

Friedrich Hayek on Social Justice: Taking Hayek Seriously ⁽¹⁾

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Abstract: Friedrich Hayek denied that the concept of social justice—a general expression widely used in daily face-to-face conversations and the mass media—had any practical meaning in a modern society. The champion of the market economy claimed that it can be justified only in those societies in which there is a strict order of preference. This was not the case in a capitalist society in which the preferences of the players are totally diversified. Thus, the concept itself is a typical example of what Hayek called the animistic way of thinking and is justifiable only in old tribal societies or in families with a limited number of the members. Using Hayek's *The Road to Serfdom* [1944], *Law, Legislation and Liberty* [1973-79] and his last book, *The Fatal Conceit* [1988], I adopt an economist's perspective to investigate his social political theories with special attention to this concept.

1. Introduction

The Hayekian critique of the concept of “social justice” is well-known not only among Hayek scholars but also those engaged with philosophy and political sciences in general. Many papers have been written both to defend and to attack the Hayekian position on social justice. In this paper I investigate Hayek's critique as it is presented in *The Road to Serfdom* (1944), *Law, Legislation and Liberty* (1973-9) and his last work, *The Fatal Conceit* (1988), and I do so predominantly from the view point of an economist. Although the critique has been principally dealt with by political scientists and philosophers, it is manifestly based, in part, on the economic way of thinking. Thus, it is not only possible but also highly important to understand Hayek's critique within the context of the type of reasoning employed by economists. As the subtitle of this paper indicates, it is also important to follow Hayek's argument closely and seriously, since many of the issues he raised are more complex than they first appear.

This paper can be interpreted as a response to the heated debates relating to the Hayekian critique of social justice in the 1980s and 90s. One of the most fascinating points to arise from the debates in the 1980s, and one that I dwell upon in this paper, is that Hayek himself indirectly allowed for the concept of “social justice” to be relevant in some cases (for the 1980s debates see Macleod [1983a] 1999, Cragg [1983] 1999, Mack [1983] 1999, Macleod [1983b] 1999 and the articles contained in the December 1983 issue of *Canadian Journal of Philosophy*). A. M. Macleod ([1983a] 1999: 556-7), for example, pointed out that it is only when an outcome is the product of uncoordinated marketplace transactions, and hence the unintended result of individual actions, that it is impossible to conclude whether an action is “just” or “unjust”. If, however, there is a situation “where A's having much and B's having little is the “intended or foreseen” result of someone's action”, then it may be concluded that such an action is “just” or “unjust” “without breach of Hayek's own criterion”. This same argument was emphasized in the debates that took place in the 1990s,

which were independent of the above-mentioned discussions in 1980s and were caught in the papers published in *Critical Review* in 1997 and 1998. Johnston (1997a), for example, criticized Hayek's disapproval of social justice along the same lines as Macleod:

Similarly, Hayek's assumption that in a market economy the distribution of wealth is neither deliberately brought about nor foreseen by anyone is misleading. It is true that in a market economy the detailed, person-by-person distribution of wealth is neither deliberately brought about nor foreseen by anyone. However, legislators, central bankers, other public officials, and other unofficial observers can usually predict the actions with reasonable, though not perfect, accuracy, and often officials are in a position to bring about such consequences.

[Johnston 1997a, 333]

It cannot be argued that the results of the decision making are not foreseen in a modern capitalist economy in which *laissez faire* policies are not always followed and government policies do indeed sometimes shape outcomes in the way that they were intended. There are, in short, situations in which Hayek's critique of social justice must be put to one side.

I present two key arguments in this paper. First, the Hayekian critique of social justice is only partially justified, since, as indicated in the debates from the 1980s and 1990s, there are some important situations in which his critique cannot be applied. Second, there are subtle differences between the arguments put forward by Hayek in *The Road to Serfdom*, *Law, Legislation and Liberty* and *The Fatal Conceit*, and, further, some of the points advanced by Hayek in his later work cannot be justified by his own arguments in his early works. These two arguments are developed in four sections that basically correspond to the chronological order of Hayek's works. In section two I examine the arguments relating to the concept of social justice that Hayek presented in *The Road to Serfdom*. In section three I deal with Hayek's extended critique of this concept in the second volume of *Law, Legislation and Liberty*. In section four I turn to Hayek's last work, *The Fatal Conceit*, a problematic book that requires a detailed analysis of a range of issues, including the problem of authorship. In the concluding section, I give an overall estimation of his critique, including some critical comments against Hayek himself.

2. The Road to Serfdom

Hayek's *The Road to Serfdom* was published during the Second World War and subsequently became his best selling and best known publication. Although one cannot find a detailed criticism of the "social justice" concept in *The Road to Serfdom*, there are arguments contained in this publication that closely resemble the extended critique he presented more explicitly in his later work.⁽²⁾ Consider, for example, the following remark:

The "social good" or "common purpose" for which society is to be organized is usually vaguely described as the "common good," the "general welfare," or the "general interest." It does not need much reflection to see that these terms have no sufficiently definite meaning to determine a

particular course of action. [1944: 100-1]

This statement, which may be interpreted as the starting-point for his extended and sustained critique of “social justice” in the post-war period, was justified in the following fashion. First Hayek argued that:

It cannot be adequately expressed as single end, but only as a hierarchy of ends, a comprehensive scale of values in which every need of every person is given its place. [1944: 101]

If I understand this argument correctly, Hayek’s logic is as follows. Assuming that there are two persons (A and B) and two goods or services (1 and 2) in a society, then it is possible that A’s preference set is such that 1 is better than 2, and B’s preference set is such that 2 is better than 1. This means, in turn, that it may be impossible to construct well-defined social utility functions.

Hayek then argued that although the compatibility of the preferences of A and B for 1 and 2 was likely in primitive societies due to moral and social codes that bind such societies together, this was less likely in modern societies. In Hayek’s words:

It may merely be pointed out that up to the present the growth of civilization has been accompanied by a steady diminution of the sphere in which individual actions are bound by fixed rules. The rules of which our common moral code consists have progressively become fewer and more general in character. From the primitive man, who was limited by innumerable taboos, and who could scarcely conceive of doing things in a way different from his fellows, morals have more and more tended to become merely limits circumscribing the sphere within which the individual could behave as he liked. The adoption of a common ethical code comprehensive enough to determine a unitary economic plan would mean a complete reversal of this tendency. [1944: 101]

In other words, either by strong coercion from above or by implicit taboos, it is likely that all the members of a primitive society have the same preference ordering. One can imagine, for instance, both A and B preferring to look at religious pictures rather than pornographic photos. Hayek’s modern society, by contrast, is very nearly defined as a place where everyone has likes and dislikes that are totally different from those of other members of the society. Thus, in the advanced society it would be extremely difficult to expect the similarity of preferences among the different players, leading to the impossibility of a well-defined social utility function.

Hayek next proceeded to show that it is impossible for a single mind to know the various preferences of the members. This is a practical problem when constructing a social utility function, and is quite distinct of the existence problem of the function described above. Again in Hayek’s own words:

It would be impossible for any mind to comprehend the infinite variety of different needs of different people which compete for the available resources and to attach a definite weight to each. For our problem it is of minor importance whether the ends for which any person cares comprehend only

his own individual needs, or whether they include the needs of his closer or even those of his more distant fellows – that is, whether he is egoistic or altruistic in the ordinary senses of these words. The point which is so important is the basic fact that it is impossible for any man to survey more than a limited field, to be aware of the urgency of more than a limited number of needs. Whether his interests center round his own physical needs, or whether he takes a warm interest in the welfare of every human being he knows, the ends about which he can be concerned will always be only an infinitesimal fraction of the needs of all men. (1944: RS: 102]

The critique is based on the idea often repeated in Hayek's works that men's knowledge is fundamentally local; that nobody knows his or her fellow's preferences in detail. In small tribal societies it would perhaps be possible for the administrator to know the needs of the members of his community, and hence it is perhaps possible for him to distribute the goods according these needs. This is not the case in big open societies of the modern age. In these societies it is more likely that no individual knows what his or her neighbors are doing, and completely unthinkable that he or she is well informed of his neighbors' preferences. Although the concept of "social justice" cannot be found explicitly in the above quotations, the implications of Hayek's arguments for this concept are clear enough.

Slightly different arguments that are relevant to the Hayek's later critique of the "social justice" concept may also be found in chapter eight of *The Road to Serfdom*, where he considers concepts such as "just price" and "fair wage". Take, for example, the following passage:

Have we not all some idea of what is a "just price" or a "fair wage"? Can we not rely on the strong sense of fairness of the people? And even if we do not now agree fully on what is just or fair in a particular case, would popular ideas not soon consolidate into more definite standards if people were given opportunity to see their ideals realized? Unfortunately, there is little ground for such hopes. [1944: 140]

Hayek concluded in this negative fashion because what individuals invariably mean by a "just price" or a "fair wage" is either the "customary price or wage, the return which past experience has made people expect" or the "price or wage that would exist if there were no monopolistic exploitation" [1944: 141]. If, for example, a worker's is reduced below a rate that has existed for ten years, he or she would invariably be sufficiently distressed to cry that this is not just, even though there is not necessarily anything just about the historic or customary wage. Furthermore, a stationary state of the economy that gives rise to customary wages is fully incompatible with the dynamics of the capitalist society, and, while the fluctuating wages in the later type of society are by no means always just, they do provide for social improvements and do not need to be the product of "monopolistic exploitation". In Hayek's words:

In any system which for the distribution of men between the different trades and occupations relies on their own choice it is necessary that the remuneration of society, even if this should stand in no relation to subjective merit. Although the results achieved will often be commensurate with efforts and intentions, this cannot always be true in any form of society. It will

particularly not be true in the many instances where the usefulness of some trade or special skill is changed by circumstances which could not be foreseen. We all know the tragic plight of the highly trained man whose hard-learned skill has suddenly lost its value because of some invention which greatly benefits the rest of society. The history of the last hundred years is full of instance of this kind, some of them affecting hundreds of thousands of people at a time. [1944: 149]

Hayek therefore readily admitted that although wages roughly correspond to the efforts of each worker, this is not always so. Workers are at the mercy of the fluctuating market and, in the face of a sudden change in demand, may easily be thrown out of a market in which they have developed considerable skills over many years and with considerable sacrifice. Hayek returned to the relationship between remuneration and efforts in a more thematic and systematic fashion in his later writings, and, for this reason, I will return to this point later in the paper.

3. Law, Legislation and Liberty: The Mirage of Social Justice

After the Second World War, Hayek published two *grandes oeuvres* that are extremely important for the development of his post-war intellectual vision. One is *Constitution of Liberty*, published in 1960, and the other is *Law, Legislation and Liberty*, published in three volumes from 1973 to 1979. The second volume of *Law, Legislation and Liberty* addresses the concept of “social justice” explicitly, as can be seen from the subtitle of this volume: *The Mirage of Social Justice*. It is for this reason that we dwell upon this second volume in this section.

Hayek begins by contending that the concept of “social justice” is deeply rooted in the primitive way of looking at natural as well as social phenomena:

“Social” justice (or sometimes “economic” justice) came to be regarded as an attribute which the “actions” of society, or the “treatment” of individuals and groups by society, ought to possess. As primitive thinking usually does when first noticing some regular processes, the results of the spontaneous ordering of the market were interpreted as if some thinking being deliberately directed them, or as if the particular benefits or harm different persons derived from them were determined by deliberate acts of will, and could therefore be guided by moral rules. This conception of “social” justice is thus a direct consequence of that anthropomorphism or personification by which naive thinking tries to account for all self-ordering processes. [1976: 62-3]

Compared with his critique in *The Road to Serfdom*, the argument contained in this passage is indeed a new starting point from which to explore the problem of “social justice”. Hayek here deploys terms such as “anthropomorphism” and “personification” to describe an old-fashioned method of understanding society in which spontaneous and unintended market outcomes are incorrectly attributed to deliberate acts of will. To believe that there is someone behind the scene who acts secretly with good or bad intentions is, according to Hayek, the result of a primitive state of mentality. Hayek argued that nobody is responsible for the organization of the society. Indeed, he contended that there are no “actions of society” nor intentional

“treatment of individuals and groups by society”. He continued to emphasize this new line of thought—namely the inadequacy of the “personification” of the society—in his criticisms of “social justice” in his various writings up to and including his last book, *The Fatal Conceit*.

Hayek also claimed that passages which include the adjective “social” possess the common trait of not having any clear meaning. In his words:

Not only “social justice” but also “social democracy”, “social market economy” or the “social state of law” (or rule of law—in German *sozialer Rechtsstaat*) are expressions which, though justice, democracy, the market economy or the *Rechtsstaat* have by themselves perfectly good meaning, the addition of the adjective “social” makes them capable of meaning almost anything one likes. The word has indeed become one of the chief sources of confusion of political discourse and can probably no longer be reclaimed for a useful purpose. [1976: 79-80]

All these examples show that the nouns themselves have clear-cut meanings, whereas by adding the adjective “social”, they become totally ambiguous. The concept of “social justice” is a typical example of such usage. In this relationship it is worth mentioning that Hayek refers to “social market economy”. This terminology originated in the so-called Freiburg School and has been used widely in the arguments of economic policies in West Germany after the Second World War. It is quite often said that Hayek and the members of the Freiburg School share a basic understanding of capitalism and economic policies. The above quote shows that this is not entirely true. See also the following remark in a note to the above passage:

I regret this usage [social market economy...YI] though by means of it some of my friends in Germany (and more recently also in England) have apparently succeeded in making palatable to wider circles the sort of social order for which I am pleading. [1976: 180, n. 26]

It is certain that the members of the Freiburg School are referred to in the quote. Although Hayek attempted not to overestimate the difference between him and the Ordo liberalism, he simply could not accept their usage of phrases such as “social market economy”.

The relationship between efforts and reward, which we have seen in the last section was raised in the *Road to Serfdom*, was also once again considered in *Law, Legislation and Liberty*:

The contention that in a society of free men (as distinct from any compulsory organization) the concept of social justice is strictly empty and meaningless will probably appear as quite unbelievable to most people. Are we not all constantly disquieted by watching how unjustly life treats different people and by seeing the deserving suffer and the unworthy prosper? And do we not all have a sense of fitness, and watch it with satisfaction, when we recognize a reward to be appropriate to efforts or sacrifice? [1976: 68]

In the above quote the crux of the matter is whether there should be a correlation between reward and efforts. This is an old theme for Hayek. Most of us are, of course, offended to see millionaires effortlessly make money and others fired by their bosses even if they tried everything to make the products worthwhile. Hayek believed that this need for a correlation between effort and reward—this “sense of fitness”—was the product of Calvinist teaching. Indeed, his explanation is reminiscent of Max Weber’s famous thesis:

It is unquestionably true that, particularly among those who were very successful in the market order, a belief in a much stronger moral justification of individual success developed, and that, long after the basic principles of such an order had been fully elaborated and approved by catholic moral philosophers, it had in the Anglo-Saxon world received strong support from Calvinist teaching. It certainly is important in the market order (or free enterprise society, misleadingly called “capitalism”) that the individuals believe that their well-being depends primarily on their own efforts and decisions. Indeed, few circumstances will do more to make a person energetic and efficient than the belief that it depends chiefly on him whether he will reach the goals he has set himself. [1976: 74]

As one can see from this passage, Hayek formulated the relationship between efforts and reward in an extremely subtle way. He did not state that there is a robust correlation between the two variables, and accepted that efforts sometimes have no bearing whatsoever on results. He nonetheless argued that such a belief is required for the sustainability of capitalist society. Without it economic men simply lose the incentive to work, innovate and manage. Indeed, in some ways, this is a rather cynical and dismal image of the market economy. Hayek goes on:

It is therefore a real dilemma to what extent we ought to encourage in the young the belief that when they really try they will succeed, or should rather emphasize that inevitably some unworthy will succeed and some worthy fail... [1976: 74]

True, it is “a real dilemma”. There are two ways open to us: one way is to make young people believe that those who try their best will certainly succeed, without sharing the belief ourselves. The other way is to state in blunt terms that there is no definite relationship between efforts and results. The latter is an honest statement, but can lead to the diminishing working morals. Indeed, it is quite different from the argument in support of the capitalist society that only “by the sweat of your face you will eat bread”.

Although the argument is basically similar to the one that was presented in *The Road to Serfdom*, I am inclined to conclude that Hayek’s vision of capitalism became more ironic and pessimistic as he grew older. He increasingly stressed the arbitrariness of an uncertain world. Still, all would agree that that this *Weltanschauung*, which he shared with the harsher critics of the capitalist society, did not lead Hayek to deny the benefits that ensue from allowing such a society to flourish. His realistic vision of the occasional arbitrary nature of such societies certainly makes Hayek unique among the supporters of the market order.

Apart from the obvious fact that the prices of final goods and services depend on the market condition, does Hayek have any economic theories to explain the price movement? One can answer this question in the affirmative. After criticizing the improper expression “value to society”, Hayek stated:

Incomes earned in the market by different persons will normally not correspond to the relative values of their services to any one person. Although, in so far as any one of a given group of different commodities is consumed by any one person, he or she will buy so much of each that the relative values to them of the last units bought will correspond their relative prices, many pairs of commodities will never be consumed by the same person. The relative price of articles consumed only by men and of articles consumed only by women will not correspond to the relative values of these articles to anybody. [1976: 76]

In general cases where there are more than one person consuming commodities, the prices do not correspond to the utilities derived by any consumer. However, there is a case of one consumer, where the marginal utility of the commodity does correspond to its relative price. Let me explain the situation with simple Marshallian economics: There is only one commodity whose marginal utility varies with the amount of the commodity. If we denote marginal utility and price with MU and p respectively, one has the following situation. Price here can be interpreted as representing a marginal utility of income, which is assumed to be constant. As for the first unit of the commodity, the marginal utility is much bigger than the price, that is $MU(1) > p$. The second unit enjoys still a fair amount of marginal utility, $MU(2)$, which is obviously smaller than $MU(1)$. Also in this case we have $MU(2) > p$. The marginal utility of the third unit just equals the price level, where the consumption stops. We have $MU(3) = p$. This is the case that “the relative values to them of the last units bought” equals to the price. If the amount of the commodity is given, the price depends on its utility. Thus, the price depends completely on the demand side of the market system, allowing no room for the concept for instance “cost price”.

Alternatively, the above explanation applies to the following case in which the marginal utility is now used to denote the utility of additional demanders.

The remunerations which the individuals and groups receive in the market are thus determined by what these services are worth to those who receive them (or, strictly speaking, to the last pressing demand for them which can still be satisfied by the available supply) and not by some fictitious “value to society”. [LLL: 76]

$MU(1)$ is bigger than $MU(2)$, and hence the commodity is more important for the first consumer. For the third consumer, $MU(3)$ is just equals to the price, while for the fourth consumer, $MU(4) < p$, implying that the commodity is too expensive relative to the utility. In this way “the remunerations which the individuals and groups receive” depend on the last consumer who is willing to buy the commodity.

4. Welfare Indicator in *The Fatal Conceit* ⁽³⁾

In *The Fatal Conceit* Hayek explores the basic problems with the way in which thinkers of the left and middle-left use the concept of “social justice”. He does this on three different levels: the concept of “society”, the adjective “social” and the concept of “social justice”. First, Hayek criticizes the animistic way of understanding phenomena as follows:

Just as the naive or untutored mind tends to assume the presence of life wherever it perceives movement, it also tends to assume the activity of mind or spirit wherever it imagines that there is purpose. [1988: 107]

After quoting from Jean Piaget’s *The Child’s Conception of the World*, Hayek continues to refute the childish way of understanding the phenomena.⁽⁴⁾

Animistic connotations cling to many basic words, and particularly to those describing occurrences producing order. Not only “fact” itself but also “to cause”, “coerce”, “distribute”, “prefer”, and “organise”, terms indispensable in the description of impersonal processes, still evoke in many minds the idea of a personal actor. [1988: 107]

Hayek is here essentially repeating the arguments that he presented in *Law, Legislation and Liberty* in 1976. He does little more than provide a more a detailed account of the “personification” of society and delineate more examples of the usage of terms such as “social”.⁽⁵⁾ Indeed, he presented no less than 167 examples of nouns modified by the word “social”. It is of particular interest, in this context, to consider what Hayek said about the “social market economy”:

Though abuse of the word “social is international, it has taken perhaps its most extreme forms in West Germany where the constitution of 1949 employed the expression sozialer Rechtsstaat (social rule of law) and whence the conception of “social market economy” has spread – in a sense which its populariser Ludwig Erhard certainly never intended. (He once assured me in conversation that to him the market economy did not have to be made social but was so already as a result of its origin.) [1988: 117]

Since it was a private conversation between Erhard and Hayek, we do not know exactly what the former means by the word “social market economy” on this occasion. In any case, Hayek tried to emphasize that Erhard did not intend to use it as a justification to intervene in the market economy. He also accepted that Erhard believed that it was not necessary to socialize the market system, since it was already itself a social product. Whether or not Hayek understood Erhard’s argument is of less importance than the fact that he tried to minimize the difference between their respective positions. As we have seen above, there are essential differences between Hayek and the representative members of Ordoliberalism. However for Hayek, for whom the existence and critique of socialist economy was extremely important, it was not a wise strategy to quarrel about the terminology with his friends whose credo he basically shared.

The *Fatal Conceit* does, however, include some new ideas which cannot be found in his earlier works. Based on the idea that the citizens of the population as a whole could determine the appropriateness of a social state, Hayek proposed to consider society in this normative sense. Although he continued to criticize the concept of “social justice”, he designed a normative concept with which one could measure the welfare state of each society. Indeed, this is an important departure from the line of thought that he pursued in his previous works.

Hayek developed this idea by considering different levels of population in different societies. Specifically, in Chapter 8 of *The Fatal Conceit* he drew upon the following well-known phrase taken from Adam Smith: “The most decisive of the prosperity of any country is the increase of the number of its inhabitants” [1988: 120]. This chapter, which is titled “The Extended Order and Population Growth”, begins by explaining why population growth can be the criterion with which one can measure the welfare of each society. Since we all know the fear of overpopulation in under-developed countries, Hayek stated the following in advance:

Even if the extension of the market and the growth of population could be achieved entirely by peaceful means, well-informed and thoughtful people are, nevertheless, increasingly reluctant today to continue to accept the association between population growth and the rise of civilisation. [1988: 121]

Although Thomas Robert Malthus was in many ways a pupil of Smith, he expressed a different opinion on population to Smith in his 1798 essay on population. Hayek took issue with Malthus’s pessimism in this essay:

The modern idea that population growth threatens worldwide pauperisation is simply a mistake. It is largely a consequence of oversimplifying the Malthusian theory of population; Thomas Malthus’s theory made a reasonable first approach to the problem in his own time, but modern conditions make it irrelevant. [1988: 121-2]

The idea that population growth leads to the cultivation of land with diminishing returns, and thereby makes the additional product by the same laborer smaller and smaller, subsequently became part of the Lakatosian hard core of the English Classical School. Hayek, however, pointed out that it was not relevant in the modern world:

This ceases to be true, however, under the changed conditions we have been discussing, wherein labour is not homogeneous but is diversified and specialised. With the intensification of exchange, and improving techniques of communication and transportation, an increase of numbers and density of occupation makes division of labour advantageous, leads to radical diversification, differentiation and specialization, makes it possible to develop new factors of production, and heightens productivity...[1988: 122]

What is at stake here is a further hard-core of the Classical School, namely the hypothesis that labour is a homogeneous commodity. In the time of Malthus and Ricardo, when the labour was basically simple in agricultural as well as in industrial

sectors, this hypothesis was not so far from the truth. However, it ceased to be empirically valid following the rapid industrialization of the economy. Consider Hayek's ultra-optimistic forecast of the industrial society:

When, in such a way, labour ceases to be a homogeneous factor of production, Malthus's conclusions cease to apply. Rather, an increase of population may now, because of further differentiation, make *still further* increases of production possible, and *for indefinite periods* population increase may be both self-accelerating and a pre-requisite for any advance in both material and (because of the individuation made possible) spiritual civilisation. (Hayek's italics) [1988: 122]

Thus, what is really important for Hayek is not the number of the society's members, but the fact that they have different talents and abilities. It is the latter that makes the society more productive. Of course, other things being equal, this kind of specialization goes in hand in hand with the growth of population. In his own words:

It is then, not simply more men, but more different men, which brings an increase in productivity. Men have become powerful because they have become so different: new possibilities of specialization – depending not so much on any increase in individual intelligence but on growing differentiation of individuals – provide the basis for a more successful use of the earth's resources. [1988: 122-3]

Population growth does not lead to greater prosperity if it does not lead to differences in human characters and abilities. Thus, the development of a variety of personalities, as supported by John Stuart Mill in *On Liberty* (1859) and other publications, plays an enormously important role in making a society more productive. Furthermore this description is fully compatible with Hayek's own concept of a free society, a concept which he tried very hard to defend in the face of the rise in the totalitarian state systems.

Different members in a society possess different characters. From an egalitarian point of view, one has to count one individual member no more or no less than others. However, in his last work, Hayek goes so far as to say:

It may be more important to save the life of the doctor, in our example above, than to save the lives of any particular one of his patients: otherwise none might survive. Some lives are evidently more important in that they create or preserve other lives. The good hunter or defender of the community, the fertile mother and perhaps even the wise old man may be more important than most babies and most of the aged. [1988: 132]

In this astonishing quote Hayek mentioned some cases where some lives are, in his understanding, definitely more important than others: doctors, good hunters, defenders of the community, fertile mothers and wise old men. These persons contribute to the survival of the society in some sense. Doctors cure the patients. Without them many patients die in vain. Good hunters get more foods for the community than bad ones. Defenders of the community defend the society from outside enemies. Fertile mothers contribute to the society by bringing more children

into the world. By avoiding possible warfare in the society wise old men make it sustainable in the long run. Although these examples show different ways by which a society may flourish, Hayek has one over-riding argument: societies flourish with population growth if this population growth is accompanied by diversification amongst the population members.

Hayek's argument that some members of a population are more important than others can be criticized in many ways. As already indicated, it is certainly stands at odds with the egalitarian way of thinking. Those more or less involved with egalitarianism are not satisfied with the above understanding of the society. Furthermore, feminists would be furious with Hayek's argument, saying that it is a serious underestimation of the women without babies. Still, it must be remembered that the central point is the size of a population as an indicator of the prosperity of a society. This, however, is no less controversial. It is, for example, arguable whether over-congested societies are better than pastoral ones with lots of surrounding nature. For a detailed critique of this line of thought see Andreas Winterberger (1994) .

5. Concluding Remarks and Some Criticism

In this paper I scrutinized the development of Hayek's views on social justice that are articulated in *The Road to Serfdom, Law, Legislation and Liberty* and *The Fatal Conceit*. As we have seen, some of his arguments depend on economic analysis. When dealing with the problem of the consistency between individual preferences and social preference, he concerns himself with the plausibility of a social welfare function. Furthermore, his economic argument that there is no correlation between wage and efforts depends on the economic theory that the price of the final good can be deduced from the demand side of the market, which is often very volatile.

I conclude by considering some possible problems with Hayek's assessment of the concept of "social justice". First, Hayek's argument does not take into account the marketing activities that are now commonly pursued by big firms. If one produces cars, for example, one needs to know the consumers' preferences—such as their favorite color, size and form of the car—in detail. This kind of information has to be obtained from detailed marketing activities IN ADVANCE. Hayek's statement that there is no correlation between rewards and efforts does not hold, if one considers this kind of activity. A large proportion of the efforts are made in the field of marketing. No one thinks of making hits in products without knowing what the consumers are thinking about. Hayek's argument applies to the world of small artisans working in isolation, but not to the world of modern gigantic corporations.

Second, Hayek's claim that the outcomes in a capitalist economy are invariably the unintentional result of decisions made by many independent players does not always hold. Let us assume that there is only one seller in the market. In this case of monopoly, all the buyers are subject to the seller's intention. If this is a corn market and if the price is high enough to exclude some demanders, it is quite possible that some of them shall die from starvation. Or consider the following example: assume that you are working in a company and it is the only firm where you can work. Then the capitalist can surely be in the position to set the wage at a low level intentionally. Both of them are related to the situation where there are only two persons in the economic scene and that one has the dominant position. If the price and wage are set

as he likes, the result can be said to be “unjust” without being criticized by the author of *The Road to Serfdom*. A possible reaction from Hayek would be that this case is rather limited compared with typical situations that he analyses in his various works. However, I would argue that there are still many cases in which this kind of simple analysis of two-agent model is applicable.

Finally, there is a curious inconsistency between his statements in *The Road to Serfdom* as well as his *Law, Legislation and Liberty*, and *The Fatal Conceit*. Perhaps this is the most important point if one is interested in the development of Hayek’s ideas from the 1940s to the 1980s. This is a puzzle. In the previous works he refrains from making normative statements about which society is best. This is closely related to his critique of “social justice”. As he emphasizes, it is not possible to have a unanimous opinion about socially just society. Everyone has his or her standard of “social justice”. But strangely enough in his 1988 book, Hayek gives us a picture of what a good society looks like. As we have seen, according to Hayekian standard, fertile mothers are more important to the society than mothers without children. This is surely a rather strong normative statement about social welfare. Although he continues to stand against the concept of “social justice”, is it not “somebody’s ideal of justice” ? ⁽⁶⁾

Notes

(1) A previous version of the paper was read at the annual meeting of the European Society for History of Economic Thought in Strasbourg, 5-7, July 2007. My thanks go to the commentator and the participants of the meeting whose responses were invaluable when revising the paper. Conversations with Bruce Caldwell during my stay in Strasbourg also contributed a great deal to reconstruct the paper. Furthermore I am obliged to the referees of the *History of Economics Review* for critical remarks. The usual caveat applies. For quotations in the text and notes following abbreviations are used: RS for *The Road to Serfdom*; LLL for *Law, Legislation and Liberty*; and FC for *The Fatal Conceit*.

(2) Below are some quotes from *The Road to Serfdom* where Hayek explicitly mentions the concept of “social justice”: “Before we can progress with our main problem, an obstacle has yet to be surmounted. A confusion largely responsible for the way in which we are drifting into things which nobody wants must be cleared up. This confusion concerns nothing less than the concept of socialism itself. It may mean, and is often used to describe, merely the ideals of social justice, greater equality, and security, which are the ultimate aims of socialism. ” [1944: 83]. “We must centrally direct economic activity if we want to make the distribution of income conform to current ideas of social justice.” [1944: 84]. Later the concept itself has become a serious object of his studies. We also have opposite concepts like “formal justice and formal equality before the law” and “substantive justice and equality” in the 1944 book. “The conflict between formal justice and formal equality before the law, on the one hand, and the attempts to realize various ideals of substantive justice and equality...” [1944: 117]. Furthermore he uses the expressions like “somebody’s ideal of justice” and “somebody’s ideal of justice”, to make it clear to readers that this kind of sense of justice depends on each member of the society. This renders the concept empty of practical meaning. “But the question remains whether the price we should have to pay for the realization of somebody’s ideal of justice is not bound to be more

discontent and more oppression than was ever caused by the much-abused free play of economic forces.” [1944: 132]. “That a government which undertakes to direct economic activity will have to use its power to realize somebody’s ideal of distributive justice is certain. But how can and how will it use that power? By what principles will it or ought it to be guided?” [1944: 139].

(3) In this paper we do not deal with the highly intriguing problem of the authorship of *The Fatal Conceit*. This requires a very detailed study itself. Here I can only say that it is possible that not all of the drafts were written by Hayek himself. See the following account by Bruce Caldwell: “When Hayek’s own health deteriorating in the 1980s, he asked Bartley for help as editor, and *The Fatal Conceit* probably would not have been published except for Bartley’s assistance. Despite Bartley’s considerable efforts, the book is not one of Hayek’s finest. There are none of the usual footnotes, and parts of the book seem cobbled together from Hayek’s file cards or from bits and pieces of what Hayek had written elsewhere.” [Bruce Caldwell 2004: 317]. And this is not all. Caldwell added the following note to this: “Jeffrey Friedman was Bartley’s assistant in 1986, and, apparently, a few notes that he had written up on Marcuse, Habermas, and Foucault somehow got into the book.” [Bruce Caldwell 2004: 317, n. 33]. Thus, W. W. Bartley III was one of Hayek’s assistants, and Friedman had to assume a part of this demanding work. Certainly, as Jeffrey Friedman says, Hayek nowhere mentions Marcuse, Habermas, and Foucault other than in his 1988 book. See Jeffrey Friedman (1997: 463, n. 9).

(4) A typical example of animism is Shintoism, a native Japanese religion. Shintoism makes a beautiful contrast to western religions in that it believes that every material being has more or less spirit in itself. Whether “untutored” or not, this kind of animism is still deeply embedded in the Japanese way of thinking.

(5) There are countless examples of this usage in social sciences in general and in economics in particular. See the following quote from one of the most famous textbooks written so far on economics: “The economy, after all, is a method for organizing society whose purpose is to serve people both as consumers and as workers.” [Paul Samuelson and William Nordhaus 1998: 255]. Hayek’s reply can be easily imagined. It would be like this: In the strict sense of the term there are no economies in the market system. Furthermore, society does not have any intention to serve people. In fact it does not have any purposes. For Hayek’s critique of Samuelson in a private letter, see Bruce Caldwell (2007: 28-9)

(6) As we know already, this expression is taken from *The Road to Serfdom*. Perhaps this last comment casts again the problem of authorship of the 1988 book.

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