

## Liberal Fatalism: A Critical Assessment of Hayek's Neoliberalism and His Critique of Constructivist Rationalism\*

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**Abstract:** The purpose of this article is to debunk neoliberal imaginaries, particularly by critically assessing the economic thought of Friedrich A. Hayek, the most prominent figure of neoliberalism. For this purpose, this article will first review Hayek's neoliberal economic thought and his critique of central planning as a "fatal conceit." Then it will counter-critique Hayek's critique of constructive rationalism by arguing that his conception of knowledge, which is the basis of his critique, is too narrow and undersocialized. Since knowledge is intrinsically social and intersubjective, networking, local planning, government intervention, and rational adjustment for evolutionary process is not only possible but also necessary. Thus it will argue that Hayek's liberal thought falls into another fatal conceit, that is, a kind of liberal fatalism that human rationalities can do little but follow the logic of market.

**Keywords:** Friedrich A. Hayek, neoliberalism, market coordination, non-market coordination, knowledge, evolution

### I. Introduction

After the demise of state socialism in the Soviet Union and Eastern Europe, neoliberalism rapidly spread in the world as the only dominant voice. Central planning and state intervention appeared to have failed and it seemed that their historical role was over. Eastern Europe rapidly transformed into the capitalist market economy through the so-called 'shock therapy', financial globalization became the influential driving force in every moment of life as well as a buzzword, and even the left searched for an in-between way, or the Third Way between the traditional left and right, i.e. 'neoliberalism with a human face' (Jessop, 2006). New economic theories and sophisticated financial engineering promised unlimited growth and Wall Street enjoyed windfall profits. Meanwhile, socioeconomic

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gaps and inequalities dramatically increased across the world, and financial and property bubbles skyrocketed. The inevitable result was the global financial crisis in 2008, which has been continued in different forms by transforming into real economy crises, fiscal crises, sovereign crises and even some major political uprising in different parts of the world. However, despite all these contradictions, miseries, and backlashes, neoliberalism is, strangely, not dead (Crouch, 2011). Neoliberal ideas still exerts powerful influence over our imaginaries about politics and economy. “There is no alternative,” Margaret Thatcher’s notorious remark, still captures our brains and imaginations.

The purpose of this article is to debunk such neoliberal imaginaries, particularly by critically assessing the neoliberal economic thought of Friedrich A. Hayek. Hayek is the strongest critic of any attempt at central planning and state intervention based on it, and the most prominent figure of neoliberalism.<sup>1</sup> In particular, his thought is interesting because it is deeply philosophical in its content. His critique of so-called “constructive rationalism” is epistemologically sophisticated and politically attractive to those who oppose to state violence and support individual liberties.<sup>2</sup> For this purpose, this article will first review Hayek’s neoliberal economic thought and his critique of central planning as a “fatal conceit.” Then it will counter-critique Hayek’s critique of constructive rationalism by arguing that his conception of knowledge, which is the basis of his critique, is too narrow and undersocialized. Since knowledge is intrinsically social and intersubjective, networking, local planning, government intervention, and rational adjustment for evolutionary process is not only possible but also necessary. Thus it will argue that Hayek’s liberal thought falls into another fatal conceit, that is, a kind of liberal fatalism that human rationalities can do little but follow the logic of market.

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1. Hayek himself seldom uses the word ‘neoliberal’ or ‘neoliberalism’ to describe his thought. Nonetheless, this article chooses to describe it as neoliberal in order to stress its influence on today’s neoliberalism. According to Crouch (2011:7), the ideas of new economic liberals in Austria and Germany, which sought the state’s role only in facilitating market forces, “became known as ‘neoliberal’” in the USA because ‘liberal’ means politically progressive there.

2. This article does not focus on Hayek’s political ideas such as legal democracy and For his political philosophy, see Hayek (1976, first published in 1944).

## II. Hayek's Neoliberalism and His Critique of Constructive Rationalism

In his last book *Fatal Conceit* (1988), Hayek criticizes any attempt to rationally direct or construct society to a more desirable way, especially socialism.<sup>3</sup> He asserts that such attempts are in no way beneficial to society as well as the economy. Central controls or planning would interrupt natural operation of the economy and individual freedom, yielding worse results than the spontaneously working economic order of market. He criticizes what he calls “constructivist rationalism,” that is, the position that advocates for the centrally-planned rational order. He contrasts it with his “critical rationalism” which stresses the limitations of human mind in understanding the world.<sup>4</sup> In so doing, Hayek develops three concepts: “catallaxy,” “extended order,” and “evolved morality.”

### 1. Catallaxy

First, Hayek distinguishes “economy” and “catallaxy” (Hayek, 1982:108-109; Sayer, 1995: 70-74). Here “economy” refers to the clusters of economic activities which are organized for a specific, shared purpose with a unitary and coherent hierarchy (or preference) of goals, where its members share the knowledge about how to achieve these ends. By contrast, “catallaxy” is “the order brought about by the mutual adjustment of many individual economies in a market” without a specific and common purpose and unitary hierarchy of ends, in which essential means to these ends, i. e., knowledge, is widely dispersed. Hayek derived the word catallactic and catallaxy from *katallattein* (or *katallassein*), the Greek verb, which means “not only ‘to exchange’ but also ‘to admit in the community’ and ‘to change from enemy into friend.’” Hayek describes the contemporary economic order as a “catallaxy” rather than “economy” since its diverse members shares neither ends nor means with each

3. There is a controversy about the authenticity of *Fatal Conceit* since Hayek was too ill to finish the final draft by himself and W. W. Bartley III (a student of Karl Popper, one of the prominent advocates of evolutionary epistemology) extensively edited Hayek's draft (Ebenstein, 2005; see [http://en.wikipedia.org/wiki/The\\_Fatal\\_Conceit](http://en.wikipedia.org/wiki/The_Fatal_Conceit)). This could partly explain this book's tension with Hayek's earlier, more rigorous methodological individualism (see below). However, citing this text has a merit since, in contrast with the purely individualistic version, its evolutionary twist would make my critique of Hayekian neoliberalism more broadly applicable.

4. According to Hayek, constructivist rationalists include Bentham, Comte, Descartes, Hegel, Hobbes, Marx, Plato, Rousseau, and Voltaire, and critical rationalists include St. Aquinas, Aristotle, Burke, Ferguson, Hume, Menger, Montesquieu, Smith, Vico and most of all, Popper (Diamond Jr., 1991:242-244).

other and thus need to be reconciled through exchange.

In a catallaxy, no single mind can collect all the information necessary to meet everybody's ends and demands because of the complex division of knowledge in contemporary society. The rational economic order needs to make the best use of the available means (knowledge, information, and other resources) to meet ends (Hayek, 1984:211-212, first published in 1944). However, knowledge and information exist only as the incomplete, dispersed and contradictory bits, and nobody thus can have access to its totality. Furthermore, the central planner cannot take direct account of economic circumstances in real time and space since the economic conditions keep changing and cannot be reflected in statistics adequately (Hayek, 1984:215-217).

According to Hayek, such complexity of the contemporary economic order has two essential implications. Epistemologically, the central planner's knowledge of how to meet each individual's ends is inferior to that individual. This is because:

[P]ractically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him [...] [Working individuals] are all performing eminently useful functions based on special knowledge of circumstances of the fleeting moment not known to others (Hayek, 1984: 214).

That is, central economic planning to construct a rational order is bound to fail to meet each individuals' specific needs and demands. Ethically, there is no common external standard for judging between different opportunities open to individuals: "welfare has no principle" (Hayek, 1988:73-74). Hayek claims that there is no obviously shared, common objective to economically maximize at the societal level. Thus, for Hayek, ultimate decisions must be left to individuals who are familiar with their circumstances and the resources immediately available to meet their needs--"decentralization" (Hayek, 1984:217). In this way, catallaxy necessarily eludes central control:

[A]n order arising from the separate decisions of many individuals on the basis of

different information cannot be determined by a common scale of the relative importance of different ends (Hayek, 1988:79).

## 2. The Spontaneous Extended Order

The second point in Hayek's critique of constructive rationalism is related to the concept of "the extended order." A liberal social order is structured out of the logic of the market order. Though individuals' decision can be decentralized, individuals cannot make decision solely on the basis of one's limited but intimate knowledge of the facts of one's immediate surroundings. Thus communication is necessary. And, for Hayek, there is no other proper way to communicate information and coordinate catallaxy than the competitive market:

The market is the only known method of providing information enabling individuals to judge comparative advantages of different uses of resources of which they have immediate knowledge and through whose use, whether they so intend or not, they serve the needs of distant unknown individuals (Hayek, 1988:77).

Individuals exchange relevant information and knowledge in the competitive market with the help of price system. That is, price system is a mechanism for communicating information about goods and services. In this system, only the most essential information is passed on to those concerned (Hayek, 1984:219). Here all that individual agents need is just the relative importance or value of particular things, and thus price helps to communicate and circulate this information. Prices signal information related to particular things and their substitutes in the market, and, informed through many chains of transmission, every individual can adapt one's plans to circumstances he or she does not know. That is, prices act to coordinate the separate actions of different people to utilize dispersed knowledge and resources as if there were a mastermind (Hayek, 1984:218-219; 1988:84). According to Hayek,

The whole acts as one market, not because any of its members survey the whole field, but because ... through many intermediaries the relevant information is

communicated to all. The mere fact that there is one price for any commodity ... brings about the solution which ... might have been arrived at by one single mind possessing all the information which is in fact dispersed among all the people involved in the process (Hayek, 1984:219).

Hayek argues that this system of market “generates greater knowledge and wealth than could ever be obtained or utilized in a centrally-directed economy” (Hayek, 1988:7), and, without the system, it is impossible to preserve and sustain a society and its population based on extensive division of labour and knowledge (Hayek, 1998:chapter 8; see Barry, 1994:148): “nobody has yet succeeded in designing an alternative system” (Hayek, 1984:221).

However, the spontaneous extended order is not merely the order of the market but also “a complex arrangement of rules and institutions which provide a framework of predictability for individuals with diverse ends and purposes” in the market (Barry, 1994: 150, 155). Indeed, it is this framework of rules and institutions that enables decentralized individual agents to accept the logic of the market order, benefit beyond the range of their concrete knowledge, and coordinate themselves without the instruction by a central planner (Hayek, 1988:81). Hayek thus claims that “[u]nder 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” (italics added; Hayek, 1967:162).

### 3. Evolved Morality

Hayek’s third critique of constructive rationalism is concerned with the concept of “evolved morality.” Hayek (1988:70) maintains that the market rules and institutions that underpin the extended order are not derived from the innate morality of human instincts (solidarity, altruism, group decision, etc.) but from “evolved morality” such as savings, honesty, and “several property” (including private property). The spontaneous liberal order thus arose from “unintentionally conforming to certain traditional and moral practices,” spread by means of “evolutionary selection” (Hayek, 1988:6). As Alfred North Whitehead

stated, "civilization advances by extending the number of important operations which we can perform without thinking about them" (cited in Hayek, 1984:221). Let me examine this claim in more detail.

For Hayek, societies evolve through the natural selection of rules and practices (see Barry 1994:144). In other words, the prevailing moral rules and practices have become traditional and widely spread because they turned out to be superior and successful in their own sphere. Social evolution and the development of human mind has thus been achieved through evolutionary process guided by success and the resultant acquisition of learnt rules and practices (see Barry, 1994:143).

Thus traditional moral practices and institutions cannot be attributed to rational justification or calculation since "the tradition is the product of a process of selection from among irrational, or, rather, 'unjustified' beliefs" (Hayek, 1988:75). As David Hume notes (cited in Hayek, 1988:8), "[t]he rules of morality are not conclusions of our reason," but of tradition and experience. Moral traditions develop "concurrently with ... reason, not as its product" (Hayek, 1988:10). Furthermore, since it is an outcome of selection, "tradition is in some respects superior to, or 'wiser' than, human reason" (Hayek, 1988:75). Thus tradition cannot be replaced by rational design.

Hayek claims that the price system is rooted in such evolved moral practices, and just one of those formations which man has learned to use (1984:221). As an acquired tradition, the market system serves as "adaptations to the unknown" through price signals and "there can be no deliberately planned substitutes for such a self-ordering process of adaptation to the unknown" (Hayek, 1988:76). In this way, the market system and practices appear not only economically superior but also ontologically stable as the products of evolution.

Hayek, in turn, criticizes socialists who endeavor to overthrow such traditions by a rationally-designed moral system (Hayek, 1988:7). "Constructive rationalism" is the attempt to impose a particular pattern or scheme on stable social arrangements which have their own internal and traditional ordering principles (see Barry, 1992:135). Hayek thus contends that most defects and inefficiencies of the spontaneous orders come from interference with its operational mechanism (1988:84).

To summarize: Hayek criticizes “constructivist rationalism” and defend his liberalism in three ways. First, the social division of knowledge in “catallaxy” makes it impossible to grasp comprehensible knowledge about society and economy. The central planner’s knowledge is always inferior to that of individuals in concrete circumstances. Second, the competitive market coordination through the price system makes it possible to utilize dispersed knowledge more efficiently, and generates the “extended order.” In contrast, the central economic planning cannot satisfactorily coordinate economic activities. Third, the spontaneous “extended order” (and the price system) develops not through constructive rational design but through evolution. It is thus operated by individuals conforming to “evolved morality,” that is, superior moral practices selected in evolutionary processes. The market, as historically evolved institution, is the most stable, ordered, and superior mode of coordination. Any constructivist attempt would interrupt and distort such social evolution and coordination. These are the essence of Hayek’s neoliberalism.

### **III. A Critical Assessment of Hayek’s Neoliberal Thought: Other Possibilities**

Hayek’s contribution should not be ignored or neglected. His discussion is not only economically but also philosophically sophisticated. It gives us a valuable insight into the nature of knowledge and any attempt to plan and act at distance. To be sure, we do not exactly know distant others’ circumstances and what they know, think, and want. It is impossible to consider everything and to plan in terms of the whole, for our activities take place at intrinsically local levels, not fully accessible to any single mind. In this condition, it seems that only the market system can successfully coordinate so different economic preferences and activities of individuals through price-based communication. Also the economic failure of the Soviet Union and Eastern Europe seems to show how non-market economies fail to meet the need and demand of the people.<sup>5</sup>

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5. Hayek’s idea appears philosophically and sociologically plausible particularly because traditions should not [and cannot] be replaced by a rational design. To a certain extent, our conventions and traditional moral practices need to be respected as a source of wisdom rather than easily discarded as mere ideology. In this sense, Hayek’s critique of constructive rationalism and appreciation of the extended order based on evolved morality seems to resonate with Hans-Georg Gadamer’s critique of the Enlightenment (1975). It also seems to have an affinity

Hayek's neoliberalism is, however, fatalistic. He disqualifies any attempts at intervention to legitimize liberal regimes. Thus, according to him, what we can do would be just to wait for evolution, and to let even economic disorder as well as order be done (Barry, 1994:160; Sayer, 1995:76). But this fatalism has no ground. Hayek's neoliberalism and critique of constructivism does *not necessarily* lead to the disqualification of all sorts of intervention and socialism.

In particular, Hayek's concept of knowledge is seriously limited. While the central planner's knowledge is incomplete, each individual's knowledge and its market mediation is just as incomplete. As we will see below, coordinated mostly through individual knowledge and choices, the market economy is seriously limited in its economic provision and often causes a variety of market failures that cannot be resolved at least in the short term. Thus, it needs to be complemented by other non-market mechanisms such as the government, local agencies, networks, etc.

From this perspective (significantly inspired by the British political economist Andrew Sayer's critique, 1995), now I will attempt to present the possibilities of non-market coordination in more detail: (1) local planning and networking; (2) intervention of the government as an economic actor; (3) rational adjustment and design in evolution; and (4) market socialism, which escapes the scope of Hayek's critique of (state) central planning and state socialism.

## 1. The Social Character of Knowledge and the Possibility of Non-Market Modes of Coordination

### 1) *The Social Character of Knowledge*

Hayek's first critique of constructivist rationalism points to the dispersed, fragmented, situated character of knowledge and information which cannot be redeemed by any particular single mind (Hayek, 1984). However, he tends to neglect that knowledge and information is related not only to an individual's concrete situation, but also to wider social

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with recent sociological insights into the local and contextual character of knowledge: e.g. Garfinkel (1967) on indexicality and the documentary method of interpretation, Bourdieu on habitus (1990) and Haraway on situated knowledge (1988). However, as it will be shown below, this similarity is rather superficial: Hayek's notion of knowledge is seriously limited and not sufficiently of the social character.

relations in which the individual is “embedded.” Of course, in *Fatal Conceit* (1988), Hayek departs from his earlier, more rigorous methodological individualism to embrace social evolution and tradition in his theory. To that extent, it could be said that later Hayek embeds individual knowledge in wider social relations: for example, social progress through evolutionary process involves “imitation” (Hayek, 1998:21-23). Nonetheless, Hayek’s implicit conception of man, human action, and knowledge, remains considerably “undersocialized” (cf. Granovetter, 1985:483) since these relations one-sidedly serve to create and maintain the abstract rules of individual freedom and market order. Hayek thus neglects the collective and non-market dimensions of knowledge and social relations such as the government, local agencies and networks.

Indeed, the situated and local character of knowledge means that there is and can be locally shared knowledge. As explored in the sociology of knowledge, knowledge is intrinsically social; knowledge is not only individual product, but also social product (cf. Hamilton, 1974). What makes something knowledge is social relations and interactions, not individuals. This, in turn, means that we cannot simply assume that individuals know best, and that knowledge does not always have to be specialist and specific to individuals even in a catallaxy.

Therefore, even though each individual’s knowledge about him/herself tends to be better than others in a catallaxy, that knowledge is neither complete nor perfect, and the individual may make wrong decision. For example, even if a child does not want any education, he or she needs to be educated. Knowledge is intrinsically socially produced and thus there is a need to negotiate and use collective knowledge that any individual knowledge cannot match. In other words, contrary to Hayek’s claim, welfare may well have some principles.

## **2) *The Possibility of Non-Market Mode of Coordination***

Sayer thus contends that Hayekian concept of knowledge only includes specialist knowledge and negates intersubjective, relational, social dimensions of knowledge (Sayer, 1995:72, 152-153). Since knowledge is social, it can be argued that the social division of knowledge does *not necessarily* exclude the possibility of non-market mode of coordination

based on shared, negotiated, and collective knowledge: local planning, networking and government intervention. Though not perfect, it is not impossible to know and learn what (not very distant) others have, want, or need (especially some indispensable items and necessary goods), and thus to allocate resources rather efficiently according to the acquired knowledge.

In particular, Sayer suggests an alternative notion of “proximate economies” located between “economy” and “catallaxy [economies].” It refers to “activities which have different kinds of know-how and ends but [at the same time] which are complementary, and for which mere market coordination is insufficient” (Sayer, 1995:72-73): hence the possibility of fair and democratic ‘local level planning’ and ‘networking’ (see below for more details).

## **2. Market Failure and the Necessity of Non-Market Mode of Coordination**

Hayek's second critique is related to his notion of “extended order” and his defence of the market mode of coordination. There would be no doubt about the indispensability of market coordination. However, Hayek seems to exaggerate the superiority of the market mechanism and neglect that it is incomplete and sometimes disastrous, too.

### **1) Market Failure**

Interestingly enough, even the neoclassical equilibrium model does not escape Hayek's critique. He states that the market system and individuals' adjustments are never perfect in the sense in which the economist conceives of them in his equilibrium analysis (Hayek, 1984:220). This kind of analysis is also based on constructive rationalism since the basic idea of equilibrium model—the perfect coordination of economic activities—presupposes an omniscient economic legislator who knows a perfect allocation of resources. In other words, it justifies the state's intervention to recover equilibrium (see Barry, 1994:155-156).

However, this critique does not stop Hayek from praising the marvel of market, in which, without an order being issued, people are made to use materials or products more sparingly in the right direction (Hayek, 1984:220). So he obscures the fact that market is sometimes very disastrous and just claim that such is due to the external intervention and

distortion to market. As Sayer pinpoints, however, Hayek provides no good argument about why intervention always spoils economic order, and does not prove that the self-interested behaviour of individuals would always have beneficial effect at the societal level (Hayek, 1995:76-77). In fact, the opposite would be the case. As Barry (1994:159) notes, historic economic disasters such as Great Depression show that market processes do not always show the coordinating tendency, and it was partly caused by factors endogenous to the market system, such as uncertainty and discoordinating expectations.

We should thus be aware that, at any rate, market does not guarantee optimal outcomes, and that it can be working disastrously. Sayer (1995:153) points out that individuals, groups and institutions actively protect and try to monopolize their knowledge and it may lead to collectively sub-optimal outcomes. The concepts of “fallacy of composition” and “prisoner’s dilemma” describe such ironical situations of externalities and free rider problems. The former refers to a fallacy that equates the sum of what is a rational choice for each individual with what is rational for their composition, that is, collective individuals. But this is not always the case because, combined together, individuals’ rational choices can have external, irrational effects on the whole (externalities and free rider problems). Closely related to the former concept, the latter concept refers to the situation in which the involved individuals cannot communicate to each other and only informed of prices. They choose the most rational option (from each individual’s viewpoint) but it ends up with sub-optimal choice (among the possible options).

What is common between both concepts is that there is no social or non-market exchange of information as well as no concepts of social relations and negotiations. Thus market also may lead to another kind of allocative inefficiency in which individuals misleadingly choose sub-optimal or even worst conditions. For example, though individual exploitation of the environment, say, a fishing ground, would be rational, collective exploitation may be easily leads to the exhaustion (cf. Ostrom, 1990). This is certainly inefficient use of the resource. In addition, adverse selection from the imperfect information and information asymmetry is now a well-known economic problem (e.g. Akerlof, 1970).

In short, market failure occurs due to the lack of information other than price. If we depend only on price information, it may lead to the worst or sub-optimal consequences.

Though Hayek insists that all the information economic actors need to produce the spontaneous extended order is simply price, the information and knowledge essentially required for the successful coordination of economic transactions is more than that. Price and other information communicated through market transactions are neither complete nor necessarily most essential. There are much more knowledge and information that needs to be communicated (in particular, qualitative information) beyond the narrow realm of market in order for the market system to be coordinated successfully. If the market system nonetheless allocate resources solely through individual choice and price signals, then public goods that are needed for the whole but not needed by each individual will be supplied much less than needed. In other words, what is needed in society cannot be reduced to what each individuals need. Externalities and free rider problems are the classical cases of market failure.

## 2) *Networking and Local Planning*

Now we can see that networking and local planning are not only possible but also sometimes necessary for successful economic activities since they may serve as a solution to market failures. They can help the exchange of information in non-market way to prevent the irrational outcomes of rational choice. As Sayer (1995:109) points out, significant amounts of critical information become common to groups of actors or enterprises through non-market mode of coordination such as networking. Business networks or groups with common interests—especially of producers—need to negotiate, share certain information, and form common views about the future in order to coordinate, i. e., harmonize their plans, with one another. That is, other modes of coordination such as networking supplement shallow price-based market coordination. Here networking may lead to local-level planning since both involve close negotiation between participants.<sup>6</sup>

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6. In his *Constitution of Liberty* (1960:chapter 21), Hayek admits market failure in the land market and even justifies town planning. To that extent, it could be said that Hayek did not fully neglect the social character of local knowledge and the necessity of networking and local planning. However, networking and local planning as a tool to correct market failures would make Hayek inconsistent in his theory since it allows the socialist agenda creep back into his economics (cf. Lai, 1999:1579). Thus town planning should rather be considered exceptional in Hayek's thinking.

Of course, we should be aware that such non-market coordination may also lead to a very unfair monopolistic, technologically inefficient, and uncreative economy. The performance of non-market modes of coordination is almost certainly inferior to market coordination (Sayer, 1994:143). However, the “intractable” reality is that both market competition and non-market negotiation take place together anywhere to a certain extent. The allocation of resource is not only influenced by the market mechanism but also by differences in purchasing power and by private control over certain resources (Sayer, 1995:137). In this sense, Hayek’s conception of the pure market order is unrealistic. As Barry (1994: 151) notes, the extended order is by no means a necessary consequences of the growth of the social division of labour and the extension of the market; it involves ethnic and communal affiliation. Price information is not sufficient for coordinating the economy, and this is why a vast number of sales and marketing people are working in market economies (Sayer, 1995:73).

### 3. Intervention of the Government as an Economic Actor

First of all, it should be noted that Hayek is not opposed to every state intervention. He accepts the role of the state in creating and maintaining the rules and institutions of the market. However, Hayek is seriously opposed to the state intervention in market transactions since it is impossible for a single mind to comprehend all the information flowing through such complex mass of catallactic economies. And it would be impossible to calculate, even roughly, what and how much is demanded. However, it does not necessarily mean that every state *intervention* in the economy is necessarily harmful; it does only mean that the state should not centrally *plan* on the economy (though even such claim also seems suspicious in relation to the role of the state in securing some necessary living goods such as basic food).

Not only is the government an irresistible reality needed to maintain the market order but also it is an important actor within our economic order as a part of catallaxy. How, then, can all the government’s economic activities be merely regarded as distorting intervention? Actually, all economic activities are by nature intervention in the market, in the sense that they affect the market however small the impact may be. Furthermore, even po-

litical activities that protect the market order are to some extent economic activities at the same time as far as they incur costs and spending in the market.

Besides, to follow Hayek's own logic, it can even be said that the government, not only as a political actor but also as an economic actor (though not necessarily coherent) has its own preference, and behaves according to its own situated, specific knowledge. Its preference could be, in a democratic polity, people's welfare. For example, (post-)Keynesian economics suggests that the government could be a principal economic actor by creating sufficient aggregate demand and counteract the failure of the market. Though Hayekians do not agree with Keynesians, here it would be sufficient to say that every state intervention in the economy is not necessarily identical with central planning.

#### **4. Rational Adjustments/Designs and Evolution**

Hayek's third critique is related to his evolutionary theory of economy or "evolved morality." His claim that our spontaneous "extended order" is the consequence of evolution comprises two theses: one is that this world we live in including the market and price system has emerged not through design but through evolution and competition, and the other is that the market system is the fittest survivor, i. e., the best, and it encourages the survival of the fittest as a competitive and designable system.

##### **1) Panglossian Assumption**

I would first deal with the latter assumption that evolution guarantees the survival of the fittest and the competitive system such as market (according to Hayek, the consequence of the very evolution) will encourage the survival of the fittest. This kind of assumption that whatever eventuates under competition, must be optimal is called "Panglossian assumption" (Sayer, 1995:139-141). Sayer contests this idea. He lists several points that this assumption ignores:

1. The criteria for being made winner or loser in society are open to normative evaluation.
2. Fitness makes little sense independently of a specific type of environment.
3. Fitness does not guarantee survival, nor does survival imply the fitness (e.g.

QWERTY vs. DVORAK keyboards, VHS vs. BETA MAX)

4. Evolution does not necessarily lead to spontaneous order.
5. Change is not only due to competition.

Thus Sayer concludes that, on the whole, there is no guarantee that economic evolution is progressive, let alone optimal, and that the Panglossian assumption provides an absurdly charitable view of the *status quo*. Here a question arises: as far as evolution and competition does not guarantee the best, the fittest, why should we blame any attempts to design some better society?

#### 5. Rational Adjustments/Design Somewhere in Evolutionary Process

Notwithstanding the critique, it might still be argued that the market system would be the fittest survivor on the ground that it is the best mode of coordination among the discovered so far, and that itself may encourage the survival of the fittest anyway. Thus it could be concluded that all attempts to design some better society would be virtually fruitless though we do not have a good reason to exclude the possibility of rational design.

I would, however, point to the limit of applying the natural selection model, especially to society. The evolutionary view of competition, i. e., the Panglossian assumption which can be summarized as “the survival of the fittest,” explains the evolutionary progress in terms of competition and natural selection. Hayek argues that the “evolved morality” and tradition is the product of a process of selection from among irrational or unjustified beliefs (1988:75). Thus, for him, social evolution proceeds by the gradual acquisition of learnt rules and practices, but not by rational design. At the same time, he argues that we learned to use such traditional moral practices and price/market system by building upon habits and institutions which have proved successful in their own sphere (Hayek, 1984:221). Where does, then, such practices come from? As can be seen in the failure of functionalism, natural selection model without causal analysis is not very well applicable to society, in which people behave intentionally and reflexively to a certain extent whereas it is relatively well applicable to the nature which seems to have explicit causal mechanism.

Therefore I would argue that rational adjustment (though it is not necessarily design) is

necessary for evolution. If the market is superior and morality evolved to secure it, it would be because it was involved in some rational judgement and adjustment, not merely in blind natural selection called competition. Market as a significant mode of coordination and social division of labour is certainly within a kind of social relation, and historically, they emerged just around the 18th century as the dominant economic relations (cf. Polanyi, 1957). I do not mean to say that the market system is invented by someone suddenly one day, and I do not deny that it has a history as long as the length of human history. I only would say that the rational adjustment would be involved in the emergence and development of the market system: for example, the recent development of the neoliberal knowledge-based economy has involved massive deregulation and reregulation as well as innovation and industrial policies (Panitch and Konings, 2009). The basic idea of market and social division of labour could have remained same since Adam Smith (1986, first published in 1776), but it has been tried to be made use of more efficiently through a variety of strategies and institutions. Nobody designed, but it has been gradually modified and imagined, and historically constructed.

Of course, Hayek rejects the idea of rational adjustment/design and prefers the evolutionary model of trial and error since the rational design is impossible. However, why does he, then, exclude the possibility of trial and error in rational adjustments and designs? He seems not to give any good reason. If there were something which can be called progress, it would not merely depend on natural selection, but also involve creative and hybridizing processes and mutations, and such processes would not necessarily exclude rational adjustments and designs. In fact, rational adjustments and designs are part of our tradition. As noted earlier, Hayek suggests that the criterion for success is the capacity for a social system to sustain large population (Hayek, 1988:chapter 8). But this inevitably modest—because evolution cannot guarantee the survival of the fittest—criterion ironically shows that the Soviet Union, rationally designed state which could successfully sustain large population, was also part of evolution though it turned out to be false now, in the sense that its rational project could compete with market system. To be sure we do not know which will at last survive among numerous competing practices and systems, and thus we also cannot claim that market is the only possible evolved superior order.

## 6. Market Socialism

Finally, it should be noted that the concept of the market system is not identical to that of capitalism, and thus the defence of the market economy does not necessarily lead to the critique of socialism and the defence of capitalism as Hayek supposes. Hayek seems to think that the dispersed character of knowledge can justify private property:

This dispersed knowledge is *essentially* dispersed ... Thus the institution of several property is not selfish ... Rather it is generally beneficial that it transfers the guidance of production, from the hands of a few individuals ..., to a process, the extended order, ... thereby benefiting those who do not own property nearly as much as those who do (Hayek, 1988:77-78; italics in original).

I think that the last phrase of this claim is absolutely non-sensical, though I do not mean to object to private property itself here. It should be admitted that, to a certain extent, private property provides individuals with the powers and responsibilities, necessary for coping with unknown others in the market and for coordinating the social division of labour. But Hayek justifies the capitalist private ownership in the means of production and the unequal capitalist relation of production, as if capitalists and propertyless wage labours were necessary in catallaxy, i. e., division of knowledge.

As Sayer (1995:152) properly notes, however, the dispersed character of knowledge does not imply that the means of production have to be owned by capitalists; they could be owned by self-employed petty producers or by workers. Thus Hayek obscures another possibility of market socialism and concludes that planning would subvert market mechanism. Of course, Hayek once argued that the socialist price calculation is impossible, but today the proponents of market socialism do not think that price planning is possible, either (Roemer, 1994:33). In market socialism, as an ideal type, workers own and control the enterprises they work for, and economic power is highly decentralized. Thus there is a competitive market, but no labour markets and no classes, no exploitation via class domination though there is exploitation via unequal exchange between cooperatives with differing amounts of means of production (Sayer, 1995:171).

#### **IV. Conclusion: Hayek's Liberal Fatalism**

To sum up: (1) As Hayek argues, the central comprehension of knowledge is impossible, but it does not necessarily mean that individual is the only privileged knower. Rather, knowledge is social, and thus knowledge comprehension, networking and planning at the local level is possible and necessary. (2) As Hayek contends, central state planning may well distort the economy, but it does not necessarily mean that all kinds of intervention is unjustifiable. The government is a principal economic actor, and its economic behaviour is necessarily a certain kind of intervention. Economic decision is always an intervention and political decision. (3) As Hayek claims, the extended order or society would be the outcome of evolutionary process, but it does not necessarily mean that evolution is merely a competitive process which encourages the survival of the fittest, nor that evolutionary process excludes rational design and adjustment, and even requires them. (4) As Hayek insists, the existence of private property may help to coordinate innumerable economic actions in the social division of labour and knowledge, but it does not necessarily mean the private ownership of means of production. Thus the possibility of market socialism should be obscured.

In short, Hayek's critique of constructivist rationalism is partly right and partly wrong. Though his critique of state socialism is valuable, his critique does not necessitate the rejection of all kinds of constructive rationalism. Here Diamond Jr.'s critique (1991) is worth noting. He points out that Hayek conflates between three distinct dimensions of constructivism, i. e., those of epistemology, ethics and politics. And when Hayek goes beyond claims that can be evaluated within economic science, to ethical and political claims, his claims come to be in contradiction with his liberal, i. e. essentially ethical and political claims.

From these counter critiques of Hayek, it can be concluded that Hayek's neoliberalism and critique of constructive rationalism is a kind of fatalism and his critique of constructivist rationalism is a apology for capitalism. That is, notwithstanding that his basic ideas do not necessarily exclude the possibility of planning, intervention, and socialism, Hayek, biased as a liberal, persist in attacking any attempts at the construction of a more

rational society and makes excuse for the capitalist market order. As a result, what he suggests is just to wait and do nothing, preserving *status quo*. If the traditional socialist ideas suffered from its rationalistic fatalism (that is, rationality can do everything), Hayek's neo-liberalism suffers from anti-rationalistic fatalism (that is, rationality can do little but follow the logic of market).

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