Does Hayek Speak to Asia?

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> There is some justification at least in the taunt that many of the pretending defenders of "free enterprise" are in fact defenders of privileges and advocates of government activity in their favor rather than opponents of all privilege.
>
> **Friedrich A. Hayek, *Individualism and Economic Order***

Friedrich A. Hayek (1899–1992) was a European economist and social philosopher who first came to scholarly prominence for his work on trade cycles and his disagreements with John Maynard Keynes; and who earned wider intellectual notice (if not notoriety) for his polemics warning of the threat to Western civilization posed by modern socialism. His writings in economics in the 1930s were aimed at exposing the flaws and contradictions in socialism as an economic system. His polemic, *The Road to Serfdom,* published in 1944 with a dedication to "the Socialists of All Parties," was an attempt to turn around the thinking of Western policy makers he thought too easily seduced by the claims of central economic planning. His treatise on *The Constitution of Liberty,* published in 1960 with a dedication to "the Unknown Civilization Growing in America," attempted to set out in a systematic way—and defend—the principles of classical liberalism, which he understood as a political philosophy that had evolved with the "progress" of European civilization over the past several hundred years.

Hayek did not travel much in Asia, though he visited Japan and was happy to see his work translated and discussed there; nor did he write anything substantial about

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The Independent Review, v.IV, n.3, Winter 2000, ISSN 1086-1653, Copyright © 1999, pp. 419–429

Asia. There is a passing reference to Confucius in his *Law, Legislation and Liberty,* but little else that might suggest any significant acquaintance with Asian thinkers or Asian philosophy. None of this is to criticize Hayek, although it is remarkable that a public intellectual of his prominence and productivity, who lived half his life in the postcolonial era, should have had so little to say about a world that underwent so profound a transformation after World War II and that was so much the subject of European political debate and policy. Life is short, and time is precious; and Hayek was a man with many fish to fry. Still, one might well ask: Does Hayek have anything to offer Asia?

In one sense, of course, the question is put in too bald and clumsy a way. What, after all, is "Asia"—this region encompassing almost everything east of Istanbul as far as Japan? And why should one even think that a philosopher needs to have written about or visited those who might learn from his work? After all, Newton's laws work as well on either side of the Bosporus; so, surely, should the laws of economics? Yet these self-evident observations notwithstanding, the question should be raised, partly because it is odd that Hayek took so little interest in Asia, but, more important, because we live in circumstances in which many are all too willing to seize on Hayek's European sensibility to deny his relevance or interest outside the Western world. And not entirely without reason: it would be hard to defend the view that Western experts sent out to advise Asian rulers on how to "modernize" their societies have done less harm than good. It is surely wise to be skeptical of the advice of people who are ignorant of one's history, traditions, and circumstances.

Yet Hayek does have something to offer. For there is a great deal to be learned from his thought by anyone interested in the problems confronting societies such as Malaysia, Singapore, India, Sri Lanka, and Indonesia.

The first thought this declaration might bring to mind is that Hayek offers something to Asia because his message is that freedom and prosperity are the products of free markets. Hayek, the excoriator of socialism, offers, above all, an explanation of why the capitalist road is the path that, though typically less traveled, will make all the difference. And undoubtedly, this idea is important. But many economists have espoused it, and there is no reason to turn to Hayek in particular for its explication. If he is worth listening to, it is because he has a more profound and subtle message to present—one that should make us wary of simple answers, whether they come from social planners or advocates of laissez-faire economic policy. Indeed, from the very outset of his career as an economist, Hayek maintained that the thinkers in the classical tradition erred in allowing "the impression to gain ground that *laissez-faire* was their ultimate and only conclusion," and he insisted that to "remedy this deficiency must be one of the main tasks of the future" (Hayek 1933, 134). In the paper that opened discussion at the first meeting of the Mont Pelerin Society in 1947, he pointedly observed that we must "above all beware of the error that the formulas 'private

property' and 'freedom of contract' solve our problems. They are not adequate answers because their meaning is ambiguous" (Hayek 1948a, 113).

But enough about what Hayek does not tell us. The question remains, What does he have to offer? Before trying to answer the question in a systematic way, it is worth noting the leading problems and concerns of most modern Asian societies. Two problems seem to be preeminent: how to achieve greater material prosperity, and how at the same time to secure sufficient political stability. The concern shared by many Asian societies is that economic progress is difficult to achieve without sacrificing their culture, traditions, values, and ways of life. If modernization means being remade in the image of the West, then, for many, the price is too high.

What Hayek has to offer those with such concerns is not a solution or a blueprint for reform or a list of *do*s and *don't*s. What he has to offer is a way of thinking, an insight into how we should look at the world if we are properly to deal with the concerns of modern societies, including modern Asian societies. The key to the Hayekian worldview is a conviction about the limitations of human reason: by and large, individuals are ignorant and incapable of shaping or controlling their environment with sufficient assurance as to control their destiny. On the face of it, this proposition seems obvious enough. But Hayek's concern throughout his work is to draw out its implications. To do so, he elaborates not so much a theory of human fallibility (though that is a part of his story) as an account of the nature of human knowledge and the processes by which it is acquired and utilized.

The Use of Knowledge in Society

Hayek's first attempt systematically to elaborate the theory that was to become the foundation of his social philosophy was in his essay "The Use of Knowledge in Society" (1948b). There he posed the question, What is the problem we wish to solve when we try to construct a rational economic order? The way we are most tempted to answer, he observed, is to say that if we possess all the relevant information, if we can start from a given system of preferences, and if we have complete knowledge of available means, the problem is in principle soluble. The trouble is, Hayek argued, the problem described in this way is *not* the economic problem society faces.

The problem described is not the real one, Hayek insisted, because the "data" on the basis of which we might start to determine how to allocate goods or resources are "never for the whole society 'given' to a single mind which could work out the implications *and can never be so given*" (Hayek 1948b, 77, emphasis added). "The peculiar character of the problem of a rational economic order," he goes on to say, "is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess" (77). Some of the knowledge we possess in society is undoubtedly in the form

of "scientific" knowledge, and when dealing with that, we may do well to assume that "a body of suitably chosen experts may be in the best position to command all the best knowledge available." But the trouble is, Hayek explains, "scientific knowledge is not the sum of all knowledge." Indeed, the most important knowledge in society is "unorganized knowledge"—"knowledge of the particular circumstances of time and place." And this is not the exclusive possession of the expert but the property of many persons. With respect to this form of knowledge, "practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active co-operation." The most important form of knowledge in society is not expert knowledge but practical, local knowledge—"knowledge of people, of local conditions, and of special circumstances" (80).

Now, in some ways these observations are all too obvious. As Hayek points out, we need only consider how much we learn in any job after we have completed our "theoretical" training, or how big a part of our working life is spent learning particular jobs, to realize that much of our most useful knowledge is acquired in situ. And obviously much of our knowledge is fleeting—the kind that cannot be conveyed to any authority in statistical form.

> The shipper who earns his living from using otherwise empty or half-filled journeys of stamp-steamers, or the estate agent whose whole knowledge is almost exclusively one of temporary opportunities, or the *arbitrageur* who gains from local differences of commodity prices—are all performing eminently useful functions based on special knowledge of circumstances of the fleeting moment not known to others. (80)

Yet it is the significance of the obvious, not the obviousness itself, on which Hayek focuses. The significance of these obvious assertions about the nature of much of our knowledge is that they tell us something about what we can and cannot do, and therefore about what kinds of institutions are desirable and feasible in a well-ordered society. The first lesson to be drawn is that there is a limit to how much can be achieved by social planners who wish to shape society or to reconstruct it in accordance with some particular design. The reality is that too much of social life takes place beyond the horizons of planners and designers. Economic planners, to the extent that they attempt to do their jobs, will always have to find some way to let a good many decisions be taken by the "man on the spot." This is the lesson that Hayek the economist sought explicitly to present. It is the core of his teaching in all his works explaining why socialism—economic production and distribution without markets and market-determined money prices—was destined to fail; for socialism could not make adequate use of most of the knowledge needed for economic coordination.

But a deeper lesson may be drawn, which points to more important reasons why Hayek has something significant to offer. The dispersed or scattered, local, and practical nature of our knowledge, in Hayek's understanding, pertains not only to our knowledge of opportunities or resources or possibilities but to most kinds of knowledge we have. It is a feature of our knowledge of one another, of human behavior, of our beliefs, and even of our preferences. What Hayek wanted to resist was a model of economic thinking—and of thinking about society—that assumed the existence of unchanging economic agents with established preferences for whom the economic problem was how get what they wanted. In reality, the limits of human knowledge are also limits of self-knowledge or self-understanding. Individuals do not have perfect knowledge of themselves, nor of their desires and preferences. People are constantly trying to find out not only how to get what they want but also what they do in fact want. What they learn on this score comes from practical attempts to satisfy themselves, and it invariably depends on local circumstances that teach different people different things about what is good, desirable, or worthwhile.

Hayek is known, if for nothing else, for his defense of the free market. And certainly, much of what he wrote had to do with the coordinating powers of markets and their capacity to generate wealth. But the more important side of Hayek's thought emphasizes not economic growth or economic development but what we might call human development. The free market—or, better, the free society—is important not because it brings about higher GDPs but because it allows people to find out what they value. Competition, Hayek argued, is a "discovery procedure." But what is discovered in that process is not only how goods could be produced most economically but also what goods are actually desirable. Hayek insisted that the well-ordered society is one in which social institutions recognize not only that economic production cannot be directed by social planners, but also that society's values cannot be centrally planned. No science can settle the question of what is worthwhile.

Free Economies and Free Civilizations

Now, of what use or interest is all this to modern Asian societies? After all, what they surely need, according to their own political elites and according to many of their Western advisors, is economic development. Some think that the way to secure it is to follow the prescriptions of the International Monetary Fund, whereas others, such as Dr. Mahathir, think a judicious mix of market incentives and pragmatic intervention is a better bet. But they agree on the objective, and that objective is surely desirable. What purpose do Hayek's ideas serve here?

Hayek can offer a more radical perspective on many of the questions at issue. In the perspective of Hayek's thought, the most important issues are not economic ones. We should not concern ourselves with the problem of building economies or achieving economic targets, even if such matters are significant. Hayek always took the view

that economics is not what matters, ultimately. "Economic considerations are merely those by which we reconcile and adjust our different purposes, none of which, in the last resort, are economic" (Hayek [1960] 1976, 35).

Once again, although this may seem a self-evident point, it leads to a more substantial one. Hayek's objective, in the end, was not to defend the market or the economy but to defend freedom. Here two things need explaining: what kind of freedom, and why? On the first score, Hayek made clear in *The Constitution of Liberty* that it would be a mistake to confine freedom to the intellectual sphere, important though it may be to preserve freedom of speech.

> Though the conscious manipulation of abstract thought, once it has been set in train, has in some measure a life of its own, it would not long continue and develop without the constant challenges that arise from the ability of people to act in a new manner, to try new ways of doing things, and to alter the whole structure of civilization in adaptation to change. (32)

Moreover, freedom's importance does not depend on the elevated character of the activities it makes possible. "Freedom of action, even in humble things, is as important as freedom of thought" (32).

Why is freedom important? Hayek's answer is not that free markets are more likely to produce prosperity, although he would undoubtedly agree that they are, but that freedom is essential if human civilization is to prevail. For Hayek, civilization is not something produced by markets or economic success, but rather something that exists when human beings are able to use their own knowledge to pursue their own purposes, whether severally or alone. It is intimately tied to progress but, again, not progress in the sense of economic growth or development but in the (somewhat vaguer) sense of human development. It is tied to the development of human reason and human creative powers. But civilization is not an end-state or a goal toward which we much strive and at which we can arrive. Civilization is a condition in which human beings act, or struggle, to adapt to constantly changing circumstances, learning to solve the problems that changes bring. It is a state of constant movement. "Civilization is progress and progress is civilization," Hayek tells us ([1960] 1976, 39). And progress is not movement toward a predetermined end-state. "Progress is movement for movement's sake" (41).

In the Hayekian worldview, there is no point in thinking about the progress of civilization in terms of some future in which our aims will have been attained. Civilization is a condition in which we constantly strive to adjust to new circumstances but in which everything is subject to more or less unpredictable change. Our wishes and aims are themselves subject to change, in large measure through the processes of adaptation. In these circumstances the only thing Hayek counsels against is the temptation to seek to control the process or to direct it toward particular ends. To do so

would threaten to undermine the capacity of people to do what they have to do: adapt to the circumstances in which they find themselves, using what knowledge they have to pursue their various purposes.

In reality, of course, human beings act in this way all the time, but not so much because they constantly seek to organize themselves to pursue particular shared ends. Organization is an important and necessary tool. But people sometimes act in ways that Hayek finds troubling: by creating "exclusive, privileged, monopolistic organization[s]" that are often used to prevent others from trying to do better ([1960] 1976, 37). At their worst, people try to take control of societies on a large scale, to direct them toward particular ends, even if the population must be reconstructed in the process. From time to time, Hayek suggests, human beings will come to recognize their folly and will abandon such ambitions to control social processes. But, he notes pessimistically, from time to time they will also come to believe they can control social development, and the attempt to do so "may well prove a hurdle which man will repeatedly reach, only to be thrown back into barbarism" (Hayek 1952, 163). The task of the social philosopher is to point out this consequence, and to try to avert, or at least to delay, the onset of folly.

Hayek is a profoundly anti-utopian thinker. What he offers is not a promise of a glorious future state but a warning against excessive expectations. His philosophy of classical liberalism offers a theory of economic and political institutions that describes not an ideal society but the conditions necessary for something more modest: the continuation of a secure everyday life.

Hayek's Message for Asia

Even though he did not explicitly tailor his thinking to Asia, Hayek has a great deal to offer modern Asian societies. His European concerns notwithstanding, he was above all an internationalist. The conception of a liberal social order expounded in his political theory is a conception of the "great society"—an "extended order of human cooperation" that pays no special heed to national boundaries. Hayek's concerns and prescriptions are in no sense culture-bound.

The core of Hayek's social thought contains an idea that not only makes sense; it should also be congenial to many modern societies (though not necessarily to their rulers). This is the idea that the good society is not one shaped or designed by elites but rather one in which social life is the product of local knowledge—knowledge that encompasses not only techniques and opportunities but also customs and values. What Hayek tried to teach, above all, is that a good society will not suppress the local understanding of things but will allow it the scope to enable ordinary people to adjust to their circumstances. The "synoptic vision" beloved of elites is the great danger.

If anything has proven uniquely harmful to developing societies, it has been the ambitions and schemes of modernizers: schemes for the national organization of

agriculture or industry or even (more recently) culture. During the twentieth century in particular, populations suffered from innumerable utopian schemes—from the Great Leap Forward in China to compulsory *ujamaa* villages in Tanzania—schemes that at their worst brought death and misery to millions. Hayek offers an explanation of why such ventures have been undertaken in the past, why they always pose a threat to civilization, and what shape social and political institutions will have to take if other such schemes are to be avoided.

The Hayekian perspective on the perils of modern, state-led development has been explored with particular thoroughness by James Scott. In *Seeing Like a State,* Scott analyzes the numerous failures of large-scale authoritarian plans and concludes that they failed because the planners' visions could not comprehend the complex interdependencies that existed in local communities and therefore the systems of relations that made those societies work. Planners had assumed that scientific knowledge—the hard, statistical knowledge available to those with the synoptic view—would bring order (and prosperity) to what appeared from afar to be a messy, disorganized, and inefficient local life. Yet what was disorder to the planner ignorant of the purposes of those living in actual communities was far from that to the members of the communities. And the cost of attempts to bring order through schemes of national development often made for worse lives for those who bore the consequences. Indigenous people forced to move to make way for forest industries, farmers forced to make way for large-scale plantations, or villagers forced to relocate in the name of rural development are some examples of the casualties of such schemes.

Even when the costs of such schemes in human terms have not been as horrendous as they were in cases such as the Great Leap Forward, the benefits have been doubtful. For example, since colonial times there has been a distinct preference for plantation agriculture over smallholder production, even though, for most crops (except sugar cane) smallholders outcompeted larger enterprises. Small producers, with low fixed costs and access to family labor, consistently undersold state-managed and large private-sector plantations. In these circumstances, it was no advantage in Malaya persistently to favor rubber estates. Yet to preserve the uneconomic rubber estates, smallholder production was limited. The beneficiaries in this instance were colonial and metropolitan investors. But the more important reason for such policies was that the preservation of large estates better served the purpose of the state: to monitor and tax. Large producers were easier targets of tax collection than small growers, "who were here today and gone tomorrow and whose land holdings, production and profits were illegible to the state" (Scott 1998, 189). The consequences of the Malayan policy included not only lower production but the destruction of the livelihoods of many small producers, people who were not allowed to make use of their own local knowledge for their own particular purposes. Small producers saw their incomes eroded. The gainers were the government and its favorites.

Hayek's thought offers not only an account of why this kind of social organization is likely to lower productivity but also why it is bad for society and people more generally. Forms of social organization that make such schemes the norm sustain regimes of privilege, not regimes sensitive to the lives of ordinary people.

An obvious objection that might be made is that the Hayekian philosophy, in spite of Hayek's claims to the contrary, presents essentially a conservative view of the world, and a Western conservative view at that. It fails to recognize that in today's world the developing countries and *all* their members have to catch up if they are to enjoy any sort of prosperity. Development programs, and modernization generally, may force unwelcome change on people, but this is necessary. Western intellectuals might think romantically about the lives of the Orang Asli of Malaysia and think it wrong to force them to assimilate into the wider society, but that conservative attitude will not help them live healthier and longer lives than they do now.

Yet it would be a mistake to think that Hayek's stance is a conservative one, resistant to change—and not simply because Hayek stated explicitly that he was not a conservative.[1] It is rather because the whole thrust of Hayek's social theory is to say how important it is to make change possible. Hayek's argument against central planning and grand, state-led development schemes is not that they promote change but that ultimately they are too resistant to it. The structures that are least responsive to demands for change are the large, rigid creations of central planners with no knowledge of local conditions. Hayek's "man on the spot" is the most likely person to make changes, because his plans—perhaps his very livelihood—depend on his capacity to adjust to changing conditions. In a free society, local actors and communities constantly make changes as they adapt to the changing environment. Over time and over large areas, the cumulative effect of those small changes may well bring about more profound social transformations. That is neither something to be celebrated nor a cause for dismay. It is simply the way of the world. But when large-scale change develops from the bottom up, those whose lives are at stake have the opportunity to adjust, to keep their lives intact and, perhaps, even to improve them. Hayek's argument is a brief for individual freedom. The institutions that best uphold such freedom are, above all, those that make for the rule of law, that limit the capacity of any agency, most notably government, to try to shape society in arbitrary and unaccountable ways.

Another criticism that might be leveled against Hayek and others who espouse the principles of classical liberalism is that their arguments presuppose that Asian societies ought uncritically to adopt the Western model of politics (and of economic development). Yet Western capitalism may not be suitable for the very different societies

1. The postscript of *The Constitution of Liberty* is titled "Why I Am Not a Conservative."

of the east. Indeed, if local knowledge and traditions are important, surely Asian societies should find their own ways, developing their own models of capitalist development. This view has been advanced not only by various Asian leaders, from Dr. Mahathir to Lee Kuan Yew, but also by philosophers such as John Gray (1999).

Despite their claims to be defending Asian values or the rights of Asian societies to develop their own models, however, these politicians and their intellectual defenders really have very little appreciation of the importance of the local. Although they might assert an allegiance to regional cultural traditions and mores, in reality they are simply Western "high-modernists." Authoritarian control is asserted in the name of Asian values. But a genuine respect for such values would be better shown by recognizing that values are diverse and local. Asian peoples have different cultural beliefs and traditions. Moreover, a respect for them would require the maintenance of a regime in which the conflicts and disagreements among constituent groups could be voiced, so that differences could be considered and compromises and changes made by people responding to their changed circumstances. In fact, what passes for Asian values is little more than a set of assertions tied to a manufactured national sentiment, an armory of weapons of social control wielded by elites seeking to silence dissenters and critics.

A more genuine commitment to Asian values would be readily found in a Hayekian regime, in which social institutions upheld the freedom of Asians to use their knowledge to pursue their own purposes and to shape or live by their traditions as they understand them. Indeed, if Hayek has anything to teach, it is that such societal openness is more important than many advocates of Asian values or Asian development have realized.

Conclusion

It would not do to exaggerate Hayek's Asian sensibilities. Hayek was, inescapably, a European philosopher. But he was a European who was extraordinarily critical of the European ideas that dominated the century in which he lived: ideas of socialism and of the state as national planner. He was a critic of the scientistic attitude, which presumes that the most important form of knowledge is theoretical knowledge. If Hayek has something important to say to Asian societies, it is that they should not be too easily seduced by the West—certainly not by the Western ideas that have proved least hospitable to the cause of freedom and individual well-being.

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Acknowledgment: A previous version of this article was delivered at a meeting of the Mont Pelerin Society in Bali, Indonesia, in July 1999 and published in the winter 1999 issue of *Policy*, a publication of the Centre for Independent Studies (Web site http://www.cis.org.au).

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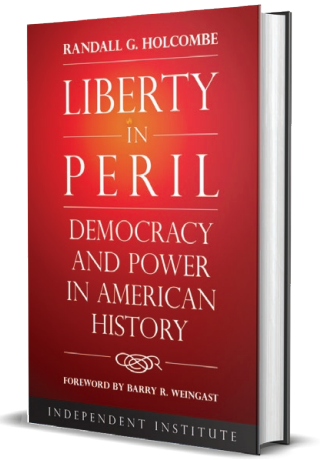

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