

A Critique on the Social Justice Perspectives in the Works of Friedrich A. Hayek

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ABSTRACT: Given that the academic work of Friedrich Hayek has received eminent accolades (including the 1974 Nobel Memorial Prize in Economics Sciences) and has been well recognised and widely referenced, this paper reviews the denial of the concept of social justice in many of the academic economic theory papers written by the renowned British-Austrian economist. The paper therefore effectively provides a critical analysis of some of Hayek's socio-political and economic theories relating to this issue. It attempts to do this by adopting the perspective of an objective and analytical economist with reference to and by examining the content of three of Hayek's well known economic texts, namely *The Road to Serfdom* (1944); *Law, Legislation and Liberty* (1973-79) and *The Fatal Conceit: The Errors of Socialism* (1988).

KEYWORDS: social justice, economics, Friedrich Hayek

1. Introduction

Friedrich August von Hayek (who was also commonly referred to as F.A. Hayek) was an Austrian-British economist and was well known for his staunch defence of classical liberalism (Birner and van Rip 1994). Hayek was born in Vienna, Austria in 1899 and the majority of his perspectives were derived from theories and philosophies from the Austrian School of Economics (Birner and van Rip 1994).

The primary basis of the Austrian School of Economic Thought is centred around the concept of methodological individualism which entails the ideology that the motivations and actions of individuals drive social phenomenon (Boettke and Leeson 2003). The origins of the Austrian School of Economic Thought began in Vienna during the late-19th and early-20th century and was largely developed through the work of Carl Menger, Friedrich von Wieser and Eugen Bohm von Bawerk (Shumpeter 1996).

In theoretical terms the Austrian school of economics promotes liberalism and laissez-faire-economic ideologies which are premised by the notion that there is optimal economic performance when government interference in economic transactions and activity is limited and minimised (Meijer 1995).

2. The Road to Serfdom

In this book written by Hayek between 1940 and 1943, he critically attacks many theories supporting socialism through attempting to provide evidence that socialist concepts are factually incorrect and that the foundational principles underpinning socialist ideologies are also false and unrealistic. In fact, one central theme of ‘The Road Serfdom’ relates to Hayek’s core belief that government control and involvement in economic decision-making through central planning inevitably and dangerously promotes the emergence and dominant prevalence of tyranny and totalitarianism (Ebeling 1999).

‘The Road to Serfdom’ was published in 1944 and was to be the second volume of Hayek’s treatise titled ‘The Abuse and Decline of Reason’ (Chester 1946). Through the text, Hayek outlines how an oppressive society in which citizens have lost their freedom results when principles supporting classical liberalism and individualism are not supported or allowed to exist which can then promote tyranny and allow for the emergence and dominance of dictatorships, as well as the serfdom of individuals (Hayek 1994).

The text has been credited for popularising and helping to provide evidence to validate the implementation of theories promoting market libertarianism (Ebenstein 2003). In addition through ‘The Road to Serfdom’, Hayek argues that centralised planning enables the preferences of a small minority of people to be prioritised and imposed which is comprehensively undemocratic and impinges on the freedoms of individuals

because for example, it removes money and property from individuals achieve and pursue centralised objectives and outcomes (Hayek 1994).

This paper highlights how although “The Road to Serfdom’ doesn’t provide an in-depth critique on the theory of “social justice”, the text does outline some arguments on the concept that are incorporated in some of Hayek’s later written works. Accordingly Hayek proposed that it wasn’t possible to develop detailed definitions for social utility functions. This was due to Hayek’s view that in modern societies individuals have varying preferences with regard to their likes and dislikes. Such conditions are therefore not conducive for the formulation of a well defined social utility function. This is thus provided as an explanation as to why Hayek believed a well defined social utility function couldn’t exist in advanced societies but may be more prevalent in less developed societies. The underlying notion premising this being that more members of a “primitive” society were more likely to have a similar ordering of their like and dislike preferences as a direct result of conformity with implicit taboos or strong coercion.

It is also highlighted that Hayek’s reluctance to support the concept of there being a need for “social justice” derived from his insistence that the knowledge possessed by individuals within modern, open societies is fundamentally local, meaning that they have limited, if any understanding of the preferences of others. This point seems to be based on the central notion that the diverse and varied preferences of a large number of members belonging to a specific communal group or society are unlikely to be known by any single mind, thereby making it rather impossible to develop a social utility function.

The paper continues with its analysis of Hayek’s critique of “social justice” by discussing his perspectives on the ideas of a “fair wage” and “just price”. This is said to be covered in Chapter Eight of “The Road to Serfdom’. According to Hayek, what most people refer to as “fair wage” or “just price” is generally either the wage that would exist in the absence of monopolistic exploitation, the return which people in the past had come to expect to receive or was the customary price or wage. He expanded further by saying that the development of customary wages often brought about by the state of the economy being rather stationary was largely incompatible with the dynamic nature of most capitalist societies. Hayek believed that it wasn’t necessary for wages to derive from “monopolistic exploitation”. He also emphasised that fluctuating wages can help in facilitating social improvements within capitalist economies, despite the fact that they aren’t always equitable.

In this respect, it can be rationally identified that Hayek made reference to the reality that workers are often vulnerable to the dynamic conditions of their relevant labour market. Consequently according to Hayek, the wages that workers earn doesn’t always

correspond to their individual efforts, despite this being the predominant trend. This is exemplified by how swift fluctuations in demand can displace specialised workers who have made significant investments in the development of specific competencies and skills sets (Chester 1946).

3. Law, Legislation and Liberty

The 'Law, Legislation and Liberty' was written by Hayek in 1973 and contained three volumes including 'Rules and Order' (Volume 1), 'The Mirage of Social Justice' (Volume 2) and 'The Political Order of a Free People' (Volume 3). Through the text Hayek proceeds to build on and develop further the economic and philosophical concepts that he first discussed in some of his earlier works including 'The Road to Serfdom' (Friedman 1998).

In 'Law, Legislation and Liberty' Hayek asserts further support for free market ideologies and argues strongly for the protection of individual liberty of citizens. In addition, Hayek proclaims that instead of being a passive actor the role of the state (namely governments) should be to protect the practices and the norms of a free and ordered society (Hayek 1976). Hayek also discusses in the text that social institutions are purposefully instituted products of preferred and deliberate design. He further asserts that social institutions can often be associated with either of two distinct forms of order, namely spontaneous order and a created order (an organised organisation).

Within the second volume of 'Law, Legislation and Liberty', subtitled 'The Mirage of Social Justice' Hayek discusses the issue of "social justice" further. In this, Hayek asserts that the conceptual framework associated with "social justice" is largely based on primitive perspectives of viewing social and natural phenomena (Hayek 1976). More explicitly he attacks what he denotes as the "primitive" notion that people deliberately act behind the scenes to attain certain results according to specific intentions they may have. He contends that the propagation of such false ideas leads to the wrong belief that unintentional and spontaneous outcomes within the market derive from deliberate actions taken. Hayek therefore dismisses the possibility that there could be any intentional 'treatment of groups and individuals by society' and argues that the responsibility for the organisation of the society falls on no-one. This denial of the concept that the "personification" of society was feasible, was a repeated theme in much of Hayek's work.

Hayek also proposed that the inclusion of “social” as an adjective introduced ambiguity in relation to the terms that it was applied to. He clearly stated that the use of the adjective “social” such as when referring to the “social state of law”, the “social market economy” and “social justice” served no useful purpose and often induced confusion into arguments of political discourse. This stance means that what Hayek has outlined contradicts the work of many post World War Two West German scholars such as those from the Freiburg School, with whom Hayek shared similar perspectives on various economic policies as well as comparable views on capitalism (Ebenstein 2003).

4. The Fatal Conceit: The Errors of Socialism

Through “The Fatal Conceit Hayek: The Errors of Socialism’ which was published in 1988, Hayek critiques the “social justice” perspective of those belonging to the middle left and left schools of political thought. Hayek achieves this by discussing some problematic interpretations of the concepts of “social justice” and “society”, as well as by critically analysing the use of “social” as an adjective in various phrases and terms. Specifically he presented 167 examples of how the inclusion of the adjective “social” changed the meaning of nouns that were associated with it.

In “The Fatal Conceit: The Errors of Socialism’, Hayek states that societal traditions which valued and placed appropriate emphasis and focus on private property contributed to further development, growth in trade and civilisations. In addition, it also led to the formation of an extended order and the eventual progression of modern capitalist structures and systems (Polyani and Stiglitz 1944). Hayek also attempts to highlight in “The Fatal Conceit Hayek: The Errors of Socialism’ the inaccuracy of the underlying belief of socialist thought that the greatest efficiency can only be achieved through purposefully designed modifications (Hayek 1991).

Furthermore, Hayek asserts that the need for dispersed knowledge in modern economies means socialist or statist economies can’t be efficient (Hayek 1991). In “The Fatal Conceit: The Errors of Socialism’ Hayek also outlines that because modern societal and economic processes including associated traditions and customs contributed to the current order and required for growth and continuation, major modifications to such processes that try to control it are destined not to be successful or effective because they are unsustainable and impractical for modern economic and social systems (Hayek 1991).

“The Fatal Conceit: The Errors of Socialism’ reiterates the differences between Hayek’s perspectives and more Ordoliberal ideologies. The text also contains a more indepth

discussion on the “personification” of society. In addition, it serves to outline Hayek’s belief that the key to ensuring more productivity within a society is to secure more people with varying skills and abilities rather than simply promoting a larger population per se, although the former can still be attained through achieving population growth.

Another clear point that is made by Hayek through the text is that to solve the economic calculation problem, price signals are essential because they represent the only means to facilitate each economic decision maker to convey dispersed or tacit knowledge interchangeably to each other (Ebenstein 2003). In the “The Fatal Conceit: The Errors of Socialism’ Hayek therefore presents some his rationale for supporting free market economic policies and set outs his main arguments against socialism. So in summary, Hayek strongly asserts that socialism has been flawed from its beginnings and is wrong in a logical, factual and practical sense as evidenced by the extensive failure of many socialist principles in numerous examples across the world. Consequently one of the major conclusions of this piece of work by Hayek is the false belief propagated by socialist thinking and similar ideologies that “man is able to shape the world around him according to his wishes.” (Hayek 1991).

Conclusion

In terms of an overview, one predominant trend associated with Hayek’s work is that when Hayek focuses on the consistency and similarities between social and individual preferences, his arguments principally centre on issues associated with the plausibility of a social welfare function. It can also be reiterated that the economic concept that volatile demand factors determine the market price of final goods, forms the basis of Hayek’s economic argument which denies any correlation between the efforts exerted by workers and the wages they earn.

Some potential inconsistencies in Hayek’s arguments relating to the concept of “social justice” are thus highlighted. One of the major criticisms that can be put forward is that Hayek’s assertion relating to there being no evident link between the effort exerted and the reward attained isn’t always correct and maybe too simplistic to be applied to contemporary markets. To establish these points there appears evident examples where efforts are taken to acquire information in order to maximise returns, such as in the case of large firms who often carry out very thorough marketing activities and research to find out details about consumer preferences so that they can best cater to meet this demand.

Another problematic issue that is brought into focus is the invalidity of Hayek's contention that within capitalist economies, outcomes eventuate due to the various decisions of numerous independent entities, all of whom act without having deliberate intentions in mind. The logical counter argument against this therefore includes the fact that in reality there are countless situations within markets where there are monopolists who have a dominant position and therefore can set wages or the price of a product, however they like.

The other inconsistency that was highlighted in the paper was the reluctance demonstrated by Hayek in his earlier works to make normative statements relating to what constitutes a good society. This was largely premised on his belief that it is unrealistic to assume that unanimous consensus could be reached as to what defines a society as being socially just. However as analysis of some of Hayek's later works (e.g. 'The Fatal Conceit: The Errors of Socialism') shows, it appears Hayek contradicts his earlier stance by including normative assertions about social welfare. Examples provided include the higher importance Hayek affords to fertile women as opposed to women without children, along with the superior status allocated to Physicians compared to their patients.

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