

Hayek in His Own Words

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Abstract

This paper discusses F. A. Hayek's views of his own work, as expressed in sixteen hours of interviews from 1978. It covers his thoughts on writing "The Uses of Knowledge in Society" and his discovery of the utilization of dispersed knowledge; the functioning of our capitalist system; the differing reactions of the Americans and the British to *The Road to Serfdom* and the book's intended audience; why he felt optimistic in the late 1970s despite all the problems of the time; and more.

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I. Introduction

On the occasion of the seventieth anniversary of *The Road to Serfdom's* publication, it occurred to me that it was also the fortieth anniversary of the awarding of the Nobel Prize in economics to Friedrich Hayek. My curiosity about what some interpret as the pessimistic message in the 1944 book and Hayek's later qualified optimism that the ideas of liberty and free people's will not only endure, but thrive, led me to explore the origins of the ideas in Hayek's Nobel Prize lecture, "The Pretense of Knowledge."

While the ideas contained in Hayek's many publications are familiar, my new interest was in exploring what Hayek himself had to say about what he had written, including some things that surprised him—especially about *The Road to Serfdom*. My source of Hayek in his own words is sixteen hours of videotapes of various scholars interviewing Hayek in 1978, four years after he was awarded the Nobel Prize. These videotaped conversations have been digitized and indexed, and they are made available to the world at the Hayek Interviews webpage of the Universidad Francisco Marroquín in Guatemala.

Throughout his long and prolific life, Hayek emphasized the scientific versus what he called "scientism." As a young man in

Vienna, he encountered Marxists and psychoanalysts. “Both had the habit of insisting that their theories were in their nature irrefutable, and I was already by this driven to the conclusion that if a theory is irrefutable, it is not scientific . . . A theory which is necessarily true says nothing about the world” (Buchanan 1978, p. 236). We can easily imagine Hayek’s reaction to a familiar expression of our time: that something is “settled science” (Buchanan 1978, pp. 74, 236). The expression is clearly an oxymoron, because anything that is “settled” is no longer scientific: it has become an irrefutable belief.

People often are certain about some things—their religious beliefs, the person they wish to spend the rest of their life with, their dislike of broccoli. However, in matters of both the physical and social sciences, Hayek’s lesson for us is clear: once you are certain about something and think you cannot possibly be wrong, you have closed your mind to learning anything new. An element of doubt and a willingness to consider new evidence are essential to all scientific endeavors.

In a conversation with one of my teachers, Armen Alchian, Hayek described the intellectual road he traveled on the way to writing one of his most widely read and cited articles, “The Uses of Knowledge in Society,” published the year after *The Road to Serfdom*. The intellectual journey began in 1937, as he struggled to prepare a lecture he dreaded: his presidential address to the London Economics Club. The lecture was titled “Economics and Knowledge,” and Hayek considers the core idea of the utilization of dispersed knowledge to be his one lifetime discovery (Alchian 1978, p. 426): “It was with a feeling of a sudden illumination, sudden enlightenment, that I—I wrote that lecture in a certain excitement. I was aware that I was putting down things which were fairly well known in a new form, and perhaps it was the most exciting moment in my career when I saw it in print.”

In his conversation with James Buchanan, Hayek explains the basis of both his economic and his political views. “As I now see the whole thing—[the] market as a system of the utilization of knowledge, which nobody can possess as a whole, which only through the market situation leads people to aim at the needs of people whom they do not know, make use of facilities for which they have no direct information, all this condensed in abstract signals, and that our whole modern wealth and production could arise only thanks to this mechanism—is, I believe, the basis not only of my economic but as much of my political views” (Buchanan 1978, pp.

226–27). He also reemphasizes his view that many economists as well as others are incorrect when they assert that observed prices reflect something that has already occurred; instead, “prices serve as guides to action and must be explained in determining what people ought to do—they’re not determined by what people have done in the past” (Buchanan 1978, p. 226).

He elaborates (Bork 1978, p. 275) on his interpretation of prices as “signals leading us . . . to serve needs of which we have no direct knowledge . . . and to utilize means of which we have no direct knowledge. . . . price signals . . . enable us to fit ourselves in an order which we do not, on the whole, comprehend.”

In the late 1980s, during Gorbachev’s perestroika and glasnost period in the Soviet Union, a senior member of the politburo visited Milton and Rose Friedman in their apartment in San Francisco. The Soviet visitor explained that he had made the rounds in Washington, DC, to the departments of Commerce, Agriculture, Energy, and the Interior, to find out how and by whom plans were made about how much corn and wheat to plant, how much steel and aluminum to make, how much cotton would be needed to make clothing, and so on. No one would give him an appointment with the person or persons who could tell him how such planning was done in America, but someone told him to go to San Francisco so that Professor Friedman could tell him.

Friedman said he explained that such decisions are made by the markets, so his visitor asked Milton to get him an appointment! Clearly, the Soviet visitor had an image of a market as the village town square where farmers brought their produce on Saturday morning. Friedman said he failed completely to convince his visitor that markets are not places, but the interactions of large numbers of strangers, and that free and constantly changing relative prices are the signals that more or less of something needs to be produced. He knew that sending the Soviet minister to Chicago to visit the Board of Trade would be a total waste of time. (My challenge to readers is—if you have not previously done so—to try explaining in five minutes or less to someone who has not studied economics what economists mean by the word “markets.”)

In Adam Smith’s time, the story of the pin factory illustrated the utilization of dispersed knowledge. In the 1950s and 1960s, Leonard Reed and Milton Friedman talked of the thousands of strangers who coordinate their knowledge to manufacture a simple wooden pencil. Today, we see dispersed knowledge at work in the perhaps millions

of people around the world who cooperate in markets to combine hardware and software in an amazing smartphone. (If you have not seen the YouTube video called “I, Smartphone,” I highly recommend it.)

The Hayek interviews in 1978 revealed a quite generous view of politicians and bureaucrats. For younger people in the audience, it was a time of stagflation—simultaneous high inflation and unemployment—and the incoherent economic policies of the Carter administration. Nevertheless, Hayek kindly said that the politicians and bureaucrats do not do the things they do because they are bad people; they do them because they are responding to the incentives built into the system that has been created over time.

Reading that, I thought about an exchange between Ralph Nader and Milton Friedman. Nader asserted that the problem was not bureaucracy *per se*, but that we needed to replace the bad bureaucrats with good bureaucrats. Friedman referred to Nader’s view as the “barking cats” syndrome—if we could only teach cats how to bark, then they would start to behave like dogs! (Friedman 1973, p. 70)

Sometime later, George Shultz (who had served as Secretary of Labor, Treasury, and State in three different Republican administrations) described the task of an economist in government as being like sailing a boat in the face of strong headwinds—one does a lot of tacking, or turning the boat so that the wind comes at it from the opposite side. He elaborated that trying to explain to members of Congress and heads of cabinet departments that they are wrong about something would be like telling the wind to blow in the direction one wants to go.

I interpret Hayek’s views in the interviews to be that what we need to study are the forces that cause the wind to blow in the direction they do, and what we need to do is try to bring about institutional changes that will cause winds to blow in a different direction. What is so enduring about Hayek’s approach is that he spent little time and energy analyzing and pontificating on contemporary policy actions and proposals. In an analogy to sports, he did not wish to whisper in a coach’s, manager’s, or player’s ear about what to do to affect the outcome of the current contest, and he did not engage in something like sports talk radio, discussing on Monday what might have altered the outcome of the weekend’s games. Instead, Hayek’s approach is more like the meetings of team owners in the off-season debating changes in aspects of the game—such as the height of the pitcher’s mound, introducing the three-

point play or shot clock in basketball, or deciding what blocking and tackling plays are prohibited—all of which alter how the game is played over time and the particular skill sets that will excel under altered rules.

When James Buchanan asked Hayek whether he was optimistic or pessimistic about finding a satisfactory outcome other than leviathan on one hand or anarchy on the other, Hayek answered that it all comes down to the US Constitution and whether it continues in its original purpose of limiting government's scope and functions. As an aside, Hayek noted that the framers of the Constitution had written, "Congress shall make no law"—then he paused and smiled at Buchanan and told him, "Now, that's unique, but unfortunately [it goes] only to a particular point. I think the phrase ought to read, 'Congress should make no law authorizing government to take any discriminatory measures of coercion'" (Buchanan 1978, p. 208). He explained that this language "would make all the other rights unnecessary" (Buchanan 1978, p. 208).

When Robert Bork asked Hayek why people find it so difficult to defend economic and political institutions that have brought so much prosperity to the world, Hayek explained that "it's culture which has made us intelligent, not intelligence which has made culture . . . we are living [in a] system of rules of conduct, which we have not invented, which we have not designed, and which we largely do not understand. We are now forced to learn to understand them in order to defend them against the attempt to impose upon them a rationally designed system of rules, which we can't do because we don't even understand how our present system works" (Bork 1978, p. 284).

Hayek continues, explaining that our capitalist system "is a purely abstract system of rules that merely secures coordination without enforcing upon us common goals or common aims. We are only happy *emotionally* if we are aware that we are working with our environment for *common purposes*. But we are actually living in a system where we profit from a method of coordination which is *not* dependent on common purposes of which we are aware, but rests entirely on our obeying *abstract* rules which are end-*independent* . . . and that is partly the cause of our discomfort in this system, because it does not satisfy our *emotional* desire for knowing that we are working for common purposes" (Bork 1978, p. 285; emphasis added).

"On the other hand," Hayek continues, "[our system] has created these conditions in which we constantly serve purposes of which we

have no information, serve needs of other people whom we don't know, and profit from the doings of other people who don't intend to benefit us but who, just by obeying these abstract rules, produce an order from which we can profit. It is a system which creates a maximum opportunity for people to achieve their own purposes without their being constrained to serve common purposes with the group into which they were born. But they are still free to join voluntarily any group for pursuing common purposes. But this *freeing from the need to pursue the same common purposes* with the environment in which you are born is, on the one hand, the basis of the worldwide economic order; on the other hand, [it is] *a thing which disagrees with our emotions?*" (Bork 1978, pp. 285–86; emphasis added).

Something else Hayek said in connection with social evolution relates to what is now called social media. He did not live to see the phenomenon, but his views did anticipate one controversy we see in the tensions between anonymity versus privacy in the use of social media. Hayek talked of our "biologically inherited instincts" (Bork 1978, p. 290) that cause us individually to resist socializing behavior, then he concluded, "man was civilized very much against his wishes" (Bork 1978, p. 290). The uncivilized behavior that is so common in anonymous postings in the comments sections of Internet articles and on social media may be revealing "inherited instincts" that are not yet tamed.

II. *The Road to Serfdom*

Asked how he would rewrite *The Road to Serfdom*, Hayek said he would not change the title, although he would like to have called it *The Road to Servitude*. But he didn't like the sound of that, and de Tocqueville had used that title for one of his essays (Rosten 1978, p. 76). Hayek explained that the reaction to the book in Great Britain was quite different than in America, with the latter reacting strongly to the title and disliking the book even though they had never read it!

The book's ideas were meant to persuade British socialists that they were wrong about what was going on in Europe. "In the late thirties, even before the war broke out, the general opinion in England was that the Nazis were a reaction, a capitalist reaction, against socialism. This view was particularly strongly held by the then-director of the London School of Economics. . . . I was so irritated by this . . . that I started writing a memorandum for him, trying to explain that this was just a particular form of socialism. . . . I had the practical purpose of explaining to the English intellectuals

that they were completely mistaken in their interpretation of what the Nazi system meant, and that it was just another form of socialism,” Hayek said (Bork 1978, pp. 278–79). As an aside, he said, “The next historical chapter would have had to deal with Hegel and Marx, and I couldn’t stand then once more diving into that dreadful stuff” (Bork 1978, p. 279).

The book was never intended for an American audience because the United States was on a very different road. “That the book . . . attracted attention in America at all, was a completely unexpected event,” Hayek said (Buchanan 1978, p. 225). Reading that Hayek was surprised that American leftists reacted so strongly and angrily to the book, (Buchanan 1978, p. 229) I was left with the impression that had he been a songwriter, Hayek would have written in the preface of the American edition, “You’re so vain, you probably think this book was meant for you.”

Elsewhere in the conversations, Hayek described the difference between the road to serfdom in Europe and Great Britain versus the road to servitude in the United States. In the former case, government ownership of the means of production via wholesale nationalization of the producers in entire industries meant the workers were all government employees. In the United States, the proliferation of regulatory agencies and the spread of administrative law created a pervasive “permission and denial” system under which governments at various levels decided what private businesses could and could not do, with little in the way of checks and balances. Workers providing goods and services do not work for the government, but the government heavily involves itself in private employers’ decisions in ways that considerably alter outcomes from what an unfettered market would have obtained.

Already in the late 1970s, Hayek could anticipate where the United States is today, with cronyism creeping into more and more industries. Even before the financial crisis of 2008—three decades after the Hayek interviews—the political action committees of most major US banking organizations were more important than their credit policy committees. The rules and regulations spawned by the Dodd–Frank financial industry regulation have clearly tightened the servitude of major banking companies. It is not at all clear that this is a better system than the serfdom of working for nationalized banking companies. At least with nationalized companies, accountability leads directly to the government owners and reduces the incentives for

politicians to employ “devil theory” attacks on nominally private, but heavily regulated, banks.

III. Qualified Optimism

At the time of the interviews in the late 1970s, it would have been hard for anyone to be optimistic about anything, especially liberty and free enterprise. Inflation, unemployment, and interest rates were all in the double digits domestically. Abroad, the Soviet Union financed over 50,000 Cuban troops trying to establish communism in Angola, the Sandinistas became dictators in Nicaragua, the Iranians took Americans hostage in Tehran, and the Soviets invaded Afghanistan.

Nevertheless, Hayek saw reason for optimism. In his conversation with Leo Rosten, he observed, “When I was young only the very old people believed in the sort of libertarian principles in which I believe; when I was in my middle age nobody else did, and I was the only one; I have now lived long enough to have the great pleasure of seeing it reviving among the younger generation, people in their twenties and early thirties. There is an increasing number who are turning to our position. So my conclusion is that if the politicians do not destroy the world in the next twenty years, there is good hope, because there’s another generation coming up which reacts against this” (Rosten 1978, pp. 92–93).

Emphasizing reasons for hope to Buchanan, Hayek said, “We must hope that an intellectual situation like the one which existed in the United States at the time the Constitution was written could again be created” (Buchanan 1978, p. 209), and, “It takes . . . a generation before ideas conceived by philosophers or abstract thinkers take effect” (Buchanan 1978, pp. 210–11).

Less than a year after the taping of these interviews, Margaret Thatcher was elected the first woman and first Hayekian Prime Minister of Great Britain. A few years earlier, when she was first elected to Parliament during a meeting of the Tory Party, she held up a copy of Hayek’s *Constitution of Liberty* and declared, “This is what we believe.”

A year after Prime Minister Thatcher took office, Ronald Reagan was elected US president, and the long journey to restoring personal liberties and strengthening the market economy began. As a clear statement about Hayek’s influence, in 1991, he was awarded the Presidential Medal of Freedom. Just three years ago, his 1945 article, “The Uses of Knowledge in Society,” was selected as one of the top twenty articles in the first one hundred years of the *American Economic*

Review. Clearly, Hayek now is more highly regarded by economists around the world than at any time in his own lifetime.

There is growing evidence that Hayek's reputation continues to strengthen in the twenty-first century. Radio and television personalities refer to his ideas in the full expectation that audiences are familiar with the name—if not the ideas. Contemporary students are as likely to be as aware of the importance of Friedrich Hayek as they are of Milton Friedman. Indeed, in recent years, millions of people have viewed YouTube videos of rap presentations of the views of Hayek versus those of another famous economist of the twentieth century, John Maynard Keynes.¹ These clever videos are only two in a large online library where young scholars can learn more about the extraordinary range of interests and ideas of a once obscure Austrian thinker, Friedrich A. Hayek.

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¹ See "Fear the Boom and Bust": Keynes vs. Hayek Rap Battle, and "Fight of the Century": Keynes vs. Hayek Rap Battle Round Two, both on YouTube.