Hayek’s *The Constitution of Liberty*
Hayek’s The Constitution of Liberty
An Account of Its Argument

EUGENE F. MILLER

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The Institute of Economic Affairs
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Dr Eugene F. Miller (1935–2010) was a professor of political science at the University of Georgia from 1967 until his retirement in 2003. He was a student in the University of Chicago’s Committee on Social Thought (PhD, 1965), where he wrote a dissertation on David Hume. F. A. Hayek chaired Miller’s dissertation committee, whose other members were Leo Strauss and Joseph Cropsey. Miller edited David Hume’s Essays Moral, Political and Literary (Liberty Fund, 1985), and published articles on Hume, Strauss and Hayek. He also published on the American Founding, the nature of liberal education, the relationship between technology and politics, and the intellectual foundations of philanthropy.
F. A. Hayek was awarded the Nobel Prize in Economics in 1974. The press release announcing this award recognised that ‘Hayek’s contributions in the field of economic theory are both profound and original’, but concluded with an apparent slap at his best-known work: ‘For him it is not a matter of a simple defence of a liberal system of society as may sometimes appear from the popularised versions of his thinking.’

What the Nobel Prize announcement did not make clear was that these ‘popularised versions of his thinking’ were written, not by some journalistic hack as one might assume, but by Hayek himself, and that these too were profound and original. *The Road to Serfdom* (1944) and *The Constitution of Liberty* (1960) each had an impact far beyond that of the standard academic treatise on economics. Historian Alan Brinkley, in *The End of Reform: New Deal Liberalism in Recession and War*, argues that Hayek ‘forced into public discourse the question of the compatibility of democracy and statism’.

The influence of Hayek on Prime Minister Margaret Thatcher is legendary. In both *The Path to Power* and *The Downing Street Years* Lady Thatcher acknowledged the influence of Hayek on her view of the world. There is also evidence of his influence on her policy decisions. Once during a party policy meeting a speaker started to argue that the Conservative Party should adopt a pragmatic middle way. According to John Ranelagh in *Thatcher’s People*, ‘Before he had finished speaking ... the new Party Leader reached into her briefcase and took out a book. It was Friedrich von Hayek’s *The Constitution of Liberty*. Interrupting, she held the book up for all of us to see. “This,” she said sternly, “is what we believe,” and banged Hayek down on the table.’

But *The Constitution of Liberty* is not a narrowly conceived party tract. It favours no party, except perhaps for ‘the party of life, the party that favors free growth and spontaneous evolution’, which Hayek evokes in his postscript. Rather, *The Constitution of Liberty* is the culmination of four decades of reflection on the nature of economic, political and social life and the possibility of a free society. As Professor Miller cogently argues and illustrates, its three parts comprise ‘a careful argument that runs through the book from beginning to end’. Part I, ‘The Value of Freedom’, provides the philosophical foundation and justification of a free society and defence against the major contemporary opponents of such a society. In Part II, ‘Freedom and the Law’, Hayek provides an account of the development of the Rule of Law as the central institution of a free society. In Part III, ‘Freedom in the Welfare State’, Hayek examines many areas of contemporary policy concern – social security, taxation, healthcare, housing, urban planning, natural resources and education – in light of the principles developed in the earlier parts of his study.

In a footnote in his introduction, Hayek tells the reader that ‘David Hume ... will be our constant companion and sage guide throughout’ *The Constitution of Liberty*. Hayek holds up Hume, along with Adam Smith, Adam Ferguson and Edmund Burke, as exemplars of the ‘British tradition’ of liberty. More than the others whom Hayek mentions, Hume emphasised the importance
studied both with Hayek and Leo Strauss, the latter of whom was well known for arguing that there are crucial differences between ancient and modern thought. Hayek denies the importance of this division and traces the origins of liberalism to ancient Greece. Miller raises the questions of whether Hayek’s approach does violence to the historical record or hides potential tensions within the heart of liberal thought; but rather than answering these questions himself Miller leaves their resolution to his readers.

Eugene Miller passed away shortly after revising this text. With the publication of this study Miller has left his readers with two gifts. The first is intellectual: this volume offers a finely crafted restatement of the argument of F. A. Hayek’s most comprehensive work. Miller’s second gift is more elusive but in the long run perhaps of greater importance. To use appropriately an overworked and often misapplied characterisation, Miller here provides a model of what it means to be a gentleman and a scholar. In a world in which academic reputations are made by being constantly on the attack, Miller offers an example of modesty, generosity and moderation: a serious scholar taking another’s argument seriously. Miller’s study of The Constitution of Liberty sets before the reader the same challenge that Hayek does – the challenge of engaging the text, weighing the evidence for oneself, and participating at the highest level in true self-government.

I strongly commend this careful and thought-provoking study to students, teachers, academics and others who are interested in understanding The Constitution of Liberty.

STEVEN D. EALY
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July 2010

of opinion as the foundation of government. In his essay ‘Of the First Principles of Government’, Hume wrote, ‘It is therefore, on opinion only that government is founded; and this maxim extends to the most despotic and most military governments, as well as to the most free and most popular.’ The importance of opinion, and the wisdom of opinion collected over time in the form of cultural traditions, is crucial to Hayek’s argument for spontaneous order and the free society.

Professor Miller does not offer his account of The Constitution of Liberty as a substitute for reading Hayek; rather, it is designed to be a guide to the central argument of Hayek’s work and therefore belongs on the bookshelf alongside Hayek. It is written at a level accessible to the novice and simultaneously substantial enough to be of value to the specialist. Miller both provides an overview of the argument of The Constitution of Liberty and situates that argument within the broader context of Hayek’s intellectual career, so that he touches both on antecedents and later developments.

Miller made two crucial decisions about the focus of this study that are worthy of note. First, he ignores the vast secondary literature on Hayek in order to concentrate on Hayek himself. Second, Miller decided to provide as accurate and fair a reading of Hayek’s text as he could and therefore largely sets aside his own evaluation of Hayek. At a number of points in his study Miller points to tensions within Hayek’s argument and notes potential problems that Hayek may or may not have seen, but he does not diverge from his primary objective of providing as clear a statement of Hayek’s views as he can.

Here is but one example of Miller’s decision to explicate Hayek clearly and to avoid excessive criticism. Miller notes that he
The views expressed in this monograph are, as in all IEA publications, those of the authors and not those of the Institute (which has no corporate view), its managing trustees, Academic Advisory Council members or senior staff.

SUMMARY

- The core argument that runs throughout *The Constitution of Liberty* concerns freedom and its value to the individual, to society and to civilisation at large. Without freedom of action in particular, progress in these areas would be impossible.
- Modern civilisation is in crisis because the West has lost faith in the principles of liberty or freedom (interchangeable terms for Hayek). Opinion ultimately governs our actions, and Hayek will seek to reshape it through a political philosophy that restates basic principles, vindicates fundamental values, articulates a guiding ‘ideal’ (the Rule of Law), and clarifies standards that ought to determine policy.
- Freedom requires that the coercion of some by others in society be reduced as much as possible. One function of government is to prevent individuals from coercing other individuals, but then government itself must be prevented from using coercion improperly. In a free society, the exercise of government’s coercive power is constrained and made predictable by general rules that apply equally to all individuals, including to those who make and enforce the laws. A free society is one that empowers individuals to develop and follow their own life plans. Attempts to manipulate the environment of individuals, e.g. by withholding vital information, are insidious forms of coercion.
• Freedom and responsibility cannot be separated. Responsibility means that each individual must bear the consequences of his actions. Hayek’s ‘individuals’ are thoroughly enmeshed in social relations.

• Forgetting that man’s knowledge is severely limited, modern rationalism is constantly tempted to plan and fashion the future comprehensively. Modern rationalism dates back to seventeenth-century philosophy, but later is exhibited most powerfully by socialism in its various forms. It gives rise to a destructive quest for perfection, in which inherited rules, traditions and moral values – invaluable gifts from the past – are thoughtlessly discarded. Ignorance is inevitable, unavoidable and the reality of all men, including those who occupy positions of power. Hayek is a strong critic of modern bureaucracy.

• Social order develops through spontaneous growth as well as through some measure of deliberate construction. Spontaneous growth occurs when individuals and groups with limited knowledge interact with other individuals and groups, giving rise to unplanned patterns of behaviour and institutional forms. Hayek applauds the Scottish and other British philosophers of the late eighteenth and early nineteenth centuries for recognising the importance of spontaneous growth; and he builds on their ideas to develop the theory of social evolution that underpins his philosophy of freedom. By turning to the Scots, Hayek emphatically rejects the earlier liberal theories of John Locke and his followers, which started from natural rights and from an original contract.

• Hayek rejects the idea of a ‘natural’ or ‘factual’ equality between men. At the same time, he insists that individuals have a ‘dignity’ that we must respect. Hayek promises ‘an ultimate justification’ for freedom, which must be connected somehow to this idea of individual dignity: but he leaves the matter quite unclear. He does insist strongly that the Rule of Law permits social inequalities, whose beneficial results are generally overlooked by the misguided advocates of ‘social justice’.

• Hayek regards democracy as the best practicable form of government, so long as a majority of the community is committed to individual liberty, the Rule of Law and limited government. Democracy is not a primarily a way of life, but a set of procedures for organising and operating government. There are no inherent substantive ends or core beliefs that are essential to democratic rule. By conceding that the majority of a community may embrace any set of core beliefs that it chooses, Hayek is left with no basis for opposing totalitarian democracies on democratic grounds.

• Hayek applies his understanding of the evolutionary development of society in general to the growth of legal institutions and the Rule of Law. He traces this growth to England, America and Germany, but largely excludes French legal thought, which has favoured a rationalistic approach to the law which runs counter to a free society.

• The ‘ideal’ of the Rule of Law requires that existing laws share certain characteristics. Law must be general; it must be known and certain and apply equally to all; it must provide for an independent judiciary; it must limit the executive by legislative and judicial rules; and it must safeguard fundamental rights and civil liberties.
• Hayek does not favour passive government, but rather one that seeks many benefits for the community. Although he shares the ‘strong presumption against governments actively participating in economic efforts’, he nonetheless states that the ‘old formulae of laissez faire or non-intervention do not provide us with an adequate criterion for distinguishing between what is and what is not admissible in a free system’. As he explains, ‘it is the character rather than the volume of government activity that is important’. In economic matters, for example, an active government that assists the spontaneous forces of the market is preferable to a less active one that does the wrong things. In this regard he sees himself as following the best of the classical liberals, such as Adam Smith.

• In cases where coercion might be involved, the policy actions of government are limited by the Rule of Law. In other cases, Hayek recommends that government’s policies be judged by the principle of expediency, or what best serves the community’s interest.

• In the final part of The Constitution of Liberty Hayek examines many areas of contemporary policy concern – social security, taxation, healthcare, housing, urban planning, natural resources and education – in light of the principles developed in the earlier parts of his study. Two features stand out: Hayek is willing for government to provide a broad range of social services, in line with principles enunciated above; and he steadfastly opposes policies that aim at wealth redistribution or ‘social justice’.

• In approaching The Constitution of Liberty, the reader must above all be prepared for surprises, regardless of his previous readings of the text. There are plenty of loose ends and undeveloped lines of reasoning in The Constitution of Liberty. A crucial concept that Hayek depends on but leaves undeveloped is that of ‘the community’. Very much along Lockean lines, Hayek holds that the majority of a community, for its own protection, can authorise government to suspend civil liberties in emergency situations. But that is not all. The majority can authorise government to coerce citizens even when they have not violated the law. Leading examples are the military draft and the imposition of taxes. The implication here is that the community’s interest is the highest end that government must seek, overriding the strict Rule of Law or in furtherance of it. Expedient policies are measured finally by the interest of the community. Another challenge in reading Hayek’s text is to penetrate his theory of knowledge – one that views man’s mind as ‘a product of the civilization in which it has grown up’. Can Hayek avoid a thoroughgoing relativism and make room for universal or transcendent standards?
AUTHOR’S PREFACE

I take great pleasure in joining with the IEA to celebrate the fiftieth anniversary of the publication of F. A. Hayek’s *The Constitution of Liberty*. Hayek had published important books and essay collections prior to this work and others would follow it; but *The Constitution of Liberty* continues to stand as the leading effort by any author, over the past century, to restate the principles of classical liberalism. Typically people read selected chapters from this grand work, especially its controversial Postscript; and the usual scholarly practice is to draw from it selectively to see how Hayek treats a particular problem over several of his writings or to trace the development of his thought. In fact, *The Constitution of Liberty* advances a careful argument that runs through the book from beginning to end: selective reading is likely to miss it.

Hayek’s core argument is essentially about freedom and its value to the individual, to society and to civilisation at large. His approach requires him to define a condition of freedom and, in particular, to say what freedom is not. In order to show that freedom is something valuable, Hayek must consider both its intrinsic worth and its consequences, whether foreseen or unforeseen. Also, he must explain how a free society is different from an unfree one and, more broadly, how freedom contributes to human progress. In line with his desire to treat the question of freedom comprehensively, Hayek investigates the philosophical
foundations of freedom and seeks to show how freedom can be established and preserved through the Rule of Law. Finally, he assesses a wide range of governmental policies in terms of their compatibility with freedom and their expediency.

Hayek’s argument unfolds gradually; and the reader is sometimes caught by surprise when important new lines of thought are introduced without much notice. Also, there are unresolved tensions and loose ends in Hayek’s argument that present interpretive difficulties. Hayek sometimes explores ideas that are not yet fully formed in his own mind, but which he will seek to clarify in later writings. For example, he will later present much more clearly the distinction among kinds of social order; the nature of rules; the meaning of justice; the character of evolution; and the shape of democratic governance. Undoubtedly there are important differences between The Constitution of Liberty and Hayek’s later writings, but one should not assume that these are differences of principle. The later writings may simply clarify, expand or refine the argument of The Constitution of Liberty without abandoning its core principles. To decide this issue, one must obviously begin from The Constitution of Liberty itself and understand its basic argument.

Insofar as I know, no writer has yet followed carefully the central argument of The Constitution of Liberty and shown how it is developed in the various chapters of the book. My aim is to give a fresh account of this argument – one that will be fully accessible to the general reader and also useful to the Hayek scholar.

My original intention was to proceed chapter by chapter, but this proved to be impracticable. Some consolidation was required not only to hold my manuscript to a manageable length, but also to bring out the structure of Hayek’s argument. In his opening chapters, Hayek interweaves observations about freedom with observations about knowledge. I treat freedom and knowledge thematically, in different sections, but with a view to their connection. Hayek takes up the problem of inequality at several points in his book, but I consolidate much of this in discussing Chapter 6. I consolidate several chapters in Part II on the origin and growth of the Rule of Law; and in covering what Hayek says in Part III on issues of policy, I look for common themes. To see how the order of my exposition compares with Hayek’s, the reader will find it helpful to refer to Hayek’s own table of contents, which can be found at the end of the book.1

The interpretive literature on Hayek is voluminous, and much of it is quite valuable; but if I should attempt to address it, a quite different book from the one intended would surely emerge. Thus I stick closely to the text of The Constitution of Liberty and to some related works by Hayek. Modern search engines, along with printed bibliographies, make it fairly easy to identify and often access the pertinent secondary literature on Hayek. For convenience I follow Hayek’s practice of referring to humanity as ‘man’ and to the individual as ‘he,’ rather than switching to gender-neutral terminology.

I owe a debt of gratitude to many persons as well as to several institutions. I am grateful first of all to Hayek, who was one of my teachers in the University of Chicago’s Committee on Social Thought. He also chaired my dissertation committee, whose other members were Leo Strauss and Joseph Cropsey. I first met Hayek at about the time that he was preparing The Constitution of Liberty for publication. Through the years I have received vital

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1 This is not available in the online version.
instruction, wise guidance and welcome support from many friends. Chief among these are my colleagues in political science at the University of Georgia as well as the countless associates whom I have met and worked with through the activities of Liberty Fund, including the staff of that estimable foundation. There are special friends who, over the past year, provided generous encouragement as well as helpful advice as I worked on this manuscript. Above all I am grateful to my wife, Eva Miller, a cherished companion, who for more than five decades and sometimes at considerable sacrifice has made it possible for me to engage in a scholarly life.

Hayek’s The Constitution of Liberty
1 HAYEK’S INTRODUCTION

The Constitution of Liberty begins with a ‘Preface’ and ‘Introduction,’ but the first thing to strike one’s eye is the title itself. One might infer from it that Hayek intends to depict an institutional arrangement or framework of government that promotes liberty; but in fact the book says little about government’s internal structure and operations. Later Hayek would clarify the meaning of his title: ‘I then used the term “constitution” in the wide sense in which we use it also to describe the state of fitness of a person’ (1973: 3). Hayek is concerned with liberty’s present shape or condition – whether it is fit or unhealthy. Believing that liberty is in dire straits, he will diagnose the causes of its ill constitution and prescribe a remedy that might restore its fitness.

Hayek identifies liberty closely with Western civilisation. The principles of liberty or freedom – he uses these terms interchangeably (see 421) – grew out of the Western experience, and the West flourished by adhering to them. By the mid-nineteenth century, however, the West began to lose faith in the principles of liberty; and now it lacks firm beliefs on which to oppose threatening ideologies. In various writings Hayek emphasises one or another proximate danger to Western liberty – central planning, demands for social justice, excesses of majority rule – but the ultimate danger is this loss of faith and self-confidence. Hayek is especially harsh in his indictment of Western intellectuals, who have long
been disillusioned with their own civilisation, disparaging of its achievements and drawn to utopianism. They turned away from Western principles just as other people of the world were looking to the West for guidance, leading the others to draw the wrong conclusions about liberty (1–2).

If the West is to continue on a path of progress, it must renew its understanding of liberty and liberty’s value both to society and to individuals. To this end Hayek will identify the basic principles of liberty and restate them in words suited for today’s climate of opinion. Hayek recognises that the task he has in mind must go beyond economics and historical inquiry. The contemporary situation requires attention to principles that claim ‘universal validity.’ It calls for an ‘ultimate justification’ or vindication of fundamental values. Economics and historical inquiry can certainly illuminate questions of liberty, but no single discipline has the comprehensiveness and normative force required to put liberty on a sound footing. This task is properly the work of ‘political philosophy.’ The Constitution of Liberty will undertake ‘a comprehensive restatement of the basic principles of a philosophy of freedom’ (3).

Hayek’s discussion of freedom or liberty is divided into three main parts: The Value of Freedom; Freedom and the Law; and Freedom in the Welfare State. He explains that Part I ‘endeavors to show why we want liberty and what it does.’ Part II examines ‘the institutions that Western man has developed to secure individual liberty.’ Part III tests this ideal of liberty by applying its principles ‘to some of today’s critical economic and social issues’ (5).

Hayek introduces several concepts in his Introduction that turn out to be much more important, as his argument unfolds, than might appear to be the case at first. I will say a bit about three of these: ‘civilisation,’ ‘political philosophy,’ and ‘the ideal.’

Civilisation

Hayek sometimes refers to civilisations, in the plural, and he often speaks of the accomplishments of Western civilisation and the dangers it currently faces. More broadly, however, he understands civilisation as the most recent phase of man’s social evolution. It began when men left ‘primitive society’ to adopt an urban way of life (340–41). The ceaseless and unguided process of social evolution, of which civilisation is a part, seems to be the basic reality for Hayek. Some thinkers in the liberal tradition, to say nothing of liberalism’s German critics in the nineteenth and twentieth centuries, have distinguished sharply between ancient and modern civilisation, identifying modernity with the rise and flourishing of liberalism. Hayek rejects this bifurcation, since he wants to trace liberalism’s core principles – individual freedom and the Rule of Law – to ancient traditions. Also, he appeals to older traditions in order to combat the most destructive features of modernity, which are associated in some measure with the rise of liberalism in the seventeenth century.

Hayek’s approach raises several questions. Can the oft-discussed conflict between ancients and moderns be smoothed over in this way? Does Hayek’s concept of a free and open society and its way of life retain what is vital to ancient thought – its elevation of noble virtues over useful ones? Does Hayek, in the final analysis, come down strongly on the side of modernity? Finally, how does Hayek relate what is particular in civilisations to what is universal? Can he praise the accomplishments of Western
civilisation and tie civilisation’s long-term prospects to its fate without adopting a parochial mentality?

**Political philosophy**

By the 1930s, Hayek’s broad interests were taking him beyond technical questions in economics, but in a direction that his discoveries in economics were pointing to. Hayek’s early work on the use of dispersed knowledge and the emergence of undesigned order (see Hayek, 1937) begins a transformation in Hayek’s scholarly interests that reaches fruition in *The Constitution of Liberty*, where basic questions of political philosophy, especially moral questions, are forthrightly addressed. In the early 1940s, Hayek had understood his work as social science in the fashion of Max Weber (cf. Hayek, 1952b [1979]: 61–9; cf. 41–4). He had mentioned political philosophy from time to time, and by 1945 was moving in that direction (see Hayek, 1948: 2). Hayek’s post-war writings, addresses and organisational efforts reflect a growing anxiety over the viability of Western civilisation and the fate of liberty, fore-shadowing his deeper commitment to philosophical inquiry (see Hayek, 1992).

Political philosophy, as Hayek describes it in *The Constitution of Liberty*, has a practical as well as a theoretical side. A theoretical determination of basic principles is not enough. The philosopher must explain those principles to the general public, recommend them, make them attractive by showing their loveliness as well as their utility, and fight courageously against their enemies. Hayek justifies this practical undertaking by reference to the way opinion is formed in a free society and the way society progresses. Prevailing opinion is not the result of a deliberate decision by a majority or by an intellectual elite; instead, it grows out of a spontaneous and continuous process that elevates a minority view to a dominant position and then supplants it through the rise of another minority view (109–10). Discussion is essential finally to the emergence of the dominant view, but first people must learn about the alternatives by seeing individuals act them out.

But how do new ideas originate? The practical politician is necessarily ‘unoriginal’ in his beliefs. His task is to find the opinions held by the majority, and he moves within this framework. New ideas come from those few who professionally handle abstract ideas, and eventually their ideas shape majority opinion. Here Hayek quotes approvingly some well-known passages from J. S. Mill and J. M. Keynes to the effect that ‘speculative philosophy’ (Mill) or ‘the ideas of economists and political philosophers’ (Keynes) are, in the long run, far more powerful than interests in shaping thought and action. When judged only by his direct influence on current affairs, ‘the influence of the political philosopher may be negligible,’ but ‘when his ideas have become common property, through the work of historians and publicists, teachers and writers, and intellectuals generally, they effectively guide developments’ (112–13).

Hayek greatly elevates the philosopher’s historical role by insisting that evolution is governed, in the long run, by ‘ideas and therefore the men who give currency to new ideas.’ He assigns importance not only to the innovators, but also to those thinkers who, along the way, provide ‘a set of coherent conceptions’ to govern the evolutionary process. Hayek’s own objectives have to be understood in this light. He does not claim to be a great innovator, but rather one who restates old truths coherently. The political philosopher must address the question of what ought to
be, deciding among conflicting values and defending those which seem right to him. The political philosopher should not seek popularity, but readily oppose the majority will when necessary by expressing ‘inconvenient and irksome’ truths. Indeed, he should ‘suspect himself of failing in his task ... when he finds that his opinions are very popular’ (115; cf. vii, 114–15). These characteristics – eyes focused on the long term, avidly defending sound values, unwilling to court popularity, insisting on unfashionable truths, persevering in the face of rejection, holding to the belief that the right ideas will eventually prevail – apply not only to the political philosopher, as Hayek describes him, but also to Hayek himself.

The ideal

Hayek refers time and again to the ideal. Recovering basic principles will help him to ‘picture an ideal.’ Hayek’s emphasis on the ideal serves two purposes: it shows that liberty is something of high value; and it allows him to appeal to something above existing or possible arrangements that offers a criterion by which to judge them. As we shall see, Hayek’s ‘ideal’ is the Rule of Law.

Generally Hayek’s writings bring out the quixotic or dangerous side of idealism. In this very Introduction he reproaches Western intellectuals for their ‘exclusive concern with the creation of “better worlds.”’ To forestall an immoderate pursuit of liberty, Hayek ends his Introduction by warning strongly against ‘perfectionism.’ Liberalism, properly understood, is far removed from ‘the hurry and impatience of the passionate reformer.’ It is ‘a modest and even humble creed’ with ‘a low opinion of men’s wisdom and capacities,’ aware that even the best society we can plan for ‘will not satisfy all our desires’ (vii, 1–2, 6, 8).

Hayek’s understanding of ‘the ideal’ raises a host of questions. How do ideals originate? Do we discover them or construct them? Are they grounded in what is real? In what sense, if at all, are ideals to be understood as transcendent? Can an ideal that is distilled from one culture or civilisation be binding for all? These questions will be explored in the course of our inquiry.
Part III of *The Constitution of Liberty* is devoted to policy. Hayek's aim, as he explains in his Introduction, 'will not be to provide a detailed program of policy but rather to state the criteria by which particular measures must be judged if they are to fit into a regime of freedom.' This he will do by applying principles of freedom 'to some of today's critical economic and social issues' (5). Hayek proceeds to develop chapters on 'Labor Unions and Employment,' 'Social Security,' 'Taxation and Redistribution,' 'The Monetary Framework,' 'Housing and Town Planning,' 'Agriculture and Natural Resources,' and 'Education and Research.' These seven chapters on specific areas of policy are introduced by a chapter entitled 'The Decline of Socialism and the Rise of the Welfare State.'

**Advent of the welfare state**

Hayek begins by calling attention to a great change that has taken place in the post-war period – one that makes it more difficult to identify and combat freedom's opponents. For a century up to the 1940s, efforts at social reform were inspired primarily by socialism. Reformers shared a conviction that society was moving inevitably towards socialism as its necessary and final goal. Their task, as they saw it, was to gain control of the economy by
nationalising the means of production, distribution and exchange. Socialism’s ascent to power in Britain after the war added to the sense of its inevitability. In 1944 Hayek had published *The Road to Serfdom*, identifying doctrinaire socialism as a pressing danger to liberty.

Looking back, Hayek concludes that the 1940s ‘seems to have marked the high tide’ of the advance of this ‘European’ form of socialism. It was discredited by the manifest failure of nationalisation, which turned out to be less productive than private enterprise, favourable to ‘a new arbitrary and more inescapable order of rank,’ and dangerous to individual liberty. Hayek would thus be ‘tilting at windmills’ if he were to now direct his argument against it. This does not mean, however, that socialism no longer threatens freedom. Hoping to recover their influence, socialists stopped referring to themselves as such. They abandoned the programme of nationalisation and instead promoted the idea of wealth redistribution, which all along had been their true aim. The new, nameless socialism resembles the old in its advocacy of central planning and economic control, and its guiding ideal – achieving social justice – remains the same. What has changed is its method. The path to social justice will be wealth distribution instead of nationalisation (253–5).

**Hayek and the welfare state**

One can say that the new socialism aims at ‘the welfare state,’ but this concept is imprecise; and Hayek must make some distinctions before proceeding to criticise it. In fact, Hayek’s rhetorical task is complicated by his own embrace of what some libertarians in particular would regard as welfare state policies. He points out once more, as in Part II, that the Rule of Law limits only the coercive measures of government, leaving ‘a wide field’ for its non-coercive or pure service activities, which will clearly need to be financed through taxation (257–8).

How then does Hayek’s position differ from the socialists’ understanding of the welfare state? Hayek explains this difference partly by contrasting two conceptions of security, one of which (the socialist conception) is at odds with individual liberty. Hayek thinks it proper that government should try to reduce risks common to all, help people provide against them, and assure ‘a given minimum of sustenance for all;’ but it must not attempt to secure to individuals the income that they are thought to deserve in comparison with other persons. Such a conception of security leads inevitably to arbitrary and coercive measures, since it wants to use government’s administrative powers to ensure that particular people get the particular things that they supposedly deserve. As the epigraph to Part III, Hayek uses a passage from Tocqueville¹ to illustrate how a society that seeks security through increasing dependence on the state can drift into despotism and end up losing its liberty (258–62, 251).

¹ ‘Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood: it is well content that the people should rejoice, provided they think of nothing but rejoicing. For their happiness such a government willingly labors, but it chooses to be the sole agent and the only arbiter of that happiness; it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances; what remains, but to spare them all care of thinking and all the trouble of living?’ Alexis de Tocqueville, *Democracy in America*, trans. Henry Reeve, edited by Phillips Bradley (New York: Alfred A. Knopf, 1945): v. II, 318.
Hayek’s sharpest criticism of the socialistic welfare state centres on its use of wealth redistribution to achieve social justice. There is a deep conflict between ‘the ideal of freedom and the desire to “correct” the distribution of incomes so as to make it more “just.”’ The pursuit of distributive justice cannot follow general rules. It requires that all resources be centrally allocated according to ‘the particular aims and knowledge of the planning authority.’ Eventually it leads to ‘the command economy.’ The Rule of Law checks this pursuit at every turn. It serves freedom by precluding ‘all those measures which would be necessary to insure that individuals will be rewarded according to another’s conception of merit or desert rather than according to the value that their services have for their fellows’ (232).

In examining Hayek’s critique of welfare state policies, I will focus on the dangers that he chiefly warns against and the specific alternatives that he offers. I begin with what Hayek regards as the most objectionable feature of the welfare state – its use of social security programmes and progressive taxation to redistribute wealth. To secure freedom, the state must avoid coercing citizens unnecessarily and also prevent them from coercing each other. The welfare state fails on both counts. Its social security and taxation policies are inherently coercive, and it fails to prevent labour unions from coercing workers. Moreover, the welfare state’s monetary policy is highly inflationary, and its policies on natural resource use, education and scientific research tend to inhibit progress.

11 SOCIAL SECURITY, TAXATION AND THE REDISTRIBUTION OF WEALTH (CHAPTERS 19 AND 20)

Hayek follows up his general critique of the welfare state with chapters on ‘Social Security’ and ‘Taxation and Redistribution.’ Both chapters address the issue of wealth redistribution. The first considers alternative ways of designing social security programmes, while the second considers alternative plans of taxation.

Social security

In discussing social security, Hayek considers ways of protecting individuals against risks associated with old age or permanent disability, sickness and unemployment. He lays out his preferred approach to insuring against need and providing for the needy, contrasts it to existing systems of social security, and speculates about the prospects for replacing or changing the current ones.

Hayek insists that the best and cheapest arrangements for social security are ones that evolve gradually through ‘the constant re-evaluation of available resources,’ as distinguished from unitary systems that are set up according to some advance design. Unitary systems, once established, are hard to change; and like ‘all sheltered monopolies’ they ‘become inefficient in the course of time’ (287). Looking back, Hayek finds that suitable provision for social insurance and relief was emerging in the nineteenth
century, when the imposition of centralised government systems blocked this path. In England, social services had developed out of the idea that local communities had a duty to provide relief for the poor. With the growth of large cities, special agencies were organised nationally, often by workers themselves, to provide these services and to insure against risk. Hayek acknowledges that industrial society needs arrangements of this sort and that government should assist in their development (286). He is confident that suitable provision for risk and need will continue to emerge, if not thwarted by governmental policies, and that these emergent arrangements, unlike governmental ones, will be consistent with a free society (291–2).

Hayek favours a government-assisted but decentralised plan that encourages – and even compels – individuals to provide for themselves while also making relief available to the needy. It requires that individuals insure themselves against such risks as sickness, permanent disability and perhaps unemployment. Saving for future needs, especially those of old age, obviously fits with personal responsibility; but Hayek says little here about saving, except to point out that governments everywhere are pursuing inflationary policies that rob the thrifty of much that they have put aside for the future (294–5; cf. 328–9).

As a safety net, Hayek would provide public assistance, in an amount consistent with a society’s wealth, to persons in great need. He concedes that such a programme involves ‘some redistribution of income.’ Nevertheless, preventing destitution and providing a minimum level of welfare are now generally accepted as a public duty – one rooted at least partly in the self-interested ‘desire of individuals to protect themselves against the consequences of the extreme misery of their fellows’ (285–6, 303). The assured minimum level of assistance should be uniform and should be extended only in cases of ‘proved need.’ Hayek endorses means tests for welfare eligibility, despite their reliance on discretion, and rejects the widespread notion that such tests are degrading (301, 303–4). Defining need is particularly difficult in the area of healthcare, where medical advances have made it ‘more and more clear that there is no limit to the amount that might profitably be spent in order to do all that is objectively possible’ (298). Here the benefits to the individual of additional treatment must be weighed against the costs, but the individual himself should ‘have a say’ in this decision ‘and be able, by an additional sacrifice, to get more attention’ (299).

On the question of helping the unemployed, Hayek is unwilling to extend relief beyond the uniform minimum that is assured to all, except perhaps in a major depression. He opposes such additional relief partly because it distorts the labour market and partly because it subsidises the extravagant wage demands of labour unions. Hayek does welcome genuine insurance against unemployment wherever this is practicable (300–302).

Because public assistance is extended to all, insuring against risk must be compulsory. Hayek reasons that if public relief is available even to needy individuals who neglect to help themselves, some will fail to make provision against emergencies and many may do so inadequately. The obvious solution is ‘to compel’ individuals ‘to insure (or otherwise provide) against’ the hazards associated with old age, unemployment, sickness and so on. As noted earlier, Hayek justifies such coercion on the same principle that he had used earlier in justifying taxation and compulsory military service. Although ‘the community’ may not force a person to act in his own interest, it may nonetheless compel him to do
what is in the community’s interest, which is preventing harm to its members. Compulsion is justifiable in this case because people who neglect to make provision ‘would become a charge to the public’ (286).

Hayek’s proposals, as summarised above, are embedded in a scathing critique of unitary, government-controlled social security systems, the original of which was the ‘social insurance’ arrangement that Otto von Bismarck’s government enacted in Germany in the 1880s. Although Bismarck did not ban the private relief agencies that then existed, he decreed that the state would henceforth be the sole provider of such social services through a unified organisation to which everyone protected had to belong. The German plan went beyond compulsory insurance to require ‘compulsory membership in a unitary organization controlled by the state’ (287).

The German model spread because it was presumed to be the most efficient and economical way to provide universal coverage. Hayek grants that this might be true when centralised plans are first introduced, but holds that relying ‘on the gradual evolution of suitable institutions’ is a better solution in the long run, even if for a time some needs receive inadequate attention. A centralised design for social services shuts off ‘the constant re-evaluation of available resources’ and leads to long-term inefficiencies (287; cf. 232).

Hayek goes on to argue that compulsory social service monopolies were mainly attractive to socialists not because of their presumed efficiency, but because they provided a means of egalitarian redistribution. The socialists recognised that a monopolistic government service could distribute benefits according to perceived need and also redistribute income from one group to another, as might seem desirable. These compulsory monopolies were represented to the public as ‘social insurance,’ but this claim was deceptive.

Insurance, properly speaking, grants protection only to those who can claim it through their contributions. Monopolistic social security programmes, by contrast, enrol those who have not yet had time to establish a claim. People receive ‘as a matter of right what they have only to a small extent paid for.’ Benefits are not limited to a contractual amount, or even to some necessary minimum, but reflect a political judgement as to an amount that would be adequate, regardless of a person’s need or contribution. Unlike genuine insurance, government plans can transfer income from one group to another. Pension claims, for example, are paid out of the taxes of those currently working, and not from income on capital set aside to honour these claims. Wealth is thus transferred from the young and productive members of society to the elderly, a result which leads Hayek to speculate that the burden on the young may in the future become greater than they are willing to bear (288–9, 292 and 295–7).

Hayek gives several reasons why unitary state systems of social security, as they have developed everywhere, pose a critical threat to freedom. First, these programmes are necessarily coercive. They designate government as the monopoly provider of certain services and give administrators broad discretion to distribute benefits to individuals according to what they are thought to deserve. Systems of state medicine transform doctors into paid servants of the state, subject to instruction by authority as to the provision of medical services (288–90, 300). Second, these programmes are at odds with a healthy democracy. This is partly because their very complexity defeats democratic deliberation.
about them. Neither ordinary citizens nor their elected representatives can understand these complex programmes, so they must depend on the judgement of a few experts who strongly favour the principles underlying the programme in question and are disinclined to question its core principles (288–91). Also, since government programmes are expected to provide ‘adequate’ benefits, as determined politically, they are easily exploited by demagogic politicians and self-interested voters (296). Finally, the central bureaucracy that administers social security programmes also controls the flow of information about them. Its power to engage in ‘subsidized propaganda’ confers on it ‘a power over minds’ that is akin to that of a totalitarian state (293; cf. 291–4).

Hayek points out that these unitary state systems are facing difficulties everywhere. They have placed on society ‘a steadily growing burden from which it will in all probability again and again attempt to extricate itself by inflation.’ Even so, these systems, once established, are very difficult to get rid of. Conceivably sickness and unemployment allowances could be transformed gradually into systems of true insurance; but in the case of pensions for the aged, the rising generation, having paid for the needs of the preceding one, can always make a claim to support by the next. Any long-term changes will require the public to reconsider these programmes: ‘... democracy will have to learn that it must pay for its own follies and that it cannot draw unlimited checks on the future to solve its present problems’ (304–5).

**Proportional versus progressive taxation**

When it comes to governmental efforts to redistribute wealth, Hayek sees the progressive income tax as an even greater threat to freedom than the welfare state’s social security policies. Progressive taxation redistributes wealth more efficiently than such policies; without it, the scope of redistribution ‘would be very limited.’ Moreover, its appeal is broader: ‘Redistribution by progressive taxation has come to be almost universally accepted as just.’ Whether joined to the welfare state or not, progressive taxation is now ‘the chief means of redistributing incomes.’ Moreover, it is the main source of democratic irresponsibility and governmental arbitrariness (306–8).

Hayek advocates proportional taxation, which applies a constant rate to everyone. With a progressive system, by contrast, the rate of taxation increases as the amount being taxed increases. The wealthy pay more under both systems, but at an escalating rate under a progressive one. Hayek uses historical evidence to illustrate his claim that there is no limit, in principle, to how high a progressive rate can go. When a progressive income tax was introduced in Prussia in 1891, the upper rate was 4 per cent. In 1910 Great Britain followed suit, as did the USA in 1913, setting the upper rate at ‘8¼ and 7 percent, respectively. Yet within thirty years these figures had risen to 97½ and 91 percent’ (310). This outcome is not surprising to Hayek, since ‘all arguments in support of progression can be used to justify any degree of progression’ (313).

The case for progressive taxation, as Hayek presents it, rests mainly on four claims, which we may call scientific, political, expedient and moral; and his aim is chiefly to refute these particular claims.

The advocates of progressive taxation hoped to give it scientific respectability by appealing to utility analysis, specifically to the principle that income has a diminishing marginal utility.
Their argument can be put this way: a rising income is satisfying, especially to poor people; but beyond a certain level of need, the satisfaction derived from income diminishes with the addition of each new increment. This means that taxing the wealthy at a high marginal rate will have little effect on their wellbeing, whereas a transfer of wealth will greatly enhance the wellbeing of the poor. Hayek replies only briefly to this argument, since he thinks that the field of utility analysis has abandoned interpersonal comparisons of utilities, and since he doubts that the principle of decreasing marginal utility properly applies to income, broadly understood as ‘all the advantages a person derives from the use of his resources’ (309).

The political case rests on the idea that progressive taxation is democratic or, more precisely, that it reflects the will of the majority in communities where it has been enacted. Hayek does not object in principle to the majority determining tax policy, so long as it doesn’t ‘impose a discriminatory tax burden on a minority’ or try to determine what an ‘appropriate’ income would be (322). The problem, in practice, is that groups with the greatest voting strength have used progressive taxation to shift the tax burden to the wealthier classes. The majority, perhaps to gratify its envy, can push tax rates to confiscatory levels. From Hayek’s standpoint, this self-interested strategy is both wrong and short sighted. The strategy is wrong, because the majority, instead of applying a general rule, exempts itself from a policy that it applies to others: ‘the majority which determines what the total amount of taxation should be must also bear it at the maximum rate’ (322). The strategy is short sighted, because inflation gradually brings the middle classes under the higher rates, without raising their real income. Moreover, taxing the rich at a high rate produces much less revenue than is generally recognised. Hayek estimates that British expenditures on subsidies and services are ‘financed mainly by the contributions of the middle and upper ranges of the middle class’ (313; cf. 311–13, 315).

Progressive taxation is put forward as an expedient or advantageous policy, but Hayek contests this claim on economic grounds. One of his objections to high marginal tax rates is that they impede capital formation, thus slowing economic growth. Potential savers and investors are the ones hit hardest by high marginal tax rates, especially those persons who expend efforts over time or take risks that might yield large gains in a single year. Moreover, high marginal rates reduce the incentive for individuals to increase their earnings within a given tax year and, what is even more harmful, they misdirect resources by diverting people’s energies to less useful activities (316–18). To build up a new business or succeed in a new enterprise, individuals must control considerable resources; and acquiring a fortune in a short time period should be seen as ‘a legitimate form of remuneration’ for this kind of activity. Discouraging individual capital formation restricts competition, inasmuch as it strengthens ‘the position of the established corporations against newcomers.’ In effect, ‘the tax collector’ shelters old firms from competition. Also, by preventing ‘the dangerous newcomer from accumulating any capital,’ progressive taxation ‘checks economic progress and makes for rigidity’ (320–21; cf. 318–20).

Progressive taxation has sometimes been justified on the basis of capacity to pay, but this argument was superseded by the claim that such a system produces ‘a more just distribution of income’ (311). Hayek grants that justice is an appropriate standard for weighing tax systems, but argues that steeply progressive ones are
themselves unjust. A just system of taxation, as Hayek conceives it, is one that is limited by a principle or rule that applies to everyone. Progressive taxation is not constrained by any such limiting principle. It applies different rules to different people, depending on their degree of wealth; and it has no principled way of deciding who should be taxed and how much. Progressive systems permit a majority ‘to impose a discriminatory tax burden on a minority.’ By making actual income relative to one’s tax rate, they violate ‘what is probably the only universally recognized principle of economic justice, that of “equal pay for equal work.”’ A whole class of persons is practically deprived of the normal incentives because their income is not in line with the rest. None of these progressive measures can be defended on grounds of justice (313–17, 322).

Proportional taxation meets Hayek’s standard of justice. It applies the same general rule to everyone, prevents discrimination against the wealthy and, by requiring that political majorities abide by the rules they enact, deters high rates of taxation. Since the principle of proportionality, like that of progressivity, does not itself specify appropriate rates of taxation, Hayek speculates that the maximum admissible rate of direct taxation might reasonably be set ‘at that percentage of the total national income which the government takes in taxation.’ It should be noted that Hayek does not object to a majority granting ‘to an economically weak minority some relief in the form of a proportionately lower taxation.’ Also, to compensate for the effects of indirect taxation, he grants that ‘some progression in personal income taxation is probably justified’ (332–3).
socialism and stolen its thunder’ (398–9). Hayek thus perceived ‘true conservatism’ to be liberty’s adversary rather than its ally. As a defender of liberty, he wanted to draw an indelible line between his position and that of the conservatives.

In the USA there was neither a long-standing conservative party nor a major socialist party. Americans who cherished the original Constitution were not conservatives in Hayek’s sense, because they appealed finally to the ideal of liberty that the Constitution embodies. The term ‘conservative’ came into wide use in the USA after World War II to indicate opposition to ‘liberalism,’ which in the American context meant chiefly the statist principles and policies of Franklin D. Roosevelt’s New Deal. A burgeoning conservative movement emerged in the 1950s, drawing inspiration from diverse thinkers and writers who in one way or another defended individual freedom and limited government. This movement was an uneasy coalition of ‘traditionalists’ and ‘libertarians,’ or of humanists who worried about moral or religious decline and proponents of free market economics who wished to curb government’s power. Hayek’s writings greatly influenced the latter group, and he came to be classified as a libertarian conservative. Hayek did not wish to be identified as a conservative, even in this loose American sense, or as a libertarian.

In the body of the Postscript, Hayek raises specific objections to historical conservatism and shows how it differs from true liberalism. Conservatism lacks principles or goals of its own and thus is unable to offer an alternative to current developments; it seeks to prevent or limit innovation, since it fears change and the impact of new ideas; it is fond of authority and willingly uses it to make individuals conform to acceptable values, goals and moral and religious beliefs; it invokes ‘the authority of supernatural sources of knowledge’ when reason fails (406); it assigns special privileges to persons whom authority recognises as superior and uses the state to preserve social hierarchy; it distrusts democracy and blames it for present evils; it lacks sufficient knowledge of economics to see that spontaneous forces of adjustment can be counted on to produce beneficial order and growth in the future as they have in the past; and it is stridently nationalistic, even to the point of endorsing imperialistic missions to civilise other peoples.

True liberalism, by contrast, is guided by principles and by a theory of social order; it welcomes change and the generation of new ideas; it invests authority in the law and, because power corrupts, favours the Rule of Law over the rule of men; it is tolerant of moral and cultural diversity and thus makes it possible for persons with different values to coexist peacefully; it acknowledges our inescapable ignorance and avoids explanations that invoke the supernatural; it denies that anyone can say, absent competition, who the superior persons are, and also rejects the notion that such persons should live by different rules, be guaranteed a special position in society, or be sheltered from forces of economic change; it regards democracy as the least evil (and therefore the best practicable) form of government; it is willing to let the market work, since it assumes that in economic matters particularly, ‘the self-regulating forces of the market will somehow bring about the required adjustments to new conditions’ (400); and its outlook is cosmopolitan rather than nationalistic (399–407).

Hayek identifies himself with what he calls ‘the party of liberty’ or ‘the party of life.’ The party of liberty goes back to the eighteenth century, and it does not coincide with any political
party or partisan coalition of Hayek’s day. Its aim is to promote freedom by influencing opinion, and this it does mainly by formulating ideas that will govern society in the long run. Hayek had worked tirelessly in the 1940s and 1950s for the rebirth of a liberal movement in Europe. In appealing to like-minded scholars, he advised them to stand for ‘the highest ideals and keep free from the political disputes of the day.’ Devotion to liberal ideals should protect them from the risk ‘of becoming involved in party passions.’

The party of liberty was the only kind of party that Hayek, as a political philosopher, could embrace. The political philosopher seeks to shape opinion by defending general principles in an uncompromising way. Party leaders, by contrast, ‘organize people for action’ – a task that requires them to downplay differences of principle among their followers and to aim for what seems politically possible at the moment (411). The politician lets sleeping dogs lie; the political philosopher stirs controversy. The politician seeks short-term results; the political philosopher understands that far-reaching alterations in institutions or policies are possible only through a change in public opinion. By taking the long view in the 1950s and 1960s and sticking mainly to the philosopher’s task of stating or clarifying basic principles, Hayek and like-minded persons would contribute decisively to key developments in the 1970s – the transformation of British conservatism into the party of free enterprise and the ascendancy of a market-oriented conservative movement in the USA.

Hayek is perplexed as to what to call ‘the party of liberty.’ He has ruled out the name ‘conservative.’ ‘Liberal’ is accurate historically, but the term no longer means what it did in England at the turn of the nineteenth century, and its US meaning is the opposite of its true meaning. ‘Libertarian’ is ‘singularly unattractive’ to Hayek and for his taste ‘carries too much the flavor of a manufactured term and of a substitute’ (407–8). Hayek leaves open the question of whether he objects to libertarian thinking as well as to the term itself. This reticence did not deter Hayek’s libertarian critics from attacking *The Constitution of Liberty*, both for inadequately limiting state coercion and for condoning expansive government services.

Hayek has racked his brain unsuccessfully to find ‘a word which describes the party of life, the party that favors free growth and spontaneous evolution’ (408). Taking a cue from the English Whigs, whose ideals inspired liberal movements in the whole of Europe and in the American colonies, he finally concludes that ‘Whiggism is historically the correct name for the ideas in which I believe.’ By the mid-nineteenth century, Whig parties in both Britain and the USA had been discredited. Nevertheless, Hayek’s studies in the evolution of ideas have made him increasingly aware ‘that I am simply an unrepentant Old Whig – with the stress on the “old.”’ Whiggism ‘has been the name for the only set of ideals that has consistently opposed all arbitrary power.’ Hayek does not know if reviving this name ‘is practical politics,’ but this is not his main concern as a political philosopher. The ‘party of liberty’ or ‘party of life’ that he wants to revive is a broad movement of ideas that may, in the long term, affect political affairs. Making it into a political party would give it an altogether different character (408–10).
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