

The Civil Society Institute of Santa Clara University presents Daniel Klein,  
Nov. 4, 1999 and his talk, entitled

“Hayek and the Liberal Odyssey”

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Henry Demmert:

I was a Ph.D. economics student at Stanford in the 1960s. One day a flier was passed around that Professor Friedrich Hayek was on campus and was going to give a talk and I must confess at the time that I had never heard of him and I asked around and the word was that he was an old guy who was really famous once and had debated Keynes back in the 1930’s. Unfortunately, that was not enough to excite me to go to his talk, which I missed, but many, many years later, I began reading some of Hayek’s work and I was very impressed and I read on and I have a strong interest myself in Hayek, so it was with considerable pleasure in 1996 when Dan came to Santa Clara, that I found someone who shared my interest, and in fact, is somewhat of an expert on Hayek. He studied Hayek in special programs at George Mason University and at New York University and he has applied Hayekian insights to urban transit and quality and safety assurance, so he is quite an expert.

Before I bring him on, however, I’d like to remind you of one other thing, the appearance by T. J. Rodgers of Cypress Semiconductor. If you know anything about T. J. Rodgers, you know he is quite an outspoken individual. The Civil Society Institute is sponsoring a talk by T. J. Rodgers on November 18, that’s two weeks from today, and that will be at 7:00 pm in the evening at the DeSaisset Art Gallery and the topic of his talk is the Silicon Valley Story: Freedom, Economics, and Prosperity, so you might want to mark it on your calendars. I’m sure it is going to be interesting.

Without further ado, let me bring on Dan.

Dan Klein:

A couple of announcements. This [showing overhead] is where some of us are going for dinner after the talk, at 5:30. It’s two blocks west of here. Thai Pepper, bounded by Jackson, Benton and Monroe. I told them to expect 10, but I’m sure they’ll accommodate as many as they can.

Circulating is a two page handout. Are there any extras around? Does anybody need those? Anyone else? Pass those around to the back.

This handout shows on the first page intellectual currents flowing into Hayek and intellectual currents flowing from Hayek. On the second page is a list of Hayek's major works. I will allude to some of these but certainly not all. He's quite prolific. It is now 100 years since Hayek's birth. Hayek died in 1992. He was a very wide-ranging scholar, very interdisciplinary. He was very painstaking and scrupulous as a scholar. He strove to engage his intellectual opponents and people who disagreed with him to really engage in a dialogue, a sustained debate, a dialogue with them, and for that reason, if no other, he is a, a sort of, a hero of mine. I also think his works are very rewarding and rich, and for the general philosophy that he is a part of, he is one of the best representatives you can turn to to get some exposure to it.

Now, his activities and topics are so vast, that to do a talk on Hayek you'd have to narrow it down. There are a lot of different talks you can do on Hayek. What I have decided for today is to really relate Hayek to liberalism, the tradition of liberalism, the history of liberalism, the transformation of liberalism. That's going to focus more on some of the works listed on page 2 than on others.

I'd like to begin with a concept that I think is really at the heart of Hayekian liberalism. And, incidentally, just to kind of get the terms clear, Americans today mean by liberal something different than Hayekian liberalism. Today liberalism means interventionism, a fair degree of welfare-state-ism. Sometimes it is thought that the Democrats are more the liberal party. The word liberal didn't always mean what it meant today. It meant something very different, when it first came into currency, and it meant that something different for several generations. What it originally meant was something more like libertarianism, what we call libertarianism today, a belief in individual liberty, individual responsibility, a very small government sector, a small government involvement in society. So, I can't talk about liberalism without some hazard of confusion and sometimes I'm just going to say libertarianism, even though Hayek himself only came to use the word libertarian somewhat later in his career.

So there was this whole evolution of liberal from something that was very libertarian to something that was not libertarian and to a great extent at odds with libertarian ideas. As I said I want to start with a basic concept that's been in the libertarian ideas, whether they were called liberal or something else, really since the 18th C., and this is a concept that those of you have had me for economics will recognize.

I want to ask you to do a thought experiment. I want you to pretend you have never actually been to a roller rink, or heard of a roller rink or seen it on TV or anything like that. So far as you know roller rinks have never been invented, nor an ice rink. Suppose a friend of yours came up to you and said I have a great idea for a business. We're going to invite people down to this big arena and strap wheels to their feet, and throw them in there and tell them to skate as they wish. We're going to say skate in a counter-clockwise direction. There's not going to be any lanes in the rink. We're not going to license people, no age limits, there's no shoulder pads, kneepads, there's going to be a hard wooden floor with hard iron rails. And I think it is very intuitive to suppose, I mean, if we put ourselves in the position of never having been to a roller rink or seen a roller rink, that this would end in catastrophe, in chaos, in disorder. It

wouldn't be fun, it would be hazardous. Well, as it happens we know that what happens in a roller rink works out quite smoothly and beneficially for those involved. For some reason the decision-making, moment by moment of 200 people in a roller rink, without any central direction, works out to an extremely complex pattern of roller-skating, among 200 people, that works out beneficially and in fact everybody more or less has a safe and good time, although people do sometimes get hurt.

It's kind of counter-intuitive, really. Why should you think 200 people, many of whom have never roller skated, are going to achieve something pleasant in this situation? It requires an explanation. Well, to explain order in the roller rink I would focus on a couple of things. First of all incentives. What is the individual skater's chief priority in the roller rink? Well, everyone wants to have fun and the surest way not to have fun is to get hurt, is to get in a collision. So the chief priority of the individual skater is to avoid colliding with other skaters. That's sort of the individual skater's interest. Now, one of the beauties of the roller rink is that in each skater's promoting his or her interest not to collide with other skaters, they promote all the other skater's interests not to collide with him or her. So, by promoting your own interest in this situation you are promoting the interests of your fellow skaters. This coincidence of interest is really at the heart of what happens there and leaving roller-skating to decentralized action, decentralized decision-making, not only works out well, but, if you think about it, is the only way it could work.

Suppose someone got up there in the organ booth, and maybe had a little Mussolini cap on or something, and said, "What I want to do is direct skating this afternoon", and he started to try to direct skating and he said, "You over there in the green shirt, I want you to speed up; and you, in the red pants, slow down and cut left; and you watch out for that little kid -", it would be absolutely impossible, and it wouldn't be because this roller-skating tsar was a bad guy. Even if it were you or me - angels, saints! - even if it were you or me it would be a failure, it would be a disaster, quite apart from the bad agendas, the bad incentives from the planners. Why? The reason is because they don't have the knowledge necessary to coordinate this complex pattern of roller-skating. They don't have the moment by moment knowledge of what each individual situation is. Each moment your situation is changing. You're travelling at a certain speed, you have a certain control of your balance, you have certain intentions, you're this far from this person, you're that far, your weight has shifted. Everyone has this moment by moment local condition, and only they have knowledge of those local conditions, and so the only way you're going to get utilization of that kind of local knowledge - it's not college knowledge, it's not textbook knowledge it's not aggregate statistics knowledge - but the knowledge of time and place, as Hayek called it, the only way you're going to get utilization of that is by leaving decision making to those who actually have it. OK?

So I think the roller rink is a beautiful analogy for the general lesson of what is called spontaneous order. It is an order that is beneficial on the aggregate and on the whole, but it is not centrally planned, and in that sense it is spontaneous, and this is a term, spontaneous order, that has become very prominent in the 20th C. to describe this kind of result.

I want to now jump back in time and start doing liberalism as it evolved, and go back to who I think is the master of it all, more than any single other person, and that is Adam Smith. And I'd say that the heart of Adam Smith's social theory is indeed the concept of the invisible hand, or spontaneous order, as he laid out principally in his Wealth of Nations, but is also important in his other work. The keys involved in this now, we talked about the roller skating local knowledge and the coincidence of interest. Why is it that a free economy also works out as a spontaneous order, also principally works out as a beneficial outcome, even though there is no central planning? Well, I think the principles are actually very similar to the roller skating. The local knowledge and the coincidence of interest are paramount. The coincidence of interest in a free economy is that in promoting my goal to gain in a voluntary exchange with you, I happen to be also promoting your interest to gain in a voluntary exchange with me. That's the analog to the avoiding collision at the roller rink. This is really the building block of why it works, that there is this coincidence of interest, and we can act on our local knowledge in a free economy to achieve this mutual interest. And Smith, of course, developed ideas about how this is done in a vast economic setting.

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Adam Smith's Social Theory:

Spontaneous Order ("the invisible hand")

local knowledge

coincidence of interest

incentives and the price system

rewards are rendered voluntarily

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It's important that the rewards rendered are voluntary. That insures that you are actually offering something to your associates, that they're not associating with you under compulsion, the way, you know, taxation is rendered. That's one of the beauties of private activities, voluntary activities, or the activities of civil society as opposed to political society. One of the beauties is that the only way people are going to participate is if they find something actually worth participating for, so that constantly gives their trading partners the incentive to deliver something. Regardless whether we are talking about toothpaste, or apples, church services, community, or whatever - any kind of voluntary activity.

One of Smith's famous examples was the long passage he has on the woollen coat. He says, let's take the normal woollen coat of an ordinary laborer and consider all of the activities that go into actually creating this item. He starts talking about the wool and the buttons and then he starts talking about the dye and how that comes from all corners of the world, and how, to get the wool, you had to ship it and then he talks about all the activities involved in

shipmaking, and so on. The shears that cut the wool from the sheep, and then  
the \_\_\_\_\_

— The Woollen Coat:

“This division of labour . . . is not originally the effect of any human  
wisdom.”

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creation of the clipping shears, and he goes on and on for about a page and a half. He describes this whole huge complex chain of activities actually involved in producing a woollen coat. And he says this division of labor does not originate in any human wisdom. There is no overall central planner of this, and he emphasized the great folly it would be for someone to attempt to centrally plan an economy or any large parts of economic activity, especially on a non-voluntary basis.

Now Smith called the system that he favored,  
“the simple and obvious system of natural liberty.”

The word and concept liberty was very central in his work. It meant self-ownership, ownership of your private property, and freedom to engage voluntarily in activities with others. Property, consent, and contract is really what it meant to him, and he was quite clear on that. His basic prescription for society, although he did sometimes depart from it, but the departures are few and relatively minor, and on the whole it is clear that his thrust was to advocate natural liberty. Jacob Viner, who wrote a paper showing that Smith was not an entirely consistent libertarian, nonetheless concludes that,

“Smith, in general, believed that there was, to say the least, a strong presumption against government activity beyond it’s fundamental duties of protection against foreign foes and maintenance of justice” (Viner, p. 233) - justice being essentially protecting your property from coercive activities, from thieves and robbers and muggers. Liberty entails for him a concept of justice which means the preservation of property rights and your freedom of contract.

So the word liberty is quite connected in his system, and I think in the classical system generally, with justice. Liberty and justice - I think I’ll skip this quote from Smith -(reproduced for this internet version of the talk as follows)

Smith on justice:

“Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law.” (Wealth of Nations, p. 862)

Smith just says that it's important that commerce be confident in the execution of justice, that people's property and consent, I think he says property and contract - be protected by the administration of justice. Smith speaks of certain particular laws being evident violations of natural liberty and therefore unjust, so therefore he saw a very close connection between natural liberty and justice. As I said, the chief principles of this were no coercion against property and consent and these principles were to be complied with by citizens and by the state. The state had to submit to the same legal principles as the people in his system of natural liberty. He says a wise legislator is governed by general principles which are always the same.

What you have then is an articulation then, a sense of the rule of law in Smith, a sense that the polity and the legal rules of society are going to follow some general principles that are pretty simple, easily understood, or applied by ordinary citizens. You know the rules: I can't coerce you, you can't coerce me. I can't take your property, you can't take mine. Easy to understand rules.

There are some gray areas, there are a lot of gray areas, but gray areas in and of themselves don't destroy a distinction, a concept. There is a gray area between night and day, called twilight. Maybe it's six o'clock, we don't know if it is night or day. At twelve midnight it is unambiguously night, at twelve noon it is unambiguously day, so the fact that there are a lot of gray areas in his concept doesn't render it meaningless or useless, as some of the critics sometimes suggest.

So I think Smith is really the great figure of it all. He was not going around calling himself a liberal at that time. The word was not in currency at that time, didn't come into currency until the early 19th C. after Smith died in 1790, but when it did, it clearly had this Smithian if you will, libertarian flavor to it.

Nineteenth century liberalism is largely the story of British liberalism, because in Britain, actually, a party was formed on these principles and philosophies and held power, and made their society highly, highly libertarian, maybe the most libertarian a society has ever been. These [referring to overhead slide] are some of the famous people representative of the British liberals. Some of these names may be familiar to some of you, I don't know. Some of them are intellectuals and some of them are more statesman. The leading statesman here is Gladstone, who was prime minister four different times, of the liberal party, as a liberal. Cobden and Bright were both, I think, M.P.s but also active proponents of ideas, whereas Mill, Acton, and Spencer were much more strictly intellectuals.

I want to describe the character of this pre-1880 liberalism. You see America wasn't using that word so much because America didn't have a liberal party, and frankly, in America, in the middle of the 18th C., we didn't have intellectuals much to speak of. It was really an intellectual backwater, America, for the longest time, as Alexis de Tocqueville often noted. But anyway in Britain, the character here as stated by the Columbia Encyclopedia, the liberal party's distinguishing policies included free trade, low budgets, and religious liberty. They were anti-imperialism, and most liberals believed in the economic doctrines of *laissez-faire*.

J. A. Hobson, who was opposed to libertarian liberalism, nonetheless states that,

“Throughout the nineteenth century . . . most of the State Interferences with private enterprise and laissez-faire . . . were carried out by Conservative Government in the teeth of Liberal opposition .”(Hobson, Confessions, p. 122)

Somehow the conservatives have always been on the opposite side of the liberals. It's rather ironic that when the liberals switched sides, the conservatives switched sides. It's like they define in terms of what liberals are not, at the present time, which does not put conservatives into a very favorable light. Historically and traditionally, I think there is very little reason to think of the libertarian philosophy as conservatism or to call it conservatism.

Now it changes, OK? There is a new liberalism that gets created in the later part of the 19th C., and I have quite a bit of material here, I just want to read it, to establish the fact that there was this real and discrete and noticed and dramatic change. OK? I just want to sort of establish the fact that there was this old character to liberalism. It did change rather dramatically and suddenly because you hear people today refer to classical liberalism and say, “Oh, it was very libertarian in nature,” and, you know, you never know whether to believe those people. Do they really know anything about nineteenth century politics and ideas? And so, it is actually true, and then it actually changes. Thomas Hill Green is one example of the “New Liberals”. You see up to this time the word liberty very much meant, as I said, this thing about private property, freedom of contract, and voluntary consent, and otherwise being mostly left alone by the government. Well this [referring to overhead] is what people started saying, at the end of this century, this kind of thing.

“Sometimes it was the argument that the state had no business to interfere with liberties of the individual . . . Happily a sense of the facts and necessities of the case got the better of the delusive cry of liberty. Act after act was passed preventing master and worker, parent and child, house-builder and householder from doing as they pleased, with the result of a greater addition to the real freedom of society.” (Thomas Hill Green, 1881)

There is some other real freedom, he is saying, that the old concept of liberty has been obscuring or eclipsing. He says our modern legislation involving as it does manifold interferences with freedom of contract - he is quite blatant about that - is justified on the ground that it is the business of the state to maintain the conditions without which the free exercise of the individual faculties is possible.

I know many of you have heard this kind of talk before in people who propose a certain alternative definition of freedom or liberty. This is really, like, the first time it happened, and it is really quite dramatic. Again, this is Green:

“When we speak of freedom as something to be so highly prized, we mean a positive power or capacity of doing or enjoying something worth doing or enjoying. The mere removal of compulsion, the mere enabling of a man to do as he likes is in itself no contribution to true freedom.” (In *The Liberal Tradition*, pp. 180, 181)

Just a couple more from him:

“That end is what I call freedom in the positive sense, in other words the liberation of the powers of all men equally for contributions to a common good.”

And he speaks of “. . . freedom in the higher sense, . . . the general power of man to make the best of themselves.” (Green quoted in Greenleaf, p. 130)

Now there is so much happening here to someone who is sympathetic to the libertarian view, that you don't know where to begin. First of all you might begin to say that - hey, I'm for people, you know, people having meaningful lives, and people having opportunity and wealth and all that. I just happen to think you are making a mistake in advocating these government interventions and restrictions, which he [Green] and the new liberals started to do.

But the main point here is what happens to the language. What does he start calling freedom here? He calls freedom something which will help the free exercise of human faculties. Even if you are going to agree that it means something, something usable, *why call it freedom?* Why not just say wealth or opportunity? Why sort of destroy this other word? And then there are so many things he is calling it, saying, here he's saying it's the ability to contribute to the common good. Ok, look, maybe you want to argue that, and maybe you think that is meaningful, and maybe it is meaningful, but *why call it freedom?* That is really the main, the central semantic beef.

Or, take the last one. He says, “The general power of men to make the best of themselves.” Who's going to decide whether people are making the best of themselves, he leaves rather unanswered in the day, but again, you can quarrel with it, you can accept it, you can say maybe it is important, but again *why call it freedom?* But again, this is what they did. This is what happened.

Hill is the original and classic case, but here I've got three quotes from people like Hill, and I just want to do this to kind of underscore what is happening here.

“Liberty,” says Bosanquet, “in the plainest and simplest sense of the word, does not depend on the absence of legislation, but on the comprehensiveness and reasonableness of life.” (Bosanquet quote, p. 140 in Greenleaf).

That's in the simplest and plainest sense of the word! Comprehensiveness - ummm, I'm for that too, presumably, but *why call it liberty?*

Hobson: “Liberals must ever insist that each enlargement of the authority and functions of the state must justify itself as an enlargement of personal liberty, interfering with individuals only in order to set free new and larger opportunities.” (In the Liberal Tradition, 1909, p. 192)

Look, if you think that these interventions are going to increase wealth or increase opportunities, that's fine, but *why call it liberty?* OK, Hobhouse talks about true consent and I'll skip that,

(for the internet version, here is the quote)

L. T. Hobhouse, 1911: "True consent is free consent, and full freedom of consent implies equality on the part of both parties to the bargain . . . There emerges a distinction between unsocial and social freedom." (Liberalism, p. 91)

The historian Greenleaf sort of sums it up. This is a classical liberal guy who's alive today writing about all this.

"The emerging point of view was more often described as the 'modern' or 'progressive' or (most usually) the 'new' Liberalism to distinguish it from the conventional doctrine which was libertarian or anti-statist in nature." (Greenleaf quote, p. 143)

Now, I just want to sort of cap this off by looking at what was the reaction of some of the libertarian liberals of the time. They certainly noticed this and commented on it. Herbert Spencer who in many ways is the greatest of them, in my opinion, of the 19th C.,

"I do not desire to be classed among those who are in these days called Liberals. In the days when the name came into use the liberals were those who aimed to extend the freedom of the individual versus the power of the state, whereas now (prompted though, as they are, by the desire for popular welfare) Liberals as a body are continually extending the powers of the State which interfere with the individual." (Spencer, 1900, letter quoted in Greenleaf, p. 81)

H.L. Mencken says that the "liberal" Supreme Court Justice Oliver Wendell Holmes consistently favored the elimination of limitations on government: "If this is Liberalism, then all I can say is that Liberalism is not what it was when I was young." (Mencken in *Chrestomathy*, p. 259)

Albert Jay Nock in 1943: "Liberalism is now motivated by principles exactly the opposite of those which originally motivated it. . . . Liberals are now . . . denouncing as reactionary and anti-social those who adhere to the historical principles of Liberalism." (State of the Union, pp. 276, 284).

Why is it that the idea of the state, government intervention, big government, became so appealing? This is a really big question. It doesn't have any single definitive answer. People who favor interventionism will say because *laissez-faire* failed, because it was not good, because it was not found to be good, and people realized that and revised their views. I don't accept that because I don't think it was failing, libertarian philosophy. I think, you know, that it was good then and it is good now.

Well, there is a whole bunch of reasons you can get into as to why the change. I'm just going to mention these - why the rise of collectivism, statism, whatever you want to call it.

Popular government is a big one. The rise of the expansion of the vote, and the belief that the government is going to be democratic and it's going to manifest the will of the people and will represent the people. This idea really happened in the 19th C. and spread as the vote spread, and this idea changes the view of government. Before, the view of government was very much something that had to be restrained and held in great suspicion. It's some other people, it's the royalty, or it's the aristocrats, and you've got to put limits on government, that's what the Constitution was about, that's what the British Constitution was about, that's what so much of political thinking was about. The more that the idea of popular government took over, the less the emphasis or the perception was that we needed restrictions on government, since government is now us, OK? Government is how we do things for us, why would we want to restrict ourselves? Now that we all vote and government represents us we don't need all these restrictions that these old guys like Herbert Spencer were so worried about. And in a sense getting votes becomes the proof of good government. It's like, if I can get voted in, then obviously I'm good government, cause people are picking me. They voted for me, and so now expansive government becomes self-justified. This whole idea is very scary because it means that the opinions of ordinary individuals, uninformed individuals, are decisive. The man in the street sort of picks the man he likes best and the politician says, hey, I've got the votes, so that's my legitimacy, regardless of what the policy is.

Another possible explanation is that people were really unhappy with the growth of industrial society, with commercial society, with the breakdown of traditional community. People kind of had been bred for centuries, in a sense, to have instincts that think in terms of community, that think in terms of family as a form of organization for society. To some extent, state collectivism was a reactionary force to commercial society, to increasing industrialization. This is kind of turning things around from what the leftists say, who say that the *laissez-fairist* is reactionary, the reactionary force against this progressive rise in the state.

You know, the whole concept of state socialism and Marxism takes off. You can kind of count that as a separate force and try to explain it. There's a new fascination intellectually with science and a faith in planning and the idea of the progressive era to a great extent was to have a rule of experts: really smart guys who were going to kind of figure things out for us and sort of engineer society.

A big problem, I think, is that 19th C. liberals explained and justified the institution of property and liberty in ways that were sort of utilitarian and this inevitability sort of stripped the sanctity of these ancient or older ideas. People were used to respecting and revering liberty not because they thought it would produce more bubble gum, or produce better washing machines, but because it was moral, it was God's order. The more these things were subjected to rational inquiry, the more they were demystified socially or publicly. There's a breakdown in economics, and in a consensus of the economics - there wasn't much of an economics profession early on in the 19th C., - but what there were were active economists who were really extremely influential

and really held a pretty strong consensus about the desirability of free enterprise. The economists of the 19th C. were a very active and powerful force maintaining this philosophy and this consensus breaks down at the end of the 19th C., and has been lost forever, really.

Well, there's a couple of other things. Finally something capping it off is the first world war. So the point is there is a whole bunch of possible explanations. I don't think any of them are decisive. I don't really know what to make about a lot of them. I'm not an historian who does this full-time. But it is a good question: Why, if classical liberalism was a good thing, why is it lost?

So this is what Hayek is kind of coming into. He's born in 1899, and he is growing up in the teens and the twenties. Hayek's original views, his own views, were quite socialist. Hayek was a Fabian, a kind of a moderate socialist, and even got his degrees, his doctorates in law and social science in Vienna, and pretty much was still a socialist. It wasn't until he came into contact with Ludwig von Mises - he came into contact with this other Austrian economist - when he was about 23 or 24 that he really significantly changed his views.

Mises was a very learned and powerful and aggressive theorist and proponent of the old liberalism. Mises certainly sets the tone in the background for Hayek, and it is hard to understand Hayek with knowing about Mises. In fact most of Hayek's central ideas you can find quite directly in von Mises. In a sense Hayek is doing Mises but with a very different tone. Mises was not the kind of fellow who ingratiated himself to his opponents. He was strident, he was forceful, he went to smash his opponents, and he often did. He did influence a great number of people.

Hayek, as I say, started off as a socialist, and his whole attitude for the rest of his life became very much: To engage and sustain dialogue with the people who used to think like I did, and explain to them, try to get them through a process something like what I went through. But Hayek's process is very long and richly developed. If you look on the second page of the handout, you will see that there is a whole bunch of books there and his earliest books have to do, actually, with the business cycle, monetary theory and trade theory. These are more narrow economic topics, he became extremely prominent in this field, and as Henry alluded to in his introduction, Hayek was famous for debating with Keynes the causes and consequences of business cycles and depressions. This is what got him a position in Britain at the London School of Economics, this work on interest theory, business cycle theory, capital theory, monetary theory. I'm not going to get into it at all here but this is what in some respects he is most noted for as an economist; this is what is cited when he won the Nobel Prize, this early work. It so happens that the core of what he was saying here was actually developed first by Mises. I don't mean Hayek disguised that fact, but as I say, Mises was really his mentor.

What I want to get into is the second group listed here on page 2, where Hayek gets into this debate over the feasibility of socialist planning. A little bit of background on this.

Socialism as an idea grew up in the 19th C. and it gained ground and it took over in Russia, actually took power in 1917, and there were constant debates about this. Marx was being criticized by various people. The socialist theorists at the time, though, didn't ever really address the question, "What are we going to do once we get power, how are we actually going to run a socialist society?" Inasmuch as they addressed this question at all, the main thing they addressed was the sort of psychological or moral issue of "How are we going to motivate the socialist workers in the socialist society not to goof off on the job, but to actually work hard", and generally speaking the conclusion of socialist theorists on this was, "Well, in the new socialist economy and socialist society people are going to enjoy working for the collective and work is going to be rewarding and they are not going to be alienated from their labor, and so they are not really going to want to shirk," and so on.

That was the only real theoretical issue they were concerned with until a very strong critique of the idea of socialist planning was made that really forced them to confront the question, "What are we actually going to do? How are we actually going to plan production, and decide how to pay people and how to price things and what to produce, and so on?" And it was a very forceful challenge again, from von Mises.

Von Mises wrote a paper in 1920 which said that your planning of a socialist economy is going to be impossible, it is going to be hopeless because you're not going to have the key information you need to do this intelligently, to run a socialistic economy intelligently, and the key thing you don't have are *prices*, prices that emerge from actual market activities, the market for rubber, the market for steel, the market for bicycles. Without prices intelligent investment calculation is impossible. Now you can make up prices, he says, but unless the prices really reflect the relative scarcities of goods, it isn't going to work. You're going to make a shoe factory when you should have made a rubber factory. And when you build the shoe factory, you are going to make shoes in the wrong way, of the different ways you could make shoes, and when you sell the shoes you are going to put the wrong prices on them, because prices are what mediate supply and demand, and prices emerge, you know, from the interactions of supply and demand, and, he said, the socialists, without having real markets to generate real prices, your planning project is doomed.

The socialists faced up to this, for the most part. The socialist economists anyway, writing on these matters. Some of them said, "Gee, I think Mises is right; I think the socialist economy is going to be terribly inefficient, but do you know what? The justice and humanity of socialist society is going to be great enough that nonetheless we should have socialism, even though we are going to have fewer washing machines, and maybe not eat as much meat as we otherwise would."

But another group of social theorists, led by Oscar Lange - well there were several people writing in this vein - but this Polish economist Lange, his is the most definitive reply to von Mises, said, "What we're going to do is we are going to direct our socialist managers in this new socialist system, to emulate the market economy." You know, we will tell them to do what Lange thought a market economy does, to recreate prices, and recreate these signs and tools which

will then make planning possible. Now what Lange had in mind was to mimic - so Lange had this vision - which was to mimic, what in economics was recently emerging as the Model of Perfect Competition of a market economy, and he was saying that he was going to mimic this, which he was taking as a representative of a free enterprise system, a real world free enterprise system. The peculiarities of Lange's attempts here are so extreme, because this model of the free enterprise really is artificial, very artificial, it doesn't correspond in any neat way to what really happens in a free economy, and someone needed to point out that, sort of two things at once - this [referring to markings on the blackboard] is not really this, and your

attempts to mimic this are not going to get you anything good. And this is where Hayek steps into the fold, he kind of takes over from Mises, he replies to Lange, and what he does is he takes Lange's whole vision apart, his whole vision about communications between socialist managers and a central planning board. He is going to say those aren't going to really mean anything. There's no way you and the central planning board are really going to know if you're doing the right thing. He said there is no way you can evaluate the central planning board. We can sort of bring this back to the roller rink. It's like Lange's somehow going to say we are somehow going to direct roller skating at the roller rink based on some artificial model of how roller skating actually happens, and Hayek is saying this really isn't going to work.

Hayek is working here very much as an economist, writing in economics journals, but it is here - if you look on this page - that he really starts to branch out into something beyond economics. He realizes two things in this debate with the socialist economists. He is realizing first of all that the economics profession is in some sense going off course, and that he should not so much fashion himself as an economist or try to prosper as a professional economist within the profession as it's going because the direction of the economics profession is basically bad and wrong, and he becomes quite insightful about the failures of this approach, and this very broad kind of approach to doing economics, failures which Henry and I see and lament down to this day.

So he first of all starts to think of himself less narrowly as an economist, and there's a second thing he starts to see in all of this critique of Lange. He starts seeing that to do this socialist thing, you have to give government a lot of arbitrary power to achieve its goals. You've got to override a lot of traditional principles about social interaction, and you've sort of got to give carte blanche to socialist planners in doing this, and he begins to see this connection between economic liberty in economics and things like justice and the Rule of Law, and that all of these things, a free economy and a legal system based on a principle of justice that means something, based on a principle of liberty that means something, and he begins to see this bigger picture, and he enters public life as a more general political philosopher.

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## Hayek on the Rule of Law

“[The Rule of Law] means that government in all its actions is bound by rules fixed and announced beforehand – rules which make it possible to foresee with fair certainty how the authority will use its coercive powers in given circumstances and to plan one’s individual affairs on the basis of this knowledge.”[1]

## The Intervention Dynamic – Intervention begets intervention

“The more the state ‘plans,’ the more difficult planning becomes for the individual.”

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The next big thing, his greatest contribution, the pearl of his entire career, is in 1944, *The Road to Serfdom*. He sort of goes out on a limb, he sort of sheds his old, stuffy economist self, and he writes a book that tries to respond to the trend of public opinion, of intellectual opinion of the time, and to warn them that they are pointed in the wrong direction. What is the direction they are going in? It was towards more and more statism, it was towards more and more sympathy for state planning, for a state domination of society, more and more contempt for Herbert Spencer, for the old liberalism, for the old principles of laissez-faire, of property and contract as something that’s really important and that should be upheld, freedom of property and contract. That’s the direction of the British intellectuals of the time, and really to a great extent the world’s intellectuals, and very much a drift towards the left, if you want to use those words, and this was his book, kind of like a long telegram to them, saying - listen friends - and he was a British intellectual himself by this time, he had been in Britain now for over 13 years when this came out - and he dedicated this book to socialists of all parties. This is a reflection of the character and voice of Hayek as opposed to the voice of von Mises.

What does he say in this *Road to Serfdom*? He talks about what is the road to serfdom. The road to serfdom is that the more you warm up to this idea of government-led direction of society, you don’t realize it, but you are pointing towards your worst enemy. You are inching up towards becoming almost the opposite of what you want, and to very dangerous things. He saw the British intellectuals were becoming very left-wing, socialist at times, and he saw what happened in the continent, in Germany and Austria, where socialists came to power in the twenties, and he saw what was happening there, and also his study of Lange and his imagining of how a socialist economy must really work, enabled him to see the real brass tacks, the political brass tacks, the human brass tacks, of what was really at stake here and what was really involved. He saw that the socialists faced many problems - how to make decisions between competing interests and competing claims on public resources or public goals. He saw that integrated planning on a vast scale, government planning, required decisive action. It could not be a committee project. He saw that executing the government plan would necessarily entail the denial of individual choice. You could not let people freely react always to what you were doing, because individuals acting in spontaneous fashion might subvert what the state is trying to achieve.

Execution becomes a priority. Means are subordinated to the plan, and the execution of the plan becomes unrestrained. So what he was talking about was the breakdown of the rule of law. You're not actually going to have any meaningful principles of law. He said, "Constantly the broadest powers are conferred on new authorities which, without being bound by fixed rules, have almost unlimited discretion in regulating this or that activity for people." He had a chapter called "Why the Worst Get on Top," and he was referring especially here to Naziism and to Italy's fascism, and he contested the notion that this was just a historical accident that sort of the worst blackguards and thugs happen to be the ones that get into power. You know, a lot of the socialists at the time said, "Oh, of course it could work, but that's not of course the model of how it should work because in that case gangsters and thugs got into power", but what Hayek was saying was that when you have this government domination in society, that is actually the natural and expected outcome.

So what Hayek in a sense is offering here, in this, is a whole interpretation of fascism, and what he is saying is that the fascists, you British socialist intellectuals who so hate the fascists, consider them the furthest opposite of what you are. He is saying they are actually the mutant outgrowth of what you create. He is saying that the fascism is really - first of all they were socialists, explicitly - the Nazis were the National Socialist German Worker's Party, and so on. Hayek says about the more humane socialist parties on the continent all the socialist parties had the strength to get anything that they wanted had they cared to use force, but they were reluctant to do so. They had, without knowing it, set themselves the task which only the ruthless ready to disregard the accepted barriers of existing morals, can execute.

He says, "It is characteristic that in both Germany and Italy the success of fascism was preceded by the refusal of the socialist parties to take over the responsibilities of government. They were unwilling, wholeheartedly, to employ the methods to which they had pointed the way."

And in this book he does some very interesting things to drive home this connection between interventionist government and repressive government. One thing he does is he looks at the literature of the Nazis, and he shows that what they saw themselves as the great enemies of, their greatest enemy, was not, you know, the more international forms of Marxist socialism, or communism. They saw themselves as the greatest enemies of old British liberalism. They saw that as the most opposite thing of German Naziism.

And he quotes Arthur Moeller van den Brook (1933), who wrote - this is a quote of basically a Nazi theorist:

"There are no liberals in Germany today. There are young revolutionaries, there are young conservatives. But who would be a liberal? Liberalism is a philosophy of life to which German youth turn with nausea, with wrath, with particular scorn, for there is none more foreign, more repugnant, more opposed to it's philosophy. German youth today recognize the liberal as the arch enemy."

Hitler himself said, "The whole of national socialism is based on Marx", and that, apart from the nationalist and racist commitments of Nazism, "Our own political movement would really do nothing more than compete with Marxism on its own ground."

So, Hayek's really developing a whole take on how to think about the alternative government regimes that are out there, and that compete with each other.

In addition to looking at the Nazi intellectuals, he also looks carefully at the British leftist intellectuals of the time, and shows that, apart from their dislike of the Nazis' nationalist and racist elements, a lot of the British intellectuals actually admire Nazi economics and Nazi economic planning, which is basically government domination of the economy. So, he's showing, first of all, that the Nazis are against the old liberals, that the modern British intellectuals are in some sense admiring the Nazi form of economic planning, and finally, I think, he draws an important point about who the Nazis chose to scapegoat in their regime. The Nazis chose to scapegoat above anyone else the Jews, and Hayek says, "In Germany and Austria the Jew had come to be regarded as the representative of capitalism, because the traditional dislike by large classes of the population for commercial pursuits, has left these more readily accessible to a group that was practically excluded from the more highly esteemed occupations." So, in other words, only the Jews were allowed to, or were, really, sort of invited to practice certain commercial pursuits as money lending and so on, and Hayek says, "It is the old story of the alien races being admitted only to the less respected trades, and then being hated still more for practicing them."

Hayek is developing in a sense a whole different interpretation - I mean, I remember in high school, I remember in social studies the professor saying that there's a political spectrum from left to right, and on the right there was the Nazis, and on the left there was the Communists, and you know, America's like, in between somehow. Has anyone ever seen this kind of little treatment before [referring to overhead drawing]? Yeah, you hear talk about this framework, and what Hayek is saying, is that, and, by the way, I remember in high school the teacher oddly saying, "And you know, the funny thing about politics is that when you go further enough to the extremes, they are alike." What kind of spectrum is that?! If you line people up from tallest to shortest, are they supposed to get to be alike at the ends? That doesn't make any sense at all, nonetheless that's what they said. But what Hayek is saying, is that what we have, is that the framework of government is more and less - you've got totalitarian, and you've got, basically, laissez-faire, what you might call, where the government just does the justice, or acts like the night watchman, and enforces property and contracts, and I call that the night watchman state, where Spencer was in his beliefs. And what Hayek is saying is the Nazis are here, and the socialists are here [right besides the Nazis], and you guys are drawing such a big distinction between you and the Nazis, because, well, the Nazis fought against Russia in the war, for one reason. (Tape pauses at this point) . . .

. . . I think telling political questions about the Rule of Law, about what that means. This is a very important concept, I don't know - raise your hand if you have heard of the Rule of Law. OK, not so many people have, and it is certainly an elusive concept and it is certainly not one you are going to learn in your high school social studies class.

Here's what Hayek says, "The Rule of Law means that government in all its actions is bound by rules fixed and announced beforehand, rules which make it possible to foresee, with fair certainty how the authority will use its coercive powers in given circumstances, and to plan one's individual affairs on the basis of this knowledge."

In other words, that there is some rhyme or reason to the government rules in society, there is some broad principles to abide by, so you can almost guess what the law is, even though you haven't read all 30,000 pages of the Federal Register. Basic principles that you abide by, and he pointed out that the more you start intervening in voluntary activities in the economy, you're trampling what really provides the best candidate for the principles of the Rule of Law, the principles of voluntary exchange being permissible, and as the general principle of a society. Your intervention dynamic, once you start overriding this principle creates problems which usually calls forth other interventions and so on. This principle of free association and freedom of contract basically dies, it gets crushed, it no longer serves as a guiding principle of government rules, and Hayek is saying - Folks, there's not really that many alternatives. It's not clear that there is some other set of principles that are actually going to be intelligible, that are going to be workable as a guide, as a generally publicly understood sort of basis or philosophy for what lies behind the law. He says the more the state plans, the more difficult planning becomes for the individual, because he is not quite sure now what the government is doing where and how, and how markets and so on are really going to work, just like we don't know the codes of all these laws. If you want to go and open up a sandwich shop, you know, there's probably tons of laws and red tape that you have to familiarize yourself with before just acting as an entrepreneur to seize what you might think is an opportunity.

What kind of rules are most appropriate for a complex world? This is what Smith was asking us. He said - we're getting this new commercial society. We're turning into a complex world with division of labor, big manufacturers, very efficient production of a lot of goods. We're interacting in trading all over parts of the world. We're becoming a complex society, just like the complex skating in the roller rink.

What kind of rules are appropriate for a complex society? One view was that of the new liberals. Winston Churchill was a liberal cabinet minister in 1919. He's like a Hobhouse liberal here, or a Green type.

Churchill: "The ever-growing complications of civilization create for us new services which have to be undertaken by the state, and create for us an expansion of the existing services. " (quoted in Greenleaf 1983, 27).

He is saying, for a complex world we need complex rules. We need more government, more government rules to deal with these complex interactions. This idea was popular elsewhere.

One man said, “We were the first to assert that the more complicated the forms assumed by civilization, the more restricted the individual must become.”

Anyone want to guess who that was? Wild guess? FDR? No, but not a bad guess. Actually, it is Benito Mussolini. (Benito Mussolini, quoted in Hayek 1944, 43)

Hayek says it’s the opposite, that’s the opposite of the truth.

He says, “Any further growth in it’s complexity therefore, far from making central direction more necessary, makes it more important than ever, that we should use a technique that does not depend on conscious control.” (Road to Serfdom, pp. 48-50)

#### “- SIMPLE RULES FOR A COMPLEX WORLD”

Simple rules are the right rules for a complex world, and the more so the more complex the world. Again, let’s see if the roller rink can help us here. The more skaters you have, and the more differences their abilities are, the more complex the patterns of skating would be, the more preposterous it would be for someone standing up in the organ booth and directing roller skating. You know if it was rather simple, if there was, say, five skaters, it might be actually rather feasible for someone to stand up in the organ booth and say you, you, you. Just like in a small community, in a traditional society, in a primitive society, you can have more complex rules that tell people what they can and cannot do as economic agents and producers and so on. But the more complex a society becomes, the more preposterous it is to try to plan things in an effective way. Again, you don’t have the knowledge, so it is simple rules that you need for a complex world, not complex rules.

Now these points flow into a point, and I am going to close with this, which comes out more explicitly later in Hayek’s work, if you want to look at the handout on Page two, and you look all the way down now to *Law, Legislation, and Liberty* in three volumes, Volume 2. He wrote a book called *The Mirage of Social Justice*. I think the whole Hayekian system speaks to this whole issue of social justice, and he so much felt that it did, that he wrote a book about it.

Now, raise your hand if you have heard anything about social justice in the last twelve months. OK. This is very big on this campus. A lot of people use this word on this campus. What they generally do, people who use that word, is they look at something they don’t like, and they say it is socially unjust, and maybe propose some sort of reform or intervention to bring about I guess what they think is more just.

And, again, I think there are a couple of things going on here. Let’s suppose they think there are certain workers who are poor and who are being paid low wages and they think it is unjust that workers should be paid such low wages, and maybe they advocate a minimum wage law, or an increase in the minimum wage law. Now, again,

there's two things going on here if you have a libertarian outlook. First of all, you might just disagree with them that in fact the consequences of the minimum wage law are going to be good for the people they are concerned with. That's one issue.

But there's again, this other, and in some sense more fundamental issue about semantics. Do they have grounds for calling this problem an issue of *justice*? Or, is this another case like in the case of the word liberty, that they have used the term indiscriminately, and not really built up an alternative meaning, but, really, just, really kind of destroyed the meaning, and destroyed any meaning for it, and when your words lose meaning, you just get into intellectual slop, you get into intellectual mush when your words don't have meaning. And this is the major concern here. It is not about arguing about what the consequences of the minimum wage are, so much, it's the semantics. Justice, properly and traditionally understood, well, the simple point is kind of made here [referring to overhead]. Death is not unjust, per se. Murder is unjust. Justice and injustice are ascribed to *actions*, not outcomes. It is actions which are unjust and just, and only actions. It is not just situations or outcomes or general states of human affairs. It would be nonsensical to someone in the 19th C. to call a general situation unjust. Justice is a question of people's actions. Furthermore, you have to have a kind of a standard for judging justice, you have to have a set of principles, that when violated, are deemed unjust acts. And so, a notion of justice depends on specifying a meaningful and workable set of principles of just conduct. And this is what the people, it seems to me, I don't, I have to confess I don't know the works and writings of the people who talk about social justice so well, but it seems to me that this is what they fail to do rather consistently.

They might say that it is unjust that these people are being paid \$4.00 an hour. Then you have to ask them, you have to hold them, if there is to be some meaning of justice you have to say, OK, what's the unjust act? And then they might say the employers are acting unjustly because he is only paying them only \$4.00 an hour. And then you have to say what principle are they violating, and that is where they fall down. What do they say? What do they say? "Everybody who works ought to be paid \$5.75 an hour, that's our principle of justice"? First of all let's just submit that as a principle of justice. Think how absurd that is. That means if you wanted to volunteer for a job and get paid nothing, or work with your friends or help your friend move, you're violating justice. And then all workers regardless of their skills and their age, if they're not being paid at least \$5.75 an hour, then that's not justice. I mean, it's obviously preposterous as a general principle, that for some reason it is universally just that you pay somebody \$5.75 an hour for doing a job.

That's number one. Now number two is why \$5.75. What about \$5.90, or what about \$5.50. You know, it's just when it is \$5.80, but it is unjust when it is \$5.70. I mean. So, it's like the level is preposterous, and just the concept of fixing it is like, well, they don't provide principles to sustain any notion of judging justice in acts.

What the social justice talk seems to be is really just people saying we don't like something. It's like people just looking at poverty or something and – "we're humane, we're concerned, we don't like this" - and, in some sense, I

don't see where it is going anywhere beyond that. They might propose specific policies and then they can say raise the minimum wage, and you can get into a meaningful debate about that. What the consequences of that are, or would be or wouldn't be, maybe it's desirable to raise the minimum wage. But, *why call it an issue of justice?* You might say it is socially desirable. You know, you might say there are good arguments that it is going to help society and that is one of the things that we want government to do. OK. And then you get into an argument over the value of the minimum wage. But, where do they come off calling it justice?

So it's another case where there was this system, there was this Smithian classical liberal, and, today, best described as a libertarian, kind of system and worldview and philosophy, where all these things mean something, and there is a theory about why it is a good thing. It's maybe not good in every single individual case. You know, I'm not sure I'm in favor of legalizing bazookas, which would presumably be liberty to a lot of people that buy and sell bazookas. Maybe like Smith said, there are some exceptions, and maybe that does damage it all a little bit. But, what we have today among people who are sort of outside the Smithian point of view, is a lot of banter with words. You don't even know what they mean, and they don't know what they mean! That's the more important point, they don't know what they mean. It's not like they can clarify it for you.

So Hayek is I think the guy, who in the darkest hour, stood up, tried to, did maintain a very civilized, erudite conversation and discourse, sustaining, you know, kind of resuscitating - I'd say this [*Road to Serfdom*] is the breakthrough book for him - this older liberal tradition and then developing it very, very richly - and I would just especially point out *The Constitution of Liberty*, and the three volumes, *Law, Legislation, and Liberty* - into his old years. He lived quite a many years. He deserves to be regarded, and, I think, I think, frankly more so than Milton Friedman. I mean, Milton Friedman is a great hero of mine as well, and deserves tremendous credit. But I think Hayek is really the guy who sort of brings back what all that was all about and sort of brings a lot of learning and scholarship to this whole philosophy into our debt, really, and his students and influence are far-reaching and are spreading. His world-wide influence is now probably as great as it has ever been. And if you look at these arrows from Hayek on the first page [referring to the handout], you see these things that he's been involved in which are, really - I mean, he is regarded as the Adam Smith of the 20th C., and I think that's basically a fair assessment. If I had to pick a man of the century, I would pick him.

So with that I'll just open it up - Wow, gee, I just talked and talked. I know I said 5:00, but maybe if you've got to go that's OK, but let's plan on going until at least 5:10? Any comments or questions?

Q1: (unintelligible)

A: And you're sort of presuming that it's wrong and it's not good to paint the lanes of the roller rink, right?

Q1: (unintelligible)

A: Well, the metaphor does become a little strained here, because is the roller rink owner the government or an entrepreneur? As an entrepreneur, the roller rink owner would have incentive to introduce such rules, referees, and so

on, telling people to skate in a counter-clockwise direction, as increases his profits, which reflects the increased satisfaction of consumers, who voluntarily give him payment, ummm, so I'm not real sure. Well, socialists, . . .

Henry: That's a civil rule, lanes.

A: There is in fact, you know in roller rinks, that middle area, I remember, at the roller rink I used to skate at was kind of a different color. If you were going to skate in there it's more like you are doing your own little [pirouetting] (laughter) you know. It is kind of like a lane, it is kind of an off bounds for regular skaters, but, yeah, in a sense it is a somewhat simple rule –

Q2: I think their argument about social justice, they would say, not necessarily \$5.75 a day, we use the term living wage. We have to pay enough to buy the necessities of life . . . they're not hungry, they're not cold.

A: Again, it's not a meaningful principle. I mean someone who lives in a middle class family and works is able to sustain some idea of material conditions that they have in mind at a lower wage. So it depends on the individual circumstances, it is just not generalizable at all and then furthermore, it's like what exact material conditions go into the conception here, and how are we supposed to know whether or not an individual is in that that position. Do you really see that term, a living wage, providing a coherent principle?

Q2: Well, personally, I don't agree with that principle, but that is off the argument.

A: Yeah, I don't see that it really gets him anywhere.

Q2: You have a natural living wage - somebody thinks it . . .

A: I don't think it gets him anywhere intellectually, it gets him somewhere politically, it might get the policy through, but I don't think it has any intellectual respectability.

Q3: What would you say is the modern name of a (unintelligible) rule in a society or country that is highly socialized in many sectors, and that seems to work as it is? How does he go about confronting the intellectuals on the other side if it is working when it's fixed (?) and highly socialized important sector of the economy?

A: What country do you have in mind?

Q3: The U.S.

A: The U.S. So, your question is .. how does one?

Q3: How does a modern day libertarian, someone who advocates absolutely no government, or little government at all, deal with the fact that today's society and economy is highly socialized in several sectors, and it works?

A: Well, (someone speaks in background) , yeah, I would agree with that. I mean, which sectors do you think are working that are socialized?

Q3: Well, the roads.

A: Oh, the roads, the post office, the schools. I think in those three cases, especially if we talk of roads, just highways, I'm quite decided that private enterprise would be better. I think it's obvious in the post office and I think it's obvious in the schooling. Roads is a complicated case, highways is not such a complicated case. You know, you say it is working, it serves, it serves what you are accustomed to, it's a service from socialist highways, but

Q3: But intellectuals who advocate that system claim it to be working, so what is a modern libertarian's role?

A: You mean, what arguments are persuasive in making a libertarian case on those issues? Well, for schools, there is a whole lot of comparative evidence showing that private schools teach better at lower cost, and the whole kind of theory of economics strongly favors school vouchers over the socialist school system. I think you can marshall all those basic principles which when you explain them are quite compelling. There's really no economic argument for socialist schools, and there never has been. It's always been a question of citizen moulding and citizen building in creating a kind of national and shared experience, even if the advocates of government schooling don't quite put it that way. There are no economic arguments for not letting people create and choose schools. There might be arguments for giving them vouchers based on distributional matters and so on, and the vouchers cover that. You know, you've got to do the research on the individual industries and topics, and there is all sorts of evidence and points you can make. There's all this evidence you can point to, that the highway system is not efficient. All this tax money goes to the federal government, the highway trust fund, and bureaucrats decide who they are going to give it back out to, and there's a lot of lobbying and pork barrel. And then there's congestion on your highways. Look at your highways, you know, the congestion could be controlled with user fees. You wouldn't even have to stop to pay a toll. We use these methods to ration goods in ordinary markets, why not there as well? So there're arguments.

Another question.

Q4: (unintelligible) What do you mean by that?

A: Mill was ambivalent about libertarianism, if you will. He wavered on matters, and said different things. I think ultimately he was pretty Smithian, but he gave off a lot of statements that led a lot of people to think otherwise, and he himself was a guy who was always kind of wavering around, I think. He is certainly not someone I would point to as a

good representative. *On Liberty* is touted to be that way, his book *On Liberty*, but it actually gives a lot away at the end of his book that it supposedly claims, and in his other works there's all sorts of stuff, which is sort of ..

Q5: You said you think Hayek is the most important social scientist, or social thinker, of the century. How did you put that?

A: I don't know, the Man of the Century or something.

Q5: You mentioned Milton Friedman. On the surface it seems that Milton Friedman had a greater influence, certainly on economic policy, than Hayek does. In what sense is Hayek more important?

A: OK. There's a couple of things you might use as a standard. How much influence the person had. How sort of deep their thinking was, or how rich and rewarding you find reading their works. On the influence one, I'm not so sure it does go to Friedman. I think it goes to Friedman in the U.S., but world-wide, I mean world-wide Friedman is just one of these American free-market guys. He's just another free-market economist to people in Europe. I mean, they don't read Friedman like they read Hayek. And I think Hayek has been very influential throughout Eastern Europe and Western Europe, for the transition and so on. Hayek was the one who set up the Mont Pelerin Society, which has been very influential. Hayek was very much involved in setting up the Institute of Economic Affairs in London, which, in a sense, gave rise to the Thatcher reforms. You know, I don't want to take away anything from Milton Friedman, but Hayek's influence has been slower and broader, and just in terms of intellectually, I do think that Friedman is more narrow economics. He's doing work which is excellent and great but in some sense the Cato Institute is putting out all the time. His product is not really all that different from what a lot of other good, competent market economists put out. He just happens to be a kind of figure who says it well, who's done these important books at important times. That's kind of my . .

Well, as I said before, I hope you can join us for dinner, at the Thai Pepper, just a couple of blocks west of here. Thanks very much for your attention.