims that Mandeville explains laws as the product of experience and wisdom rather than unaided reason:

there are very few, that are the work of one man, or of one generation; the greatest part of them are the product, the joint labour of several ages.[\[23\]](#)

There is also evidence that Mandeville saw that the task of social theory was to reconstruct those 'concatenated events' which are not visible to the 'short-sighted vulgar' who, "in the chain of causes can seldom see further than one link."

B.34

However, the thesis that Mandeville was a precursor of Adam Smith has been seriously challenged. Jacob Viner[\[24\]](#) has argued that his social theory is not one that celebrates spontaneous order but, on the contrary, stresses artifice and contrivance in the explanation of social regularity. Furthermore, Viner claims, the reliance on individualism and economic self-interest as the decisive forces in the generation of wealth were as characteristic of mercantilist thought as they were of Adam Smith's, and Mandeville was in principle a mercantilist because of his belief that it is by *political* methods that the baser instincts of men are channeled to the advantage of the public. This view is reinforced in Thomas Horne's recent study[\[25\]](#) in which he claims that there is no genuine theory of spontaneity in Mandeville, that there are no theoretical limits on the extent of government activity, and that the doctrine of *laissez faire* was meant to apply only to the property-owning classes.

B.35

It is undoubtedly the case that many quotations from *The Fable* can be produced which seem to indicate that social regularity depends upon the cunning of politicians and it is certainly true that Viner trades heavily on Mandeville's claim that order is the product of that "dextrous management by which the skillful politician might turn private vices into public benefit."[\[26\]](#) In addition, frequent assertions by Mandeville of man's 'natural unsociability' imply that order must be constructed by art, and reveal a Hobbesian strain which does not fit at all well with the Hayekian interpretation. However, much may turn on how we interpret Mandeville's language, and Maurice Goldsmith may be right in his claim that the phrase 'skillful politician' is not meant to represent a 'person' but rather a *system* which does operate in a more or less self-regulating manner.[\[27\]](#) But he does agree that the system is not entirely self-regulating and that it could be altered by deliberate human action. Whatever the 'true' interpretation of Mandeville is, it is the case that later writers, whose claims to classical liberal orthodoxy are better substantiated, were undoubtedly influenced by his way of thinking, even though not all were prepared to admit this.

Josiah Tucker (1712-1799)

B.36

Along with Mandeville, Josiah Tucker, the Dean of Gloucester, is often regarded as a precursor of Adam Smith (although he was a close contemporary his major economic writings[\[28\]](#) preceded the publication of *The Wealth of Nations*). But again the genuineness of his contribution to spontaneous order has been questioned. Many writers have commented on certain mercantilist and statist elements that persist in Tucker's writings and Viner claims that, despite

the fact of the translation of his economic works into French by Turgot, "...the notion that Smith was appreciably influenced by Tucker, via the physiocrats, can be regarded only as a blind stab in the dark."[\[29\]](#) Nevertheless, his description of the main features of the commercial *order* and his enthusiastic portrayal of those accidental benefits that accrue from the operation of self-interest outweigh those constructivistic elements which his social thought undoubtedly contains.

Tucker's Mix of Constructivist and Spontaneous Approaches

B.37

Skeptical of the ability of government to produce public well-being, though lacking that instinctive, almost *a priori*, objection to interventionism that some of the classical liberals had, Tucker trusted in nature. The spontaneous passions of men could be reconciled with their long-term interests under certain conditions. Thus while 'self-love' was potentially destructive, the point was neither to extinguish nor enfeeble it "but to give it a direction, that it may promote the public interest by pursuing its own."[\[30\]](#) Reason, however, had a role in specifying those actions of government which would be required for the operation of an otherwise self-regulating commercial machine.

B.38

Self-love, benevolence, and a limited 'reason' produced that commercial method which would generate harmony without central direction. The division of labor exemplified the commercial system for Tucker, and he showed no fear that the introduction of machinery might produce unemployment. Increases in population and the creation of artificial needs would widen the market and automatically absorb temporarily unemployed labor.

B.39

Tucker's contributions were in the main polemical applications of the commercial method to some familiar problems in an English society which was beginning to show the first signs of *the* liberal economic order. He was a fierce opponent of monopoly and those governmental regulations, such as the apprenticeship laws, that privileged certain people in the labor market. In a brilliant argument, matched only by Adam Smith in *The Wealth of Nations*, Tucker showed how a spontaneous market would clear any over-supply of labor which might emerge from the relaxation of such laws. An early advocate of free trade, he was engaged in a dispute with David Hume over the effects of free trade on the international economy. Against Hume's claim in the essay *Of Money* that free trade would tend to equalize poor and rich nations, Tucker argued that certain natural advantages would perpetuate the hegemony of the existing wealthy countries.[\[31\]](#)

B.40

Tucker's thesis was a kind of 'economic' imperialism which tried to show how the mercantilist end of the aggrandisement of state power could be achieved by liberal means. In fact, nineteenth-century anti-free trade theorists, such as Frederick List, used just these arguments to justify poorer nations raising tariff barriers. Indeed, Tucker himself was not opposed to such actions and

anticipated the 'infant industries' justification for limited governmental protection. There are then constructivistic elements in Tucker.

B.41

It was because he believed that national prosperity depended on an increase in population that Tucker felt that this should be *deliberately* encouraged: hence his bizarre scheme for imposing severe penalties on bachelors. He did not in fact think that private interest always coincided with the public interest, and therefore produced a series of recommendations of *ad hoc* interventionism. This was unsystematic because, although he was an acute expositor of the philosophy of the market, he had little theoretical understanding of the nature of the legal order. Although he wrote on political philosophy he did not succeed in generating a social theory to complement his (generally) liberal economics.

Spontaneous Order & the Scottish Enlightenment

B.42

It was the thinkers of the eighteenth-century Scottish Enlightenment—Smith, Hume, Ferguson, Dugald Stewart, and Thomas Reid—who were largely successful in integrating all these significant hints at a doctrine of spontaneous order into a general social philosophy. The most striking thing about this remarkable group of thinkers is the breadth of their interests, and Adam Smith, indeed, can be looked upon, not inaccurately, as the 'Newton of the social sciences' in his attempt to explain the natural processes of a social order in terms of universal principles. However, one important feature of the thought of the Scottish thinkers is that, although they were the major celebrants of spontaneous processes, two of them, Ferguson and Smith, showed some skepticism about the outcomes of such processes. Thus, as we shall see, they did not regard all the unintended consequences of freedom as being necessarily beneficial. Commercial prosperity, they feared, might be bought at the cost of civic virtue.

David Hume (1711-1776)

B.43

Although easily the most distinguished philosopher of the Scottish Enlightenment, Hume did not write a systematic treatise on social theory even though he wrote widely in this area. His contributions can be found in his two major philosophical works, *A Treatise on Human Nature* (Book III), first published in 1737, *Enquiry Concerning the Principles of Morals* (1751), and volumes of essays published in 1741, 1782, and 1748. It is not surprising that a philosopher who was so skeptical about the foundations of human knowledge should deny that moral political principles can be determined by reason. But while Hume sometimes spoke dramatically of the impotence of reason in human affairs ("it is not contrary to reason to prefer the destruction of the world to the scratching of my finger"), and maintained that morality was a matter of passion and feeling, he did not suggest that ethical and political judgments were arbitrary. That there is a uniformity in human nature led Hume to speculate profitably on that structure of general rules which is consonant with those regularities that characterize man and society. Further, Hume was a rigorous critic of any contractual basis for society, depending as it does on a rationalist

conception of natural law. In common with his contemporaries, he located the origins of law and government in certain natural propensities in man.

B.44

An important consequence flowed from Hume's belief in the uniformity of human nature. He stressed that any suggestions for the improvement of man must rest not on a utopian 'reformation of the manners of mankind' but on observation and experience of those rules that best serve men's more or less unchanging needs. The 'facts' that give rise to *essential* rules of conduct are scarcity, limited altruism, and an ever-present desire in men to forego long-run advantages in favor of immediate satisfactions. It is because of these unchanging circumstances that humans establish artificial rules of justice by reflecting on the *utility* that these rules produce in the enforcement of property rights. In Hume's words, they preserve the "stability of possession, of its transference by consent and the performance of promises."[\[32\]](#)

B.45

It is important to note that these rules, which establish the connection between individual and public interest, emerge *spontaneously*. Hume is insistent that those things which are for the public benefit are not a product of rationalist calculation. The happiness of a community is not promoted by trying to instill a passion for the public good in people but by animating them with a "spirit of avarice and industry, art and luxury" so that the same result comes about indirectly. The rules of justice themselves are for the public good undoubtedly, but they emerge in an evolutionary manner from the actions of individuals who have only self-interest in mind. He says that "those rules, by which property, right and obligation are determined... have all of them a direct and evident tendency to public good" but that it is "self-love which is their real origin."[\[33\]](#) Thus a system develops which is in *everyone's* interest "though it be not intended for that purpose by the inventors."

Adam Ferguson (1723-1816)

B.46

As a contributor to the tradition of spontaneous order, Adam Ferguson is noted mainly for his *An Essay on the History of Civil Society* (1767), but he was very much a 'system-builder' and the other elements in his social philosophy, covering ethics, jurisprudence, and economics, are contained in his *Institutes of Moral Philosophy* (1769) and the two-volume *Principles of Moral and Political Science* (1792). Often quoted with approval by Hayek as an early exponent of the antirationalist explanation of social order, Ferguson's defense of the liberal order of commercial society is less enthusiastic than others. In addition, his often moralistic celebration of an ethics of 'virtue' and public spirit, derived from classical antiquity, provides some contrast with the familiar morality of enlightened self-interest. Indeed, he denied that Mandeville's postulate of self-interest was sufficient to hold a society together. He feared that the individualist ethics of ambition and enterprise and the social system of the division of labor might so dilute patriotism that despotism would threaten commercial orders. Ferguson maintained this fear while not denying that liberty was associated with the commercial order and prosperity with the division of labor.

B.47

Consistent with the Scottish tradition, Ferguson sought to explain the social state by reference to nature and instinct, rather than reason and artifice. There is no state of nature out of which isolated individuals armed only with their reason contrive their way into society via a contract. On the contrary: "Mankind has always wandered or settled, agreed or quarrelled in troops and companies."^[34] Society has always been coterminous with man, and its bonds arise "from the instincts, not the speculations of men." Again, ethics do not emanate from reason but from the facts of nature: that men naturally seek self-preservation, they desire to improve themselves, and are capable of benevolence. It was Ferguson's aim to link an evolutionary and quasi-historical explanation of society with a universalistic and naturalistic ethics.

Ferguson's Conjectural History as Spontaneous Order

B.48

Ferguson's descriptive sociology was a hypothetical reconstruction of the natural evolution of society from a 'rude' to a 'polished' state. He distinguished three sorts of social order: 'savage,' which is scarcely a society at all, with no property and little inequality; 'barbaric,' which is characterized by the natural emergence of property, inequality, and elementary political institutions; and 'polished,' which is the order of the commercial society, with specialized social roles, manufacturing industry in addition to agriculture, and the division of labor.

B.49

The emergence of the commercial society, then, is spontaneous and undesigned, coming about through man's natural adjustment to circumstances. Government and law, for example, are needed to protect property, and the forms of political rule depend on experience and instinct rather than reason, since "no constitution is formed by concert, no government is copied from a plan." And, in a phrase made famous by Hayek, Ferguson declared that:

Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design.^[35]

B.50

Yet there is a curious mixture in Ferguson; his thought includes not only a voluntaristic ethic that stresses activity and benevolence (and which is favorably disposed to conflict as a mainspring of human action) but also a recognition of the fact that men are in general governed by self-interest and that the public interest is better promoted by each person caring for his own welfare. This would reinforce Hayek's view that the theory of spontaneous order does not *necessarily* depend on a self-interest axiom of human nature but only on the idea that aggregate and orderly social structures can be traced from the actions of individuals who had no intention of bringing them about. It is important to note, however, that Ferguson was obsessively concerned with the idea that the commercial system was inadequate precisely because it unintentionally attenuated those

social values, such as the public spirit and the military ethic, which were evident in earlier and ruder forms of society.

Adam Smith (1723-1790)

Smith's Systematic Social Science: Economic & Legal Order

B.51

Smith was the most systematic social theorist of the Scottish Enlightenment. His *Wealth of Nations* (1776) is a type of 'general equilibrium' theory of economic society in which a self-regulating system of spontaneous order is reconstructed out of the basic impulses in human nature. Although it explores the implications of *self-love* for the maintenance of an economic system there is no real inconsistency between this and his earlier treatise on ethics, *The Theory of Moral Sentiments* (1759), in which a much wider range of human motivations is analyzed. It is true that the *Wealth of Nations* is less sanguine about the beneficial effects of natural liberty, and therefore it sanctions a not inconsiderable number of interventionist actions, but there is little difference in the principles of human nature that underlie it and *The Theory of Moral Sentiments*.

B.52

Smith had promised a general treatise on law and government but did not live to complete this; however, two reports of his *Lectures on Jurisprudence* were discovered after his death, and these contain elements of a general theory of law. Although many of Smith's ideas were not original to him, he constructed a novel theory of how a social order might be maintained through the operation of natural forces, with little in the way of artificial direction and control. There is, however, a minor revolution presently going on in Smithian scholarship, largely concerned with downgrading the elements of spontaneity and automatic adjustment hitherto thought to be characteristics of his social theory and 'recapturing' his work for the eighteenth century. The criticism is that previous commentators have tended to look at Smith's work through nineteenth-century *laissez-faire* spectacles rather than see him in the context of eighteenth-century politics.^[36] While perhaps a slightly more statist Smith has emerged from this analysis it does not affect the judgment that his work forms a land-mark in the history of the theory of spontaneous order.

Smith's Invisible Hand and Natural Liberty

B.53

In common with his contemporaries Smith sought an explanation of social order which economized on reason. Smith puts this point graphically with his explanation of the emergence of the division of labor: this is not

originally the effect of any human wisdom, which foresees and intends the general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility: the propensity to truck, barter and exchange one thing for another.^[37]

The anti-intentionalist aspect of Smith's approach is clear from his emphasis on 'natural liberty': allowing this to operate produces benign consequences in contrast to those that come from artifice. In the *Theory of Moral Sentiments* he argues fiercely against that 'spirit of system' of the rationalist philosophers which arrogantly presupposes that the happiness of human beings can be arranged, independently of experience, according to a predetermined plan. He says that rationalists forget that "in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it."[\[38\]](#) In a number of passages in the *Wealth of Nations* he argues that the centralized legislator will not have the knowledge at his disposal that individuals have of their 'local situations' and it is this which is maximized in their pursuit of natural liberty. That 'invisible hand' that co-ordinates human action under the system of natural liberty is as much a metaphor to describe how a society responds to the problem of ignorance as it is a metaphor to explain how the public good can be a product of self-regarding action.

B.54

By a natural occurrence of events, Smith means what happens when the normal course of events is allowed to proceed without some deliberate human intervention. The behavior of a market is an obvious example of such natural phenomena. The self-regulating properties of the market are not a product of a designing mind but are a natural product of the price mechanism. Now from certain uniformities of human nature, including of course the natural desire to 'better ourselves,' it can be deduced what will happen when government action disturbs this self-regulating process. Thus Smith shows how apprenticeship laws, restraints on international trade, the privileges of corporations, etc., all disturb, but cannot entirely suppress, natural economic tendencies. The spontaneous order of the market is brought about by the *interdependency* of its constituent parts and any intervention with this order is simply self-defeating: "No regulation of commerce can increase the quantity of industry in any part of society beyond what its capital can maintain. It can only divert a part of it into a direction which it might otherwise not have gone."[\[39\]](#)

B.55

Smith's celebration of the market in no way revealed an admiration for the merchants as a 'class': Smith's criticism of them is well-known. The order emerges despite the intentions of merchants, who are as eager as anyone else to seek advantage through state action which is disruptive of that order.

The Limits to Smith's Spontaneous Order

B.56

The system of natural liberty, however, can only work in the context of a form of interventionism; that of the enforcement of the strict rules of justice. Nature, while the source of unintended benefits for mankind, also accommodates those impulses which, if unregulated, turn self-love into an anti-social selfishness. For Smith justice is basically *commutative*, imposing negative obligations on people to refrain from violating the natural liberty of others and requiring the enforcement of contracts. While a society may subsist without the sentiment of benevolence,

it cannot survive without the enforcement of justice: the rules of which are the minimum requirements of the market society.

B.57

While Smith certainly does not believe that natural processes alone can be relied on to generate a legal order, or in the rationalist notion of natural law that validates 'anarcho-capitalism,' he does have a theory of the spontaneous emergence of those legal rules which are to be enforced by the state. This is contained mainly in his (reported) writings on jurisprudence. His legal theory is based on the idea that law is not the artificial command of a sovereign but the formalized expression of *natural* justice. The content of this natural justice is that which would be determined by the hypothetical impartial spectator, informed by tradition and experience. The mechanism for producing that desired harmony between positive law and natural justice is the common law: and Smith's jurisprudence contains a typically anti-rationalist defense of judge-made law against statute. However, while the common law needs to be supplemented by statute (one reason being the need to control the judges), the standard for statute law should be natural reason and not the will of the legislator. Although, it is not clear whether 'natural reason' refers to merely conventional standards or represents a more universal naturalistic morality.

B.58

Yet in Smith the spontaneity of a social order appears not to be the same as that of an economic system governed by natural liberty. His explanation of the *evolution* of a social and political order has a historicist, almost deterministic, and fatalist aspect which has been seized on by some contemporary critics as evidence of a disjuncture between his economics and politics. In his tracing of a conjectural history of society's development through four stages, the initial periods of Hunters and Shepherds, through to Agriculture and culminating in Commerce, he implies not merely that social institutions are to be explained independently of specific intentions but that there is a certain inevitability about the course of events. He actually says that there is a "fatal dissolution that awaits every state and constitution whatever."[\[40\]](#) This raises the possibility that the explanation of spontaneous order in the non-economic sphere may slip unintentionally into a kind of determinism.

B.59

Furthermore, Smith is certainly not happy with certain of the unintended consequences of the market order that he detected, and their presence justified, in his mind, certain constructivistic interventions by government. Attention has recently been focused on those passages in *The Wealth of Nations*[\[41\]](#) which suggest that the specialization of the division of labor renders large numbers of the population stupid, inactive, and 'alienated' from the system of natural liberty; and also progressively incapable of mastering those requisites for the making of moral judgment which are described in *The Theory of Moral Sentiments*. It is this concern that underlies his belief in a state system of education. It is, in fact quite easy to compile a sizable list of ad hoc interventions which Smith authorizes, and this indicates that he did not think the outcomes of the system of natural liberty were *automatically* benign.

B.60

As with other great systems of ideas it is possible to read almost anything into Smith's works. What cannot be denied, however, is the fact that they constitute the first detailed statement of the theory that a society is a system of interrelated parts which exhibits a natural tendency to equilibrium if left undisturbed. It is this insight that makes a social science possible and which, in a normative sense, enables the mind to hypothetically construct the likely consequences of arresting or diverting these natural processes. In the light of this discovery the offence of 'inconsistency' seems less heinous than some recent critics of Smith have implied.

Between Smith and Menger

B.61

It is commonly thought that after Smith the theory of spontaneous order went into a decline until the rise of Austrian economics and social science in the last decades of the nineteenth century: that the cautious consequentialism of Hume and Smith was replaced by the activist utilitarianism of Bentham and the two Mills, which authorized government to directly promote social well-being by coercive law (that law itself was a product of command and will rather than evolution). However, this interpretation would be misleading since there were other writers during this period who continued the individualist tradition. The most important were the writers in the French *laissez-faire* school and Herbert Spencer.

Bastiat and de Molinari

B.62

The leading figures in France were Frederic Bastiat (1801-1850) and Gustave de Molinari (1819-1912). One reason why they have not been taken as seriously as they deserve as theorists of spontaneous order is that they contributed little in the way of original theory to economics. Bastiat is largely known as a brilliant economic journalist and tireless exposé of statist and protectionist fallacies, and de Molinari as a relentless advocate of the logic of *laissez-faire* towards a version of free market (and lawful) anarchy.

B.63

Although, for example, Hayek's admiration of Bastiat extends only to his feats as a polemicist, he is worth further study because his novelty lay not in economic theory but in general social philosophy; in the theory of law and government. One reason why Hayek pays no attention to this is that, although Bastiat comes up with a theory of limited government and an explanation of the ultimate *harmony* that automatically results from the free play of economic forces, the foundation for this conclusion is rather different from others in the tradition that Hayek admires.

B.64

In a word Bastiat was a *rationalist*; he deduced his theory of limited government and economic harmony directly from an abstract theory of natural law and natural rights. While he was

indefatigable in his demonstrations of the beneficial consequences that inevitably flow from freedom and exposure of the dis-coordinating actions of government, his ultimate justification for liberty lay in an essentialist concept of man abstracted from time and place. In his work on jurisprudence, *The Law*, Bastiat espouses an individualist view of law and justice that derives not from those natural propensities and passions, as in Hume and Smith, but from reason, and ultimately God: "Each person has a natural right—from God—to defend his person, his liberty and his property."^[42] It is just this that the anti-rationalists reject on the ground that 'nature' does not furnish us with a permanent and universal standard of conduct independently of experience. This means that whereas Bastiat deduced the relationship between the individual and government axiomatically from the first principle of liberty—that each man has the right to protect his life, liberty and property—the evolutionary approach suggests that the ideal working of a social system is too complex to be captured in a simple formula, that no abstract system of rules can be rationally devised which can accommodate all future unknown cases.

Herbert Spencer

B.65

In the writings of Herbert Spencer there are obvious indications of an evolutionary approach. For although in his early work *Social Statics* (1851) he appears to have deduced the system of *laissez faire* from a doctrine of natural rights, couched in the form of the Law of Equal Freedom, the idea of the spontaneous evolution of rules and institutions came to dominate his social thought. In his *Social Statics*, *The Man versus the State* (1881), and his sociological writings there are numerous examples of his commitment to a form of reasoning we associate with spontaneous order. He stresses that societies develop (from militant to industrial) without design and according to laws which operate independently of man's will; that a market allocation, specialization, and the division of labor spontaneously develop to man's advantage; that reformers mistakenly treat a society as a 'manufacture' which can be manipulated by rationalist planners when it is in fact a 'growth'; and that proper social science requires an exploration of the long-term and unintended consequences of human action. Furthermore his normative ethics were of a complex consequentialist kind. The Law of Equal Freedom was justified because it was consistent with the *long-run* happiness of men: what he objected to was that constructivistic rationalist utilitarianism which tried to measure the *immediate* effects of rules and policies. It was a fundamental tenet of Spencer that the complexity of a social order precludes this kind of calculation.

B.66

It is curious why Hayek should pay so little attention to Spencer's social science and philosophy. What is even more remarkable is that the influence of evolution had a corrosive effect on both their systems. For if the criterion of social value is *survival* in an evolutionary process, what can be said against those institutions which, although they may embody anti-liberal values, have survived? Spencer was faced with this problem during his lifetime because of the rise and *political* success of socialist evolution. As we shall see below, Hayek is faced with the problem that undesigned institutions may develop in a number of different ways, including anti-liberal ways.

Notes for this chapter

1. F. A. Hayek, *Law, Legislation and Liberty*, vol. I, *Rules and Order*, (1973), pp. 8-11; vol. III, *The Political Order of a Free People*, (1979), p. xii. It is in the latter that Hayek uses the word 'constructivistic' rather than the more familiar 'constructivist.'
2. See Hayek's essay, "The Results of Human Action but not of Human Design," in *Studies in Philosophy: Politics and Economics* (London: Routledge and Kegan Paul, 1967), pp. 96-105; see also the important article by Edna Ullman-Margalit, "Invisible Hand Explanations," in *Synthese* 39 (1978): 263-291.
3. Adam Smith, *The Wealth of Nations*, R. H. Campbell and A. S. Skinner (eds.) p. 456. The reference to the 'invisible hand' occurs also in Smith's *Theory of Moral Sentiments*, D. D. Raphael and A. Macfie (eds.), p. 58.
4. Hayek, "Principles of a Liberal Social Order," in *Studies in Philosophy, Politics and Society*, p. 167. The only comprehensive treatment of contemporary social and economic problems from a Hayekian standpoint is Thomas Sowell's *Knowledge and Decisions* (1980).
5. Adam Smith, *The Wealth of Nations*, p. 456.
6. See Edna Ullman-Margalit, "Invisible Hand Explanations," pp. 282-286.
7. Joseph Schumpeter, *A History of Economic Analysis*, p. 98.
8. See especially Marjorie Grice-Hutchinson, *The School of Salamanca*; Raymond de Roover, "Scholastic Economics," in *Quarterly Journal of Economics* 69 (1955): 162-190; and "Joseph Schumpeter and Classical Economics," in *Kyklos* 10 (1957): 115-146. See also Murray N. Rothbard, "New Light on the Prehistory of the Austrian School," in E. Dolan (ed.) *The Foundations of Modern Austrian Economics*, pp. 52-74.
9. Quoted in Grice-Hutchinson, *The School of Salamanca*, p. 48.
10. See appendix VII in Grice-Hutchinson, *The School of Salamanca*, pp. 112-115.
11. Quoted in Grice-Hutchinson, *The School of Salamanca*, p. 94.
12. Grice-Hutchinson, *The School of Salamanca*, p. 115. [N.B.: "that where and when it is abundant" must be a typo for "than where and when it is abundant". The *Literature of Liberty* copy reads "that".—Econlib Ed.]
13. De Roover, "Scholastic Economics," p. 185.
14. Grice-Hutchinson *Early Economic Thought in Spain*, pp. 147-148.
15. Schumpeter, *A History of Economic Analysis*, p. 112.
16. For a concise exposition of Hale's jurisprudence see J. G. A. Pocock, *The Ancient Constitution and Feudal Law*, pp. 170-81.
17. Holdsworth, *A History of English Law*, vol. V, p. 505.
18. Holdsworth, *A History of English Law*, vol. V, p. 504.
19. Holdsworth, *A History of English Law*, vol. V, p. 509.
20. Bernard Mandeville, *The Fable of the Bees*, edited by Philip Harth (1970).
21. Mandeville, *The Fable of the Bees*, p. 85.
22. Mandeville, *The Fable of the Bees*, pp. 138-9.
23. Quoted in Hayek's essay "Bernard Mandeville," in *New Studies in Philosophy, Politics, Economics and the History of Ideas* (1978), p. 261.
24. See Jacob Viner, "An Introduction to Bernard Mandeville, *A Letter to Dion* (1732)," in *The Long View and the Short* (Glencoe: The Free Press, 1958), pp. 332-42.
25. Thomas Horne, *The Social and Political Thought of Bernard Mandeville* (London: Macmillan, 1978).
26. Mandeville, *The Fable of the Bees*, p. 371.
27. Maurice Goldsmith, "Public Virtues and Private Vices," *Eighteenth Century Studies* 9 (1976): 510.

- [28.](#) Tucker's major work on political economy was the unfinished *Elements on Commerce and Theory of Taxation* (1754). See R. Schuyler (ed.), *Josiah Tucker, A Selection of His Economic and Political Writings*. For a recent biographical essay on Tucker, see G. Shelton, *Dean Tucker and Eighteenth-Century Economic and Political Thought*.
- [29.](#) Review of Schuyler's *Josiah Tucker: A Selection from His Economic and Political Writings*, in Viner's *The Long View and the Short*, p. 407.
- [30.](#) Josiah Tucker, *Josiah Tucker: A Selection of His Economic and Political Writings*, p. 31. [N.B. R. Schuyler, ed. See preceding two footnotes.—Econlib Ed.]
- [31.](#) See Bernard Semmel, "The Hume-Tucker Debate and Pitt's Trade Proposals," *Economic Journal* 75 (1965), pp. 759-70.
- [32.](#) Hume, *A Treatise of Human Nature*, Book III, p. 578.
- [33.](#) Hume, *A Treatise of Human Nature*, pp. 528-9.
- [34.](#) See Duncan Forbes (ed.), *Adam Ferguson: An Essay on Civil Society*, p.16. A detailed account of Ferguson's social philosophy can be found in David Kettler, *The Social and Political Thought of Adam Ferguson* (Ohio: Ohio State University Press, 1965).
- [35.](#) Ferguson, *An Essay on Civil Society*, p. 122.
- [36.](#) This point of view is forcefully argued in Donald Winch, *Adam Smith's Politics* (1978). More orthodox recent treatments of Smith include T. Campbell, *Adam Smith's Science of Morals* (1971); Andrew S. Skinner, *A System of Social Science* (1979); Knud Haakonssen, *The Science of a Legislator* (1981); and E. G. West, *Adam Smith* (1969).
- [37.](#) Smith, *The Wealth of Nations*, p. 25.
- [38.](#) Smith, *The Theory of Moral Sentiments*, pp. 233-34.
- [39.](#) Smith, *The Wealth of Nations*, p. 453.
- [40.](#) Smith, *Lectures on Jurisprudence*, p. 32.
- [41.](#) Smith, *The Wealth of Nations*, p. 788.
- [42.](#) Frederic Bastiat, *The Law*, p. 6.

End of Notes

Carl Menger (1840-1921)

B.67

Carl Menger is associated primarily with Jevons and Walras for his rediscovery of the subjectivist theory of value and the principle of marginal utility in his first published work of economic theory (1871). But his contribution to the theory of spontaneous order is contained in his methodological work, *Problems in Sociology and Economics* (1883). In this he attacked the methodology of the 'younger historical school' of German economists and tried to found a 'causal-genetic' *theory* of society in which the regularity and predictability of institutions is

theoretically reconstructed out of the actions of individuals. Menger in fact called his procedure the 'compositive' method: this holds that while it is meaningful to talk of social 'aggregates,' the behavior of such aggregates is explicable only in individualist terms.

B.68

Menger's methodology consists of two parts. The first part describes those timeless generalities called 'exact' laws (such as the law of demand) which do not refer to any actual empirical phenomena but which enable us to organize social knowledge. The second part, which is more important from the point of view of the theory of spontaneous order, describes those empirical regularities that, although they are necessarily less precise than the exact laws, are capable of a theoretical and ahistorical explanation.

B.69

What Menger wished to do was to refute what is now called 'historicism,' i.e., the idea that the laws of social science consist of observed historical regularities; normally, in the German historical school, these were purported regularities of holistic (and irreducible) entities, such as the 'national economy.' Menger had no objection to the *proper* historical method, which was the study of unique individual events; his criticism was directed at the attempt to construe empirical laws as sequences of such historical events. For Menger 'empirical' laws were not historical generalizations but hypothetical constructions derived from regularities in individual behavior. This anti-inductivism is a striking feature of the social science of the Austrian economists and social philosophers. For them the immense complexity of the social and economic world means that the theorist must proceed by the way of 'abstraction' rather than description.

B.70

The institutions that social science explains by the method of abstraction are money, languages, markets, and law. They are examples of what Menger calls *organic* phenomena because they are the results of natural processes. These organic institutions are to be contrasted with *pragmatic* institutions, which are the product of human deliberation and will. In common with the eighteenth-century thinkers Menger comments on how the organic institutions serve the common welfare without being the product of a common will. In a revealing passage he wrote:

Language, religion, law, even the state itself, and to mention a few economic social phenomena, the phenomena of markets, of competition, of money, and numerous other social structures are already met with in epochs of history where we cannot properly speak of purposeful activity of the community as such directed at establishing them.[\[43\]](#)

B.71

Menger's most significant example is his explanation of money. He was struck by the fact that, since people only exchange to procure goods that they need, it seems implausible that self-interest would produce a 'public' institution such as money, which is clearly not required for their

immediate needs. Menger points out that many social philosophers were driven by this paradox to claim that money was the product of some specific agreement or contract, or positive act of legislation by the state.

B.72

Against this rationalist explanation Menger argues that, although money can and has come about in this way, the institution can be accounted for by natural processes. In an original barter economy it will be apparent that some goods are exchangeable for a greater range of goods than many others and people will naturally exchange their less marketable goods for these, even though they do not immediately need them, to satisfy more conveniently their future wants: "the economic interest of the economic individuals, therefore, with increased knowledge of their *individual* interests, without any agreement, without legislative compulsion, *even without any consideration of public interest*, leads them to turn over their wares for more marketable ones..."^[44] (italics in original). The process will automatically produce a good that has the familiar properties of money.

B.73

However, all the economic agents could never simultaneously possess the knowledge of the advantages of the money good. The emergence of money is a gradual process and is in fact set in train originally by a small number of individuals perspicacious enough to see its advantages. It was not the intention of those economic agents to produce something for the public's advantage but this is what occurs.

B.74

The interesting thing about Menger's discussion of spontaneous order, however, is that he does not emphasize the *value* of undesigned institutions in quite the same way as other thinkers in the same tradition and does not assume that they are necessarily superior to pragmatic ones. It is true that in *Appendix VIII* of his *Problems* he specifically contrasts evolving law with statute law and draws out the advantages of the former in what has become the orthodox fashion, but he then goes on to discuss some important qualifications. He is particularly concerned that the organic view should not be interpreted to mean that rules which have developed in an undesigned manner should necessarily be regarded as superior to made or contrived law. It is not the origin of the law that determines its value but its usefulness. He says that the "common law has proved harmful to the common good often enough... and legislation has just as often changed common law in a way benefiting the common good."^[45]

B.75

Menger is then highly skeptical of the notion that the common law contains some 'higher wisdom' which is immune from rational criticism. The fact that institutions had emerged organically is not a reason for approving of them any more than their pragmatic origin is a reason for condemnation. There is a tendency in some writers in the literature of spontaneous order to

regard certain institutions as functional merely because they have survived an evolutionary process, but this conviction is absent in Menger.

F. A. Hayek

B.76

Of all the twentieth-century theorists of spontaneous order, Friedrich A. Hayek (b. 1899) has contributed most to the intellectual reproduction of Adam Smith's vision of a self-correcting social order which requires little direction and control. Throughout the great variety of his works[46] he has stressed the importance of spontaneous processes and the impossibility of predicting the future growth of a social order. The whole of his social philosophy may be described as an assault on the exaggerated claims made for 'reason' and a justification for the view that we must adopt an attitude of humility towards natural processes and "submit to conventions which are not the result of intelligent design, whose justification in the particular instant may not be recognizable, and which will..... often appear unintelligible and irrational." [47]

B.77

While Hayek has been a rigorous critic of 'scientism,' the belief that the methods of the physical sciences can be readily applied to the study of society, with their concomitant advantages of prediction and control, he does not deny that a social system is governed by 'laws.' There are, for example, laws of economics; these consist of, to use Lord Robbins' phrase, "those necessities to which human action is subject." In Hayek's opinion, many of the mistakes of rationalist planning stem from attempts to resist the operation of the basic principles of scarcity, supply and demand and so on, and well-established laws of human behavior. A genuine social science, then, would describe how men adjust to certain inevitable laws and stress how little they can, or need to, control their societies.

Knowledge and Society

B.78

In his description of a self-regulating system Hayek's major achievement has been to show that the advantages of decentralized decision-making in a market stem from the fact that this is the only device that man has discovered for coping with the universal facts of ignorance and uncertainty. It is because the social world does not consist of physical objects governed by simple laws of causality, but is a 'kaleidic' world inhabited by individuals with minds, whose the inner recesses are inaccessible to the external observer, that knowledge is not 'fixed' and available to a single person or institution.[48]

Co-ordinating Dispersed Knowledge: Rationale for Market & Liberty

B.79

The problem of knowledge arises because the 'facts' of a social and economic system are dispersed throughout the minds of thousands, possibly millions of actors; therefore this

knowledge has to be co-ordinated if we are to exploit it for the benefit of man. This division of knowledge, which characterizes any social process with a degree of complexity, is, in Hayek's opinion, as important as the division of labor as a mechanism to explain progress; the co-ordination of this diffused knowledge via a market process allows us to utilize a much greater amount of knowledge than under known alternative systems. Thus, whereas Adam Smith and his successors saw the market and law as co-ordinating the *self-interested* actions of agents so as to produce an unintended beneficial outcome, Hayek speaks of the co-ordination of the actions of necessarily *ignorant* people. Thus the theory of spontaneous order does not depend for its truth on the so-called 'egoistic' behavior assumptions of traditional economic theory because there remain universal co-ordination problems whether people are selfish or altruistic in their impulses. Nevertheless, one should not ignore the importance of 'vulgar' motivations in the economic nexus; the interdependent parts of an economic system are normally held together by self-interest.

B.80

The justification for individual liberty is then largely instrumental in that the case for 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."[\[49\]](#) It is not that the theory of spontaneous order precludes planning as such; it is that only planning by individuals in decentralized markets will tend towards an optimal use of knowledge. The central planner has only that knowledge available to him, which is less than that which is co-ordinated among all the agents in a market process. Furthermore, because the future is unknowable, a system that relies on liberty allows for the accidental and spontaneous. Hayek's main objection to the rationalist theory of liberty is that the rationalist associates the growth of knowledge with predictability and control; but those things which can be predicted and controlled comprise only a small part of social and economic experience.

B.81

In Hayek's epistemology, *scientific* knowledge of society is knowledge of spontaneously formed orders: the knowledge that we do have of *made* orders cannot be genuine scientific knowledge. Thus much of contemporary sociology and political science is not scientific knowledge but rather contemporary history because those subjects deal with phenomena which are the product of will and intention: the only social phenomena which are explicable by scientific, causal-genetic laws are markets and legal systems.

Ambiguity in Explaining Legal Orders: Spontaneous Order vs. Relativistic Evolution

B.82

It is my intention to show that while Hayek's attempt to explain the spontaneous order of the market is largely successful, and indeed contains some of the most brilliant insights into the nature of economic processes since Adam Smith, his attempt to account for the legal order in similar terms is less successful. This is largely because he blends two subtly different types of explanation: one concerned with the formation of spontaneous orders, and one concerned with the evolution of rules and institutions by natural selection. Hayek himself speaks of the 'twin

ideas' of evolution and of the spontaneous formation of an order without indicating that there might be an important difference between the two. But the emphasis on evolution and the *cultural transmission* of rules and practices introduces a note of historical relativism which does not always harmonize with the universalistic liberal rationalism characterizing his explanation of the formation of economic orders.

The Free Exchange System

'Catallaxy' vs. 'Economy': Market Co-ordination vs. Neoclassical Equilibrium

B.83

The word that Hayek uses to describe a spontaneous market order is *catallaxy*; and a *catallaxy* is contrasted with an economy. An economy is a social practice defined in terms of the pursuit of a 'unitary hierarchy of ends,' where knowledge of how to achieve these ends is given. A single firm (or a household) is an economy and may be evaluated with the methods of an engineering type of science for its success in achieving prescribed goals, or common purposes. However, a *catallaxy* is a network of many firms and households and has no specific purpose of its own: it is that which results naturally from the interaction of firms and households through the exchange process: "the order of the market rests not on common purposes but on reciprocity; that is, on the reconciliation of different purposes for the mutual benefit of the participants."[\[50\]](#)

B.84

According to Hayek, the mistake of orthodox neoclassical theory is to treat a *catallaxy* as if it were an economy. This is because of the neoclassical emphasis on static equilibrium. This is an example of rationalism because it is assumed that an 'efficient' economic order, in the conventional sense of there being a state of affairs in which it is impossible to switch a resource from one use to another and receive a net benefit, can be designed without a market process to signal information about tastes, costs, and so on. However, this assumes perfect information, whereas the real world is characterized by ignorance, change, and uncertainty, so that knowledge cannot be 'objectified' and made to serve given ends. All we can expect is a tendency towards equilibrium as the actions of individuals are co-ordinated through the mechanism of prices. Thus Hayek extends subjectivism beyond the theory of value to the theory of market process.

B.85

This theory, that there is a tendency to equilibrium in a decentralized exchange system is of course an empirical theory, which may be falsified. It is logically possible that there may be such endogenous 'shocks' to the system that the plans of the participants may not harmonize. Indeed, there are extreme 'subjectivists' who do not merely reject the neoclassical orthodoxy concerning static equilibrium, but also suggest that, because of the divergence of 'expectations,' future profitable opportunities may not be exploited so that there is not even a tendency for the actions of economic agents to be co-ordinated. In the work of G. L. S. Shackle and Ludwig Lachmann there is the implication that the spontaneous emergence of an *order* may be only a chance phenomenon, rather than a theoretical property of an interdependent economic system. In other words, the market does not co-ordinate expectations in the way that it co-ordinates

knowledge.[51] In Hayek's early work on the theory of market process, his main concern was with the disequilibrating effect of certain exogenous factors, such as governmental control of money, which dis-coordinated the actions of economic agents; he did not consider seriously the possibility of the presence of ignorance and uncertainty producing spontaneous disorder. Further, although Hayek presented his theory as an empirical one, he did not indicate under what circumstances it might be falsified. The assumption was that a *catallaxy* was tending towards equilibrium rather than being moved away by endogenous factors.

Co-ordinating Market Knowledge: Competition & Entrepreneurship

B.86

However, it should be argued that there are certain identifiable causal factors at work which bring about this tendency, namely *competition* and *entrepreneurship*; and here, Hayek's important suggestions have been taken up by other writers.[52] His argument is that in the standard general equilibrium model competition does not exist, since, if there is an equilibrium, competition has ceased and opportunities for further trade are exhausted. What is not considered in the general equilibrium model is how this stable state of affairs comes about, or what mechanisms produced this optimum. Hayek's theory maintains that in an uncertain world, the 'discovery procedure' of competition spontaneously co-ordinates decentralized information and thus brings about a tendency towards equilibrium.[53] That array of 'correct' prices proposed by orthodox theory is an illusion; in reality prices are always to some extent 'incorrect' and therefore always suggestive of some reallocation of resources through the competitive process.

B.87

It is here that the role of the entrepreneur becomes important because the co-ordination process depends upon the existence of entrepreneurship as a special activity. The concept of entrepreneurship can perhaps be better explained by reference to 'prediction.' Since the general equilibrium model assumes knowledge of tastes, costs, and so on, the implication is that it is possible to predict mechanically what an efficient allocation of resources would be. If this were so, then entrepreneurship would be redundant.

B.88

However, in a world of uncertainty, where the future is unknowable, a predictable outcome is an epistemological absurdity. The entrepreneur, albeit guided by self-interest, accidentally plays a socially beneficial role in co-ordinating economic knowledge to produce an outcome which *looks as if* it had been designed and predicted by an omniscient legislator, but clearly could not have been.[54]

B.89

In this view of a competitive process such market imperfections as monopoly are not therefore aberrations which can be legislated away so as to eliminate an alleged 'welfare loss' but may well be necessary elements in the emergence of a spontaneous order. It may be the case that the monopoly reflects superior efficiency, or that without the prospect of monopoly gains a

particular good would not be produced at all. In these cases there *is* entrepreneurial activity. In any event, as long as there are no governmental barriers to entry the monopolist operates under some constraint so that rather than eliminate monopoly by law and artificially create some abstract concept of 'perfect competition,' it is better to let natural competitive processes operate. It is Hayek's claim that 'natural' monopolies are extremely rare, and that most monopolies are the product of deliberate government intervention; where they do exist, the market itself is a natural process which generates its own corrective devices.

B.90

The most important feature of the price system is that it economizes on knowledge. Each participant has to know little of the whole system for the co-ordination to be successful since its signals "enable individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never know more than is reflected in the price movement."[\[55\]](#)

Disruptions of Catallaxy

B.91

How then does Hayek explain the breakdowns of this *economical* order? In short, he maintains that most of the disorder in the market system that we experience is a result of mistaken interventionist measures which distort natural self-correcting processes that are at work in the system. Thus the theoretical study of economic processes must emphasize those institutional structures which are disruptive of a spontaneous order. Later, of course, Hayek was to develop a theory of society which suggests how dis-coordinating institutions may be rectified, but in his writings as an economist he took institutions as given and made certain economic inferences from them. In this sense only is his economic theory independent of his general social theory.

B.92

Throughout his career as a pure economist the institutional factor which has concerned Hayek most is governmental control of the monetary instrument. It is this that has generated economic *disorder* and dis-coordination by distorting the system of relative prices which would otherwise induce economic actors to produce a stable order. Furthermore, arbitrary privileges granted to trade unions by statute law suppress the natural functioning of the labor market so that resources are misallocated and involuntary unemployment generated. Before looking at these types of disorder, however, we should give some attention to that spontaneous *disorder* that Hayek himself admits may be produced by a market subject to no controls.

B.93

This occurs in the now familiar areas of public goods and externalities. These areas were little discussed at the time Hayek wrote his pioneering essays on the theory of spontaneous order.[\[56\]](#) He has, however, always argued, against the claims of anarcho-capitalists, that the market cannot spontaneously produce a police and defense system, and other 'public goods' which, according to public goods theory assumptions, it would pay no individual economic actors to supply. In the

logically similar area of 'external bads,' i.e. where each individual actor in the market has every incentive to impose external costs on the community, as in the case of pollution, Hayek agrees that there may be a role for collective action.

B.94

One familiar way of preventing this latter sort of spontaneous disorder is to specify a set of appropriate property rights so that any external harm falls on an individual property holder who can then sue the instigator of the harm for damages. In this way external 'bads' might be internalized. While this approach is not antithetical to the Hayekian system it does imply an activist role for some authority in determining new property rules and the *deliberate* agreement of actors to follow such rules. In this, and other areas, Hayek places (in the opinion of many critics) too much reliance on the *evolution* of appropriate property rules for the competitive process:[\[57\]](#) and this is a consequence of his refusal to consider the possibility that in some areas reason may improve on natural processes.

Austrian Perspective on Intervention: Dis-coordination of Economic Knowledge

B.95

The kind of disorder, however, to which Hayek has contributed much illumination is that brought about by government intervention in a *catallaxy* at the 'macro' level. Of course Hayek has never recognized a macroeconomic theory which is not reducible to individual volitions (holistic magnitudes are 'fictions,' they do not display irreducible regularities) but nevertheless his inquiries into the trade cycle focused on the behavior of a *catallaxy* as a whole.[\[58\]](#) Most of his economic theory addresses those who deny the basic proposition that an unhampered market economy (or *catallaxy*) tends towards the full employment of all resources. The most notorious of these theories is Keynesian macroeconomics, and it is to this that Hayekian economics is normally addressed, although he formulated his theory of money and the trade cycle before the publication of Keynes' *General Theory*.

B.96

In the familiar Austrian theory of the trade cycle, disequilibrium and the dis-coordination of economic knowledge is a function of misleading signals being put out to market transactors by the monetary system. An automatic co-ordination of the intentions of savers and investors, which would produce more or less full employment of all resources, is systematically disrupted by manipulated money, which leads to misallocation and therefore painful periods of readjustment. What happens is that under the fractional-reserve banking system, increased credit lowers the rate of interest on the money market below its 'natural' rate (i.e., the rate determined by the time-preferences of individuals) so that extra investments are made at longer stages of production.

B.97

In Austrian theory the structure of production[\[59\]](#) consists of a series of integrated stages with immediate consumption goods located at the nearest stages and capital goods at the farthest. This 'order' is fundamentally stable if the investment at the farthest stages are warranted by the current

consumption-savings ratio of the public, since, then, savings will make available those complementary capital goods which are required to complete the structure of production. However, under the fractional-reserve banking system the structure is unstable. The long-term investments, in this system, are *malinvestments*, brought about by cheaper credit and not by a lowering of time-preferences by the public. Since individuals are consuming at the same rate as before the credit injection begins, extra earnings of labor factors will be spent on consumer goods and therefore cause a switch back to the nearest stages to meet this new demand; and therefore a shrinking of the capital structure occurs. Thus there will be temporary unemployment in the remote stages. The resulting recession must be endured while normal market processes liquidate the malinvestments brought about by misleading price signals.

B.98

While this is the standard version of the theory, the particular form in which the disorder takes place will vary according to different institutional structures. In the 1930s it was increased bank credit that produced the cycle and its effect was visible in the form of unemployment in investment goods industries. In the contemporary world, characterized by massive government intervention, the misallocation is much more diffused throughout the whole system.[\[60\]](#) Also, today the natural readjustment process may be slower, in Britain especially, because welfare legislation, union privileges, and housing policy have all combined to increase the immobility of labor.

Hayek on Monetary Disorder

B.99

In all this, the instability of a *catallactic* process is a function of the 'non-neutrality' of money. Since increases in credit do not affect all prices in a uniform manner (which is the implication of the Walrasian general equilibrium theory), disorder must occur under the orthodox banking systems of capitalist economies because changes in relative prices mislead market transactors. The question is whether such *disorder* is a necessary part of a *catallaxy* or whether it is always brought about by some exogenous agency.

B.100

Now Hayek has described money as a kind of 'loose joint'[\[61\]](#) in a process which in other respects showed an automatic tendency towards equilibrium. The fractional-reserve system, while its elasticity of credit caused misleading price signals, had itself developed spontaneously, and therefore Hayek, in the 1930s, claimed that its abolition and replacement by a 100 per cent reserve system would create even more problems. All that was required for the self-regulating processes to work was something like the Gold Standard (or fixed rates of exchange) and the withdrawal of government from the economy: this would mitigate, if not entirely eliminate, the effects of the cycle. In practice, it was government mismanagement of the currency that caused severe maladjustment of the *catallaxy*.

B.101

Hayek gave no suggestion at this time that government should lose its monopoly over legal tender. Rather he claimed that the disequilibrating effects of this could be mitigated by institutional procedures. In recent years, however, Hayek has pioneered the idea that complete removal of government's monopoly over money is required and that competition between rival currencies, issued by banks and governments, would spontaneously generate monetary stability.[\[62\]](#) The curious feature of this proposal is its contrast with previous theorists of spontaneous economic order who had argued that the removal of government from money would produce a commodity-based money (indeed, it was a fundamental feature of the monetary theory of Ludwig von Mises that the value of a money device could ultimately be traced back to its value in use). Hayek, however, appears to think that competition between paper currencies will produce stability. He is skeptical of gold becoming usable again—for the fallacious reason, according to orthodox theory, that "there is just not enough gold about"—and makes the constructivistic proposal that countries should mutually bind themselves by formal treaty not to impede the free use of currencies issued by other countries or banks.[\[63\]](#)

B.102

Irrespective of the details of Hayek's proposed solution to the problems caused by monetary disorder, his persistent argument, over a period exceeding fifty years, that government control of money produces never-ending inflation and a consequent disruption of economic order, has been amply borne out by events. If his social science had been limited to this alone it would constitute a major achievement.

The Structure of a Legal Order

Social Cosmos: Spontaneous Order vs. Constructivistic Rationalism

B.103

The most important aspect of the unity of Hayek's method is his attempt to explain the nature of legal and social institutions with the same intellectual tools which he used in the explanation of economic phenomena: tools that stress natural processes rather than reason and artifice. In an essay, "The Principles of a Liberal Social Order," Hayek said:

Under the enforcement of universal rules of just conduct, protecting a recognizable private domain of individuals, a spontaneous order of human activities of much greater complexity will form itself than could ever be produced by deliberate arrangement.....[\[64\]](#)

The problem here is the explanation of the origin of the 'universal rules of just conduct.' Do they emerge spontaneously? Or is some element of constructivistic rationalism required for the explanation of these rules that service a *catallaxy*? While Hayek has always been favorable to the common law, as opposed to statute, in the *Constitution of Liberty* he did suggest that the growth and development of a *catallaxy* could take place within the context of general codes of law that define the conditions of freedom.[\[65\]](#) However, in his trilogy, *Law, Legislation and Liberty*, there is almost an exclusive emphasis on the virtues of spontaneously developing law and institutions. The explanation for this change lies in the fact that although Hayek concedes that codified law may be more certain than judge-made law, this advantage is nullified if it leads

to the view that "*only* what is thus expressed in statutes should have the force of law"[66] (italics in original). Spontaneous legal orders will contain rules that have yet to be formulated in words. Hayek does not regard a social system (or *cosmos*) as completely self-regulating and self-correcting, since he recognizes a role for coercive government in the enforcement of rules and concedes that 'legislation' will be required for the correction of 'law' that may have developed in an inappropriate manner. But the task allocated to evolution in the explanation of genuine law is clearly meant to parallel that of the 'invisible hand' in the explanation of harmony in the market economy.

B.104

However, many contemporary classical liberals argue that Hayek's analogy fails: that just because 'discovered,' as opposed to 'made,' law is a product of accident this does not make it efficient law, in the sense of it providing an appropriate framework for the order of the market. The elimination of reason from the construction of the rules of an economic system would seem to commit Hayek to a certain kind of conservatism and quietism in the face of some ineluctable flow of events, despite his own personal commitment to economic liberalism and his recommendation of quite radical institutional reforms.

Spontaneous 'Nomos' vs. Rationalist Law Common Law vs. Statute Law

B.105

In *Rules and Order* Hayek defines 'order' as

...a state of affairs in which a multiplicity of elements of various kinds are so related to each other that we may learn from our acquaintance with some spatial or temporal part of the whole to form correct expectations concerning the rest...[67] (italics in original)

This means that a social order is a structure of interrelated parts that displays *predictability* and *regularity* because of rules that govern its behavior. In a legal order such rules may be a product of command (and Hayek maintains that in any social system some of its rules will have to be of this type). However, his claim is that greater regularity and predictability, and therefore complexity, will exist in orders where the bulk of the rules that govern interdependency have emerged spontaneously. The point he is making here is the anti-rationalist one that rules are not the product of a mind, abstracted from experience, as in the Hobbesian model. Rather rules and society have developed, as Ferguson and the eighteenth-century writers insisted, coterminously. As a result, 'law' (in the sense of those rules of just conduct which govern individual relationships) differs from, and precedes, 'legislation' (that body of deliberate commands which is addressed to specific purposes). 'Discovered' law is called *nomos*[68] and is consistent with the order of a free society. This is because, since it is concerned with no overall purpose of its own, *nomos* enables an unknown number of individual purposes to be fulfilled. Its domain is the protection of the person, of property, and the enforcement of contracts.

B.106

In this argument Hayek is, in effect, restating some familiar themes concerning the virtue of the common law system which he himself has detected in the writings of Hale, Burke, and the European historical school of jurisprudence. However, undoubtedly a major influence on his post-*Constitution of Liberty* jurisprudence has been the late Bruno Leoni's *Freedom and the Law*.^[69] This is perhaps the most sophisticated expression of the evolutionary theory of law; for Leoni does not merely rely on the 'wisdom of history' but constructs a direct analogy between law and the market. Law develops in a case by case manner during which judges fit and adapt existing law to circumstances so as to produce an overall order which, although it may not be 'efficient' in a technical, rationalistic sense, any more than competitive markets are 'perfect,' is more stable than that created by statute. Statute law may appear to be more predictable because it is written down, whereas common law ('lawyers' law') may not actually be known until a judge has 'discovered' it, statute law is in fact much more capricious precisely because, in the modern world especially, statutes change frequently according to the whims of legislatures. Hayek's position is similar to Leoni's anti-statute approach in all important respects: because it is impossible to predict human (legislative) behavior, a structure of law which is not the result of will and cannot be known in its entirety, paradoxically, displays more regularities than a written code. Furthermore, because the future is unknowable and unpredictable, no code could be designed to cope with all possible cases. This is why judicial activity, as a form of 'puzzle-solving,' is essential to Hayek's jurisprudence.^[70]

Cultural Transmission of Rules of Conduct

B.107

However, Hayek adds to these not unfamiliar themes something rather more controversial. This is the argument that a spontaneous system of rules will be more efficient (than known alternatives) to the needs of what he calls the 'Great Society' precisely because it has survived an evolutionary process: a process in which not reason but *natural selection* determines which rules and institutions are appropriate.^[71] The history of institutions consists of a kind of Darwinian struggle out of which certain rules and procedures prove to be more durable than others; and a society progresses not by designing institutions for specific purposes but by adapting those that have emerged independently of men's wills to new circumstances. Furthermore, societies progress to the extent that they 'imitate' known successful rules and practices rather than construct them in some calculating manner.^[72]

B.108

The mechanism in this process is what Hayek calls 'cultural transmission.'^[73] This means that the rules and institutions that we inherit are neither (1) the product of a biological causality which is traceable to genetic structures (as the extreme sociobiologists would have it) nor (2) do they emanate from an unaided reason. They are 'learnt rules' which, although they may not yet be formulated explicitly, have been transmitted through a process of cultural evolution. Since an evolutionary order is unpredictable it follows that "we will have less power over the details of such an order that we would of one which we produce by arrangement."^[74]

B.109

The fact that we cannot fully comprehend or state such rules is not a reason for doubting their efficacy, since that efficacy itself would appear to be a function of their very survival. While Hayek wants to use this argument against a rationalistic legal positivism which erroneously supposes that all laws are mere conventions which are alterable at will, he frequently writes as if we must passively accept a given structure of rules precisely because it is undesigned. It may be true that "law existed for ages before it occurred to man that he could make or alter it."^[75] It does not follow, however, that such law is necessarily 'efficient' or appropriate to the order of classical liberalism (which Hayek favors for reasons other than those to do with evolution). The doctrine of the cultural evolution of rules of conduct would seem to bind man in a more decisive way than, say, the 'laws' of economics, which merely indicate the necessary boundaries within which free and rational action takes place.

Hayek's Traditionalist Evolutionism and Liberalism

B.110

It is in the epilogue to volume III of *Law, Legislation and Liberty*, "Three Sources of Human Values," that Hayek's anti-rationalism seems to collapse into an uncritical traditionalism. In merging legal and moral rules into simply those rules that have developed culturally, he says: "Tradition is not something constant but the product of a process guided not by reason but by success."^[76] Also, the limitations of the human mind dictate that '*all progress must be based on tradition*'^[77] (italics in original). Furthermore, not only are ethical rules relative to particular traditions, but we are incapacitated from recommending alteration, apart from minor tinkering, of such rules because, since the future is unknowable, we cannot predict the consequences of such alteration. This extreme anti-rationalism follows directly from Hayek's claim that mind itself is explicable only in terms of cultural transmission: "all enduring structures up to the brain and society are a product of selective evolution."^[78] This clearly differentiates him from the rationalistic classical liberalism of, for example, Ludwig von Mises, who based a theory of *laissez-faire* economics and politics on the universal properties of the human mind.

B.111

The difficulty with Hayek's analysis is that social evolution does not necessarily culminate in the classical liberalism that he so clearly favors: there are many non-liberal institutions which have indeed survived. The period of the dominance of the open society, the market economy and minimal government may then be regarded as perhaps a chance mutation in a course of evolution which is proceeding in quite another direction, an evanescent torch in an inexorably darkening world. Yet if we are intellectually tied to tradition, and if our 'reason' is too fragile an instrument to recommend satisfactory alternatives, how are we to evaluate critically that statist and anti-individualist order of society which seems to have as much claim to be a product of evolution as any other social structure?

B.112

The problem is that the spontaneous formation of a market is not the same thing as the evolution of a legal system, although neither is designed. In a market there is a mechanism, the price system, which does co-ordinate the actions of economic agents to produce an efficient order

(though even here the presence of externalities constitutes 'disorder'); but there is no similar mechanism at work in a legal system. In Hayek's analysis it looks as if rules and practices are *functional* merely because they have survived rather than because they adequately service a liberal order. One striking example, from the British experience, is the constitutional rule that parliament is sovereign. This is a product of evolution yet is probably the single most important institutional cause of the undermining of the rule of law and the breakdown of the market economy in that country.

B.113

In fact, Hayek implicitly concedes part of the rationalist libertarian's argument in that much of his social philosophy does consist of rational criticism of anti-liberal and anti-individualist economic and political institutions. He admits that the common law does not automatically develop in desirable directions, and may even protect 'class' interests, so that it will have to be modified by legislation.^[79] Presumably such artificial correction must be sanctioned by the principles of classical liberalism and individualism. But even here the normative principles that are used must be part of an ongoing tradition. It is epistemologically impossible to stand outside a tradition of conduct and appraise or reject it in its entirety: "Ethics is not a matter of choice. We have not designed it and cannot design it."^[80]

Law and Liberty: The Problem of Criteria To Distinguish Liberal and Non-Liberal Orders

B.114

Those modifications that have to be made to an ongoing system will normally take the form of additional rules of just conduct. Again Hayek does not offer any *substantive* criterion for the evaluation of such proposals: all that is required is that new rules be universalizable within an ongoing system. But, as is well known, this is a purely formal criterion, so that it is possible for a variety of quite different rules to be universalized within a given structure.

B.115

Perhaps, Hayek's explanation of the emergence of a self-regulating liberal order can be 'saved' by interpreting his argument to mean that which is a product of evolution is simply what would have occurred were it not for arbitrary interventions of a constructivistic kind. However, this could lead to an un-Hayekian anarcho-capitalism in which a rationalistic natural law guarantees each individual the right to 'opt out' of the state, and this is clearly not what he has in mind. The liberal order contains an organization (*taxis*),^[81] the state, which operates through designed law (*thesis*); and this institution is charged with specific purposes. The rationale of this organization seems to be cultural and evolutionary in that, according to Hayek, experience indicates that a form of the state is required to enforce the rules of just conduct and supply public goods.

B.116

Hayek argues that the activities of government can be constrained by the meta-legal principle of the rule of law; rules should be perfectly general, binding on everybody, not be retrospective in application, and should name no individual or group. He does not in fact place substantive

limitations on the actions of political authorities but insists only that they conform to certain formal requirements. In this sense law and liberty are consistent, since general rules set boundaries within which people may choose rather than be directed to specific tasks. In Hayek's legal theory a free order would appear to be a *predictable* order: as long as a person knows in advance how a law will affect him, and can therefore plan his life so as to avoid that law, he cannot be regarded as unfree.[\[82\]](#)

B.117

This contrasts strongly with the natural rights theory of a liberal order in which the boundaries of an individual's liberty are set by the moral requirement that he should not violate the rights of others rather than by certain formal requirements of legality. Under the Hayekian view, general prohibitions which did not require any positive action on the part of individuals could reduce dramatically the range of choices open to them, but they would not, paradoxically, count as restraints on liberty. Curiously, a regime which had a number of mild commands or instructions but few general prohibitions would not count therefore as a free order. In fact, Hayek's own definition of freedom under law breaks down with his justification of conscription, since this is clearly a direct command. That such a command is predictable and perfectly general does not make it any the less destructive of personal liberty. It follows from Hayek's refusal to countenance a more substantive structure of natural law and morality, and his commitment to the outcomes of an undesigned evolutionary process, that it is difficult to distinguish between free and unfree orders. The general consensus of opinion is that Hayek's requirements of legality are necessary but not sufficient conditions for the operation of the order of classical liberalism.

The Breakdown of the Cosmos

B.118

One of Hayek's most important contributions to knowledge is his penetrating exposure of those intentionalist policies which have set in train a seemingly ineluctable process of disintegration of the *cosmos*, that self-regulating order of events that once constituted western liberal society. Allied to this, and almost in defiance of his own belief in evolutionary processes, is his complex set of radical reforms which is *designed* to arrest this decline. The major causes of this disruption are attempts to regulate an economy by inflationary methods; the granting of privileges to groups, especially trade unions, by way of 'legislation,' which distorts the functioning of the labor market; the attempt to redistribute income away from that impersonal allocation made by the market on the ground of an entirely subjective theory of 'social justice'; and the tendency for law to be cast in the form of commands addressed to specific purposes rather than in the form of general rules. The combined effect of these measures is to divert a *cosmos*, in a politically-determined manner, away from its natural course (the destination of which can never be known). A 'road to serfdom' scenario will develop, in which ever-increasing amounts of coercion will have to be used as people naturally try to avoid the effects of the original intervention.

Political Interventionism vs. Market Self-Correction

B.119

In fact, the dramatic kind of disruption of a spontaneous order that Hayek predicted would follow from interventionism has not actually occurred. Western welfare states have not (yet) collapsed into tyranny and serfdom under the weight of welfarist legislation and other forms of intervention. Rather they have become immobile, stagnant, and unable to make the best use of the dispersed knowledge that characterizes an open society. This is because democratic politics, subject to few constitutional restraints, has enabled groups to secure privileges for themselves and encouraged the spread of incomes in society to be a function of political rather than economic mechanisms.^[83] Instead of liberal democracy maximizing the public interest (i.e., the interest each person has in such things as a stable currency, the rule of law and the predictability of government action), competition for votes produces *coalitions of interest groups*, which are held together by privileges which only government can grant. Such a political order is inherently unstable because there are no natural, correcting mechanisms in it that are equivalent to those in the market. Thus instead of being an organization charged with necessary but specific purposes, government becomes a machine for the solving of all problems and the meeting of all grievances. But as Hayek points out: "It is a fact that most of the grievances of particular individuals or groups can be removed only by measures which create new grievances elsewhere."^[84]

B.120

Apart from monetary disturbances, the reason the market economy appears to be unstable is that continual intervention has impaired its self-correcting mechanisms. The biggest destabilizing factors here, according to Hayek, are the trade unions, which are able to prevent automatic adjustment in the labor market by keeping the price of labor above its market clearing price. They are able to do this, in many western countries, because of certain legal privileges: such as their exemption from the law of tort (in industrial disputes) and their exploitation of tolerant picketing laws. The former privilege is a breach of Hayek's 'rule of law' doctrine, since it prevents the application of a general rule to particular groups and could not possibly be universalized within a legal order. This privilege is a product of statute law, and it is inconceivable that such a rule would have emerged spontaneously from the common law process. Aside from the distortions caused by inflation, the existence of union privilege and disincentives to work caused by welfare and housing policies constitute the major causes of unemployment. They are almost universally ignored by Keynesian macroeconomists, who deal only in holistic aggregates. These theorists erroneously interpret extensive unemployment as evidence of some inherent disequilibrating tendency in the system rather than as an indication of some deficiency in the adjustment process which can be traced back to a constructivistic intervention. As long as these defects remain unremedied monetary policy can have little or no permanent effect on unemployment.^[85]

The Myth of Social Justice

B.121

Hayek's objections to social justice similarly turn on the misallocative effect such essentially arbitrary redistributive measures have on the equilibrating process of a *catallaxy*.^[86] Thus his concern, here, is not with the violation of a right to legitimately acquired property which social justice entails; his argument is that coercive redistributions of income reduce the real output of a *catallaxy* by suppressing those inequalities that act as signals to attract labor and capital to their

most productive uses. He maintains that in the absence of such signals labor and capital will have to be directed by government.

B.122

The argument for social justice usually turns upon an alleged distinction between production and distribution: it is assumed that there is a 'given' volume of goods and services which can be distributed according to abstract moral principles, such as 'desert,' 'need,' or 'merit,' rather than according to the principles by which the goods and services were produced in the first place. In *catallactics*, however, there is no such distinction: income is distributed according to the anticipated marginal productivity of factors and the consequence of redistributing it in any other way will be a diminution of the volume of goods and services. A person's income in a free society, then, is a function of the *value* of his services to his fellow men; it has logically nothing to do with any 'merit' or 'desert' (in a moral sense) in his actions.^[87] Hayek argues that modern societies, which persist in using merit as a criterion of income, display remnants of the morality of the closed or intimate society. If this is so, however, it implies that these societies have not spontaneously generated a morality appropriate to the economic order of capitalism.

B.123

A *catallactic* order is a constantly changing system so that the prices paid to labor services must vary considerably over time. Any attempt to impose a pattern of earnings based on non-economic criteria on this order would spell not merely the end of economic efficiency, but would also bring about the collapse of the *cosmos*, since the enforcement of that pattern necessitates a vast increase in the law of *thesis*.

B.124

Hayek's arguments against social justice are of a purely consequentialist kind in that they derive from the misallocative tendencies of redistributive policies and from their long-run effect on the order of liberty. While Hayek claims that expressions such as 'social justice' are linguistically meaningless, he does not extend his philosophical arguments into the *ethics* of property. He certainly gives us no guidance as to the justice or injustice of particular property holdings prior to the operation of an exchange process. Presumably his stance must be the conservative one that we ought not to disturb the existing structure by, say, the application of a natural law rectification rule, because this would disturb a prevailing order of expectations; the consequences of such disturbance cannot, of course, be known.

The Problem of Controlling Government

B.125

While it is clear that political systems do not automatically develop corrective mechanisms, it is noticeable that Hayek does not want to restore the workings of the *catallaxy* and *cosmos* by rationalistic natural law limitations on what governments may actually do but, rather, to subject their behavior to strict legalistic and formalistic requirements. Thus in his complex, and somewhat unrealistic, constitutional reform proposals, he hopes to introduce a new version of the

separation of powers, in which democratically elected parliaments would enact that public law which is required for government activity, while a separately-elected assembly (less subject to party politics) would be charged with the making of the general rules of just conduct.[\[88\]](#) Thus the Governmental Assembly would decide on what projects taxation would be spent, while the Legislative Assembly would determine what form the tax rules should take. There are in principle no limitations on the government's power to tax and therefore no substantive limits on government spending; of course, the free market in money will prevent government expenditure being financed by the economically damaging and dishonest method of inflation, but there is no actual limit on government spending.

B.126

Hayek is no doubt correct in identifying the main disruptive threat to the preservation of a spontaneous order as the inevitable formation, under present democratic rules, of coalitions of interests which divert the stream of income in a *catallaxy* to politically-favored groups—to the ultimate harm of all. The problem is that there is a 'public good' trap here in that no rational individual, given the normal behavioral assumptions of classical liberalism, can have any incentive to promote the public interest. This is why there must be an element of constructivistic rationalism in any explanation of the order of a free society. Men will have to design those institutions that will automatically encourage them to maximize their long-run interests.[\[89\]](#)

Conclusion

B.127

In conclusion, it may be suggested that Hayek's theory of spontaneous order is the product of two related but distinct influences that do not always tend in the same direction. As an economic theorist, his explanation of the co-ordinating properties of the *catallaxy* trades very heavily on those mechanisms that produce order, and which can be given a rational explanation. But as a legal and social theorist, he leans, by contrast, very heavily on a conservative and traditionalist approach which, from Hale onwards, is so distrustful of reason that it instructs us to submit blindly to a flow of events over which we can have little control. But in this latter approach, reason may be so disabled that it is impossible to assess critically this flow of events. The evidence suggests, however, that there is no necessary tendency to equilibrium in a legal order, in which case spontaneous evolution will have to be arrested and diverted under the authority of 'reason.' But such is the force of Hayek's anti-rationalism that it tells just as much against a rationalist justification of the capitalist order of classical liberalism (which is largely derived from a moral order that enshrines an abstract and universalist structure of individual rights) as it does against the familiar varieties of rationalistic collectivism. Hayek's claim, following Hume, to 'whittle down' the claims of reason may have succeeded all too well in that his belief in spontaneous evolution, and his formalistic criteria for the evaluation of government activity, may well inhibit the search for those ground rules which are required for the servicing a free society. In some ways, his evolutionary gloss on the theory of spontaneous order distinguishes him from other writers in that tradition (for example, Menger) who do not preclude the use of reason in the critical evaluation of the outcomes of an undesigned process.

Notes for this chapter

- [43.](#) Carl Menger, *Problems of Economics and Sociology*, p. 146.
- [44.](#) Menger, *Problems of Economics and Sociology*, p. 154.
- [45.](#) Menger, *Problems of Economics and Sociology*, p. 233.
- [46.](#) See following [Bibliography](#) for a comprehensive list of Hayek's major works.
- [47.](#) Hayek "Individualism: True and False," in *Individualism and Economic Order*, p. 23.
- [48.](#) See especially Hayek's *The Constitution of Liberty* (1960), chapter 2.
- [49.](#) Hayek, *The Constitution of Liberty*, p. 29.
- [50.](#) Hayek, *Law, Legislation and Liberty*, vol. II, *The Mirage of Social Justice*, pp. 109-110.
- [51.](#)
See Ludwig Lachmann, "From Mises to Schackle," *Journal of Economic Literature* 14 (1976): 54-62. For a sophisticated critique of the extreme 'subjectivists,' see G. P. O'Driscoll, Jr. "Spontaneous Order and the Co-ordination of Economic Activities," in Louis M. Spadaro (ed.), *New Directions in Austrian Economics*, pp. 111-142.
- [52.](#) Hayek's views are contained in the following essays, "The Use of Knowledge in Society," and "The Meaning of Competition," at pp. 77-91 and 91-106, respectively, in *Individualism and Economic Order*. Also, Hayek's theory of the competitive process emerged from his critique of those socialists who tried to use the neoclassical equilibrium as a model for a socialist economy without private property and a decentralized market. See Hayek's three essays on "Socialist Calculation," in *Individualism and Economic Order*, pp. 119-208. Israel Kirzner has produced a sophisticated version of Hayek's pioneering ideas in *Competition and Entrepreneurship*. See also S. C. Littlechild, *The Fallacy of the Mixed Economy*.
- [53.](#) See Hayek's "Competition as a Discovery Procedure," in *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 179-90.
- [54.](#) Hayek, "The Use of Knowledge in Society," in *Individualism and Economic Order*, p. 86.
- [55.](#) Hayek, "The Use of Knowledge in Society," in *Individualism and Economic Order*, p. 87.
- [56.](#) For Hayek's recent thoughts on these topics, see *Law, Legislation and Liberty*, vol. III, *The Political Order of a Free People*, chapter 14.
- [57.](#) Hayek, *Constitution of Liberty*, p. 365.
- [58.](#) For expositions of the Austrian theory of the trade cycle see the following: F. A. Hayek, *Prices and Production* (2nd edition); Hayek, *Monetary Theory and the Trade Cycle*; G. Haberler, *Prosperity and Depression*; and G. O'Driscoll, *Economics as a Co-ordination Problem*.
- [59.](#) See Hayek's *Prices and Production* (2nd edition), pp. 34-42.
- [60.](#) See "The Campaign Against Keynesian Inflation," in Hayek's *New Studies in Philosophy, Politics, Economics and the History of Ideas*, p. 212.
- [61.](#) Hayek, *The Pure Theory of Capital*, p. 408.
- [62.](#) First suggested in 1976; see Hayek's *The Denationalisation of Money* (2nd edition).
- [63.](#) Hayek, *The Denationalisation of Money* (2nd edition), p. 19.
- [64.](#) Hayek, "Principles of a Liberal Social Order," in *Studies in Philosophy, Politics and Economics*, p. 162.
- [65.](#) See, Hayek, *The Constitution of Liberty*, chapter 13.
- [66.](#) Hayek, *Law, Legislation and Liberty*, vol. II, *Rules and Order*, p. 116. [N.B. Vol. II is *The Mirage of Social Justice*.—Econlib. Ed.]
- [67.](#) Hayek, *Law, Legislation and Liberty*, vol. I, *Rules and Order*, p. 36.
- [68.](#) See Hayek, *Rules and Order*, chapter 5.
- [69.](#) Bruno Leoni, *Freedom and the Law* (1961).
- [70.](#) Hayek, *Rules and Order*, pp. 18-23.
- [71.](#) Hayek, *Constitution of Liberty*, pp. 58-61.
- [72.](#) See, "Rules, Perception and Intelligibility," *Studies in Philosophy, Politics and Economics*, p. 47.
- [73.](#) See Hayek's Epilogue, "Three Sources of Human Values," *Law, Legislation and Liberty*, vol. III, *The Political Order of a Free People*, pp. 154-155.

- [74.](#) Hayek, *Rules and Order*, p. 41.
- [75.](#) Hayek, *Rules and Order*, p. 73.
- [76.](#) Hayek, "Three Sources of Human Values," p. 166, (see note 73 above).
- [77.](#)
Hayek, "Three Sources of Human Values," p. 167.
- [78.](#) Hayek, "Three Sources of Human Values," p. 158.
- [79.](#) Hayek, *Rules and Order*, p. 88.
- [80.](#) Hayek, "Three Sources of Human Values," p. 167.
- [81.](#) Hayek, *Rules and Order*, pp. 48-54.
- [82.](#) Hayek, *The Constitution of Liberty*, pp. 207-210.
- [83.](#) Hayek, *The Political Order of a Free People*, p. 13.
- [84.](#) Hayek, *Rules and Order*, p. 144.
- [85.](#) See especially "The Campaign Against Keynesian Inflation," pp. 191-217.
- [86.](#) See, Hayek, *Law, Legislation and Liberty*, vol. II, *The Mirage of Social Justice*, chapter 10.
- [87.](#) Hayek, *The Constitution of Liberty*, pp. 93-9.
- [88.](#) See, *The Political Order of a Free People*, chapter 17.
- [89.](#) For a contractarian critique of Hayek's doctrine of evolution, see James Buchanan, "Law and the Invisible Hand," in *Freedom in Constitutional Contract*, pp. 25-39.

End of Notes

Bibliography

Books

- B.Bib.1 Andreski, S. (ed.). *Herbert Spencer—Structure, Function and Evolution*. London: Nelson, 1972.
- B.Bib.2 Barry, Norman. *Hayek's Social and Economic Philosophy*. London: Macmillan, 1979.
- B.Bib.3 Bastiat, Frederic. *The Law*. New York: Foundation for Economic Education, 1950.
- —. *Economic Harmonies*. New York: Foundation for Economic Education, 1964.
- B.Bib.4 Bateson, Gregory. "Conscious Purpose Versus Nature," in *Steps to an Ecology of Mind*. New York: Random House (Ballantine Books), 1972: 426-439.
- —. *Mind and Nature: A Necessary Unity*. New York: E. P. Dutton, 1979.
- B.Bib.5 Bertalanffy, Ludwin von. *Robots, Men and Minds: Psychology in the Modern World*. New York: George Braziller, 1967.
- B.Bib.6 Bronowski, J. *Science and Human Values*. New York: Harper & Row, 1956.
- —. *The Identity of Man*. Garden City, New York: The Natural History Press, 1965.
- B.Bib.7 Bryson, Gladys. *Man and Society*. Princeton: Princeton University Press, 1945.
- B.Bib.8 Buchanan, James. *Freedom in Constitutional Contract*. College Station: Texas A & M University Press, 1977.
- B.Bib.9 Campbell, T. D. *Adam Smith's Science of Morals*. London: George Allen & Unwin, & University of Glasgow Social and Economic Studies, 1971.
- B.Bib.10 Campbell, T. D. *Seven Theories of Human Society*. Oxford: Clarendon Press, 1981.
- B.Bib.11 Chitnis, Anand C. *The Scottish Enlightenment: A Social History*. London: Croom Helm, 1976.
- B.Bib.12 Cunningham, Robert L. *Liberty and the Rule of Law*. College Station: Texas A & M University Press, 1978.
- B.Bib.13 Dolan, Edwin G. (ed.). *The Foundations of Modern Austrian Economics*. Kansas City: Sheed & Ward Inc., 1976.
- B.Bib.14 Ferguson, Adam. *An Essay on Civil Society*. Edinburgh: Edinburgh University Press, 1966.
- B.Bib.15 Forbes, Duncan. *Hume's Philosophical Politics*. Cambridge: Cambridge University Press, 1975.
- —. *Adam Ferguson and the Idea of Community*. Paisley: Gleniffer Press, 1979.
- B.Bib.16 Grice-Hutchinson, Marjorie. *The School of Salamanca*. London: Oxford University Press, 1952.
- —. *Early Economic Thought in Spain*. London: George Allen & Unwin, 1978.
- B.Bib.17 Haarkonssen, Knud. *The Science of a Legislator: The National Jurisprudence of David Hume and Adam Smith*. Cambridge: Cambridge University Press, 1981.
- B.Bib.18 Haberler, Gottfried. *Prosperity and Depression*. Geneva: League of Nations, 1937, (5th edition, Harvard University Press, 1964).

- B.Bib.19 Hayek, F. A. *Prices and Production*. London: Routledge & Kegan Paul, 1931, (2nd edition, 1935).
 ——. *Monetary Theory and the Trade Cycle*. London: Jonathan Cape, 1933.
 ——. *Collectivist Economic Planning*. London: Routledge & Kegan Paul, 1935.
 ——. *The Pure Theory of Capital*. London: Routledge & Kegan Paul, 1941.
 ——. *The Road to Serfdom*. London: Routledge & Kegan Paul, 1944.
 ——. *Individualism and Economic Order*. London: Routledge & Kegan Paul, 1948.
 ——. *The Sensory Order*. London: Routledge & Kegan Paul, 1952.
 ——. *The Counter-revolution of Science*. Glencoe: The Free Press, 1955.
 ——. *The Constitution of Liberty*. London: Routledge & Kegan Paul, 1960.
 ——. *Studies in Philosophy, Politics and Economics*. London: Routledge & Kegan Paul, 1967.
 ——. *Law, Legislation and Liberty*. London: Routledge & Kegan Paul, vol. I, *Rules and Order*, 1973; vol. II, *The Mirage of Social Justice*, 1976; vol. III, *The Political Order of a Free People*, 1979.
 ——. *The Denationalisation of Money*. London: Institute of Economic Affairs, 1976, (2nd edition, 1978).
 ——. *New Studies in Philosophy, Politics, Economics and the History of Ideas*. London: Routledge & Kegan Paul, 1978.
- B.Bib.20 Hendel, Charles W. (ed.). *Hume's Political Essays*. Indianapolis: Bobbs Merrill, 1953.
- B.Bib.21 Hirschmann, Albert O. *The Passions and the Interests*. Princeton: Princeton University Press, 1977.
- B.Bib.22 Holdsworth, Sir William. *A History of English Law*, vol. V. London: Methuen & Sweet & Maxwell, 1924.
- B.Bib.23 Horne, Thomas. *The Social and Political Thought of Bernard Mandeville*. London: Macmillan, 1978.
- B.Bib.24 Hoy, Calvin M. *Hayek's Philosophy of Liberty*. Ph. D. thesis; Columbia University, 1982.
- B.Bib.25 Hume, David. *A Treatise of Human Nature*, edited by L. A. Selby-Bigge. London: Oxford University Press, 1888.
 ——. *Enquiries Concerning the Human Understanding and Concerning the Principles of Morals*. Edited by L. A. Selby-Bigge. London: Oxford University Press, 2nd edition, 1902.
 ——. *Writings on Economics*. Edited with an Introduction by Eugene Rotwein. New York: Books for Libraries Press, 1955.
- B.Bib.26 Kettler, David. *The Social and Political Thought of Adam Ferguson*. Columbus: Ohio State University Press, 1965.
- B.Bib.27 Kirzner, Israel. *Competition and Entrepreneurship*. Chicago: Chicago University Press, 1973.
- B.Bib.28 Koestler, Arthur. *Janus: A Summing Up*. New York: Random House 1978.
- B.Bib.29 Koestler, Arthur, and Smythies, J. R. (eds.). *Beyond Reductionism—the Alpbach Symposium*. London 1969.
- B.Bib.30 Langford, Thomas A., Poteat, William H. (eds.). "A Bibliography of Michael Polanyi's Social and Philosophical Writings" compiled by Richard L. Gelwick, in *Intellect and Hope: Essays in the Thought of Michael Polanyi*. Durham, N.C.: Duke University Press, 1968: 432-446.
- B.Bib.31 Leoni, Bruno. *Freedom and the Law*, New Jersey: Van Nostrand, 1961.
- B.Bib.32 Lindgren, J. *The Social Philosophy of Adam Smith*. The Hague: Martinus Nijhoff, 1973.
- B.Bib.33 Lipset, David. *Gregory Bateson—The Legacy of a Scientist*. Englewood Cliffs: Prentice-Hall, Inc., 1980.
- B.Bib.34 Littlechild, S. C. *The Fallacy of the Mixed Economy*. London: Institute of Economic Affairs, 1978.
- B.Bib.35 Macfie, A. L. *The Individual in Society*. London: George Allen & Unwin, 1967.
- B.Bib.36 Mandeville, Bernard. *The Fable of the Bees*. Edited with an Introduction by Philip Harth. Harmondsworth: Pelican, 1970.
 ——. *The Fable of the Bees*. Edited with an Introduction by F. Kaye. London: Oxford University Press, 1924.
- B.Bib.37 Meek, R. L. (ed.). *Precursors of Adam Smith*. London: Dent, 1973.
- B.Bib.38 Menger, Carl. *Problems of Economics and Sociology*. Translated by Francis J. Nock, edited with an Introduction by Louis Schneider. [Urbana: University of Illinois Press, 1963.—Econlib. Ed.]
- B.Bib.39 Mises, Ludwig von. *Human Action*. Chicago: Henry Regnery, 1966.
- B.Bib.40 de Molinari, Gustave. *The Society of Tomorrow*. New York: G. P. Putnam's Sons, 1904.
- B.Bib.41 O'Driscoll, G., Jr. *Economics as a Co-ordination Problem: The Contributions of Friedrich A. Hayek*. Kansas: Sheed, Andrews, & McMeel, 1977.
 ——. (ed.), *Adam Smith and Modern Political Economy*. Ames: Iowa State University Press, 1979.
- B.Bib.42 Peel, J. D. Y. *Herbert Spencer: The Evolution of a Sociologist*. London: Heinemann, 1971.
- B.Bib.43 Pocock, J. G. A. *The Ancient Constitution and Feudal Law*. Cambridge: Cambridge University Press, 1957.
- B.Bib.44 Polanyi, Michael. *The Contempt of Freedom: The Russian Experiment and After*. London: Watts & Co., 1940.
 ——. "The Determinants of Social Action," in *Roads to Freedom: Essays in Honor of Friedrich A. von Hayek*. Edited by Erich Streissler. London: Routledge & Kegan Paul, Ltd., 165-179.
 ——. "The Foundations of Academic Freedom," in *Society for Freedom in Science Occasional Pamphlet No. 6* (Sept. 1947).
 ——. *The Logic of Liberty: Reflections and Rejoinders*. Chicago: The University of Chicago Press, 1956, 1980.
 ——. *Personal Knowledge: Towards a Post-Critical Philosophy*. Chicago: University of Chicago Press, 1958.

- —. "The Planning of Science," *Society for Freedom in Science Occasional Pamphlet No. 4* (1946).
- —. "Pure and Applied Science and their Appropriate Forms of Organization." *Society for Freedom in Science Occasional Pamphlet No. 14* (December 1953).
- —. *The Study of Man*. (The Lindsay Memorial Lectures Given at the University College of North Staffordshire, 1958.) Chicago: University of Chicago Press, 1955.
- —. *The Tacit Dimension*. Garden City, New York: Doubleday and Co., 1966.
- B.Bib.45 Popper, Karl R. *The Poverty of Historicism*. London: Routledge & Kegan Paul, 1957.
- B.Bib.46 Rothbard, Murray N. *Power and Market*. Menlo Park, California: Institute for Humane Studies, 1970.
- B.Bib.47 Schneider, Louis (ed.). *The Scottish Moralists*. Chicago: University of Chicago Press, 1967.
- B.Bib.48 Schackle, G. L. S. *Epistemics and Economics*. Cambridge: Cambridge University Press, 1972.
- B.Bib.49 Shelton, George. *Dean Tucker and Eighteenth-Century Economics and Political Thought*. London: Macmillan, 1981.
- B.Bib.50 Skinner, Andrew S. *A System of Social Science: Papers Relating to Adam Smith*. London: Oxford University Press, 1979.
- B.Bib.51 Smith, Adam. *The Theory of Moral Sentiments*. Edited by D. D. Raphael & A. Macfie. Oxford: Clarendon Press, 1976.
- —. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Edited by R. H. Campbell & A. S. Skinner. Oxford: Clarendon Press, 1976.
- —. *Lectures on Jurisprudence*. Edited by R. L. Meek, D. D. Raphael, & P. C. Stein. Oxford: Clarendon Press, 1978.
- B.Bib.52 Spadaro, Louis (ed.). *New Directions in Austrian Economics*. Kansas City: Sheed, Andrews, & McMeel, 1978.
- B.Bib.53 Sowell, Thomas. *Knowledge and Decisions*. New York: Basic Books, 1980.
- B.Bib.54 Spencer, Herbert. *Social Statics*. Farnborough: Gregg International, 1970.
- —. *The Man v the State*. Edited with an Introduction by Donald Macrae. Harmondsworth: Pelican, 1970.
- B.Bib.55
Tucker, Josiah. *Josiah Tucker: A Selection from His Economic and Political Writings*. New York: Columbia University Press, 1931.
- B.Bib.56
Viner, Jacob. *The Long View and the Short*. Glencoe: Free Press, 1958.
- B.Bib.57
West, E. G. *Adam Smith*, New York: Arlington House, 1969.
- B.Bib.58
White, Lawrence H. *Free Banking in Britain: Theory, Experience and Debate, 1800-1845*. Ph.D. thesis; UCLA, 1982.
- B.Bib.59
Wilson, T. & Skinner, A. S. (eds.). *The Market and the State: Essays in Honour of Adam Smith*. Oxford: Clarendon Press, 1976.
- B.Bib.60
Wiltshire, D. *The Social and Political Thought of Herbert Spencer*. London: Oxford University Press, 1978.
- B.Bib.61
Winch, Donald. *Adam Smith's Politics*. Cambridge: Cambridge University Press, 1978.

Articles

- B.Bib.62 Campbell, T. D. & Ross, I. S. "The Utilitarianism of Adam Smith's Policy Advice." *Journal of the History of Ideas* 42 (1981): 73-92.
- B.Bib.63 Goldsmith, Maurice. "Public Virtues and Private Vices." *Eighteenth Century Studies* 9 (1976): 477-510.
- —. "Mandeville and the Spirit of Capitalism." *Journal of British Studies* 17 (1977): 63-81.
- B.Bib.64 Gordon, Scott. "The Political Economy of F. A. Hayek." *Canadian Journal of Economics* 14 (1981): 470-87.
- B.Bib.65 Gray, John N. "F. A. Hayek on Liberty and Tradition." *Journal of Libertarian Studies* 4 (1980): 119-137.
- B.Bib.66 Hamowy, Ronald. "Adam Smith, Adam Ferguson, and the Division of Labour." *Economica* 35 (1968): 249-259.
- —. "Freedom and the Rule of Law in F. A. Hayek." *Il Politico* (1971): 340-377.
- —. "Law and the Liberal Society: F. A. Hayek's Constitution of Liberty." *Journal of Libertarian Studies* 2 (1978): 287-297.
- B.Bib.67 Horne, Thomas. "Envy and Commercial Society." *Political Theory* 9 (1981): 557-569.
- B.Bib.68 Lachmann, Ludwig. "From Mises to Shackle." *Journal of Economic Literature* 14 (1976): 54-62.
- B.Bib.69 Lavoie, Don. "The Market as a Procedure for the Discovery and Conveyance of Inarticulate Knowledge" Paper presented at the Liberty Fund conference on Thomas Sowell, *Knowledge and Decisions*, April 1982.
- B.Bib.70 de Roover, Raymond. "Scholastic Economics." *Quarterly Journal of Economics* 69 (1955): 161-190.
- B.Bib.71
— —. "Joseph Schumpeter and Scholastic Economics." *Kyklos* 10 (1957): 115-146.
- B.Bib.72 Rosenburg, N. "Adam Smith on the Division of Labour: Two Views or One?" *Economica* 32 (1965): 127-139.
- B.Bib.73 Semmel, Bernard. "The Hume-Tucker Debate and Pitt's Trade Proposals." *Economic Journal* 75 (1965): 115-146.

- B.Bib.74 Ullmann-Margalit, Edna. "Invisible Hand Explanations." *Synthese* 39 (1978): 263-291.
- B.Bib.75 Vernon, Richard. "Unintended Consequences." *Political Theory* 7 (1979): 57-74.
- B.Bib.76 West, E. G. "Adam Smith's Two Views on the Division of Labour." *Economica* 31 (1964): 23-32.