

## **AN EVALUATION ON THE EPISTEMOLOGY OF HAYEK AND ITS POLITICAL IMPLICATIONS\***

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### **ABSTRACT**

Although not an anti-rationalist, Hayek established his discourse against constructivist rationalism. He distinguished between two kinds of rationalism: evolutionary rationalism and constructive rationalism. Hayekian epistemology emphasised the interest in evolutionary rationalism by criticizing the constructive rationalism. Evolutionary rationalism (or British tradition) is based on the interpretation of traditions and institutions that have spontaneously developed. Meanwhile, constructive rationalism, which emerged in France, is known as French tradition. Constructivist rationalism has aimed at constructing a utopia according to some assumptions about the unlimited powers of human reason. Hayek's economic and political thoughts are part of or a prolongation of this epistemology. In parallel with this epistemology, the political structure proposed by Hayek is a limited state and the restriction of any power.

We aim to explain the relationship between Hayek's important key concepts—namely, anti-constructivism and spontaneous order. Hayek's main thesis is that even a small intervention in spontaneous order, such as free market or great society through planning (or anything else), might lead to the destruction of freedom. In addition, Hayek established his theory against a welfare state containing the concept of planning. His emphasis has been reflected as a defence of the free market concept and the critics of planning or interfering in the state. According to Hayek, political power or the state behaves according to the rules.

Keywords: Constructivist Rationalism, Evolutionary Rationalism, Spontaneous Order, Planned Economy.

## **HAYEK'İN EPİSTEMOLOJİSİ VE POLİTİK SONUÇLARI ÜZERİNE BİR DEĞERLENDİRME**

### **ÖZET**

Hayek, söylemini kurucu rasyonalizme karşı oluşturmuştur. Ama Hayek, bir anti-rasyonalist değildir. Hayekçi epistemoloji, kurucu rasyonalizmi eleştirerek evrimci rasyonalizme ilgi duymaktadır. Hayek, evrimci rasyonalizm ve yapılandırmacı rasyonalizm

olmak üzere iki tür rasyonalizmden söz etmektedir. Evrimci rasyonalizm, kendiliğinden gelişen kurumların ve geleneklerin yorumlanmasına dayalıdır. Fransa'da oluşan ve Fransız geleneği olarak adlandırılan ikinci tür rasyonalizm ise, evrimci İngiliz geleneğinin aksine, insan aklının sınırsız gücü hakkında bazı varsayımlara göre bir ütopya kurmayı amaçlamaktadır. Hayek'in ekonomik ve politik düşünceleri bu epistemolojinin bir parçası ya da uzantısıdır.

Bu epistemolojiye paralel olarak Hayek'in önerdiği politik yapı, sınırlı devlet, önerdiği ilke gücün sınırlandırılmasıdır. Bu çalışmada, Hayek'in anahtar kavramları olan anti-kuruculuk ve kendiliğinden doğan düzen arasındaki ilişkiyi açıklamayı amaçlamaktayım. Hayek'in temel tezi, piyasa ya da büyük toplum gibi kendiliğinden doğan düzenlere planlama ya da başka bir yolla yapılacak en küçük müdahalenin bile özgürlükleri yıkacağıdır. Bu nedenle Hayek teorisini, planlama içeren sosyal refah devleti anlayışına karşı da oluşturmuştur. Hayek'in vurgusu, serbest piyasa savunusunu ve devlet planlamasının ya da müdahalesinin eleştirisini yansıtmaktadır.

Anahtar kelimeler: Kurucu Rasyonalizm, Evrimci rasyonalizm, Kendiliğinden Doğan Düzen, Planlı Ekonomi.

### **Introduction**

The importance of Hayek's ideas is that his considerations have formed the basis of neo-liberal policies. As a result of this fact, there have been a lot of important changes in economic, social, administrative and legal fields since 1980s. The welfare state has been criticized for its financial and administrative deficiency. The neo-liberal policies have been applied by The New Rightist politicians all over the world after the crisis of welfare State in 1970's. For example, these changes were implemented by Reagan and Thatcher, who aimed to reduce the size of the state. However, international agents such as IMF, World Bank, World Trade Organization have encouraged these policies to implement privatization, localization and deregulation policies. They also have recommended these policies as a prescription for the solution of problems which arise from the crisis in different countries.

We aim to intend to put forward the relation between Hayek's epistemology and his political theory in this present paper. These are some main elements of Hayek's epistemology:

- Criticisms directed by Hayek to State intervention;
- Free market defense and
- His effort to put constraints on political power.

This epistemology has been inherited from the Austrian School of Economics to Hayek.

### **The Epistemology of Hayek**

#### ***Methodological Individualism and Evolutionary Rationalism***

Hayek's epistemology has been effected by Austrian School. One of the main principles governing Austrian School of Economics is the methodological individualism. Methodological individualism set up two critical assumptions (Gamble, 1996: 53):

*All actions are performed by individuals; therefore analysis of social reality must start from individuals, conceived as self sufficient, fixed entities confronting the external world and responding to its opportunities and constraints by making choices and devising strategies. A social collective has no existence and no reality beyond the actions of its individual members. So, it is incorrect to argue as though collectives could have their own will and purpose. Collectives such the government, the company, the union, the nation are all abstractions.*

By adopting of this principle, Hayek assumed that selection of suitable means were individualistic and subjective. In this way, the principle of methodological individualism originated by the Austrian School of Economics has been completed by the subjectivism principle. These are the partiality of the knowledge owned by the individual, the limitation of the reason, the complexity of the social field, the subjectivity of the preferences which make it impossible to create a pre-conceived social order. The social order is by large focus on the evolution of informal institutions that are results of human action but not of human design. This is in line with an influential tradition of thinking represented by Ferguson, A. Smith, Hume and Menger. For Hayek, this tradition named evolutionary rationalism is based on "true individualism" (Hayek, 1997: 111).

Individuals living in a society act in order to achieve their own object making use of their knowledge. And, knowledge which is described as unlimited, dispersed and partialled individually is own by individual. In this way, each individual while being in the pursuit of his / her own purpose, brings about in the same time an "extended social order" or a "cosmos". Cosmos or "the extended social order", which is the reflection of the former, is of the utmost complexity and magnitude that the human wisdom would be unable to govern. We cannot perceive the whole of it with our feelings and limited knowledge, but theoretically we may rely on abstract relations which we may establish a new. The cosmos, as a self-creating or spontaneously order, has no objective, determined, purpose. It is not an order designed by humanity consciously. Within the evolution that lasted thousand and thousand of years, it has come about as a result of discovery process of the humanity and of experiences gathered thereby. And it is directed according to objective rules, which are produced by this process.

Knowledge of social rules paving the way to behaviors inside the society of the individuals is hidden within customs, habits, traditions, usage and rituals, all within the order. The basic function of the reason is to discover and to keep track of such abstract rules. The reason, being itself a product of the same order and a part of it, it cannot alter it as a whole, but may partially achieve some conversion.

Unlike cosmos, organizations, which are simple and are known to have a definite objective to the extent that the reason may perceive them and control, are “planned order” dispersed within the cosmos. Hayek names such orders as “taxis”. Cosmos, in this sense, is formed of a multitude of small and simple organizations, having each own determined objective, alike individuals. However, such organizations may, consciously, be formed, designed and controlled in order to achieve a specific objective (Hayek, 1973: 80).”

The best example of a cosmos may be the market order. Hayek described the market as a catallaxy rather than an economy. The word economy, derived from the Ancient Grek for household, suggests planning and conscious control. The market is not like a spontaneous order, which Hayek calls “catallaxy”. In the market, the system of the price is the signal dispersed among and between millions of individuals whose collection at a center or by an individual would prove beyond means. By means and through such signals, the amount of needed goods and services becomes clear. In this way, the producers are able to meet goods and services which the society express need for, while they ensure their own satisfaction. Prices is the result of competition. Competition, according to Hayek, is a method of discovery. The competition is the best way for self/individual to discover a new product. As mentioned by Sartori, the market does not only produces signals simplified to the utmost, but in the same time, by the feedback it gives, confers confirmation of that knowledge (Sartori, 1996: 104).

Hayek’s freedom concept is a negative freedom concept that grounds upon non-intervention by an outsider power, especially by the State. According to Hayek, the essentials of liberty are four (Gamble, 1996: 41):

*If he is subject only to the same laws as all his fellow citizens, If he is immune from arbitrary confinement and free to choose his work, and if he is able to own and acquire property, no other men or group of men can coerce him to do their bidding.*

The specific field of action is an ambience where the rights of living and of owning property, the freedom of entering into agreement are under security. This freedom concept grounding upon imposition of limitations on the political power requires that preferences, pleasures, goals of individuals should be out of any interference. Status positions of individuals or their situations at the markets are linked to their personal liabilities.

Thereby, the individuals should be held responsible for inequalities that emerged. As understood, the freedom according to Hayek is not a freedom held equal to political participation. At a place where negative freedoms are not available, the freedom of participation has no sense. Democracy, if it is not a liberal one, may easily turn to a regime where the majority exerts coercion and may become a threat to freedom next to such a conversion.

*The first meaning of freedom with which we must contrast our own use of the term is one generally recognized as distinct. It is what is commonly called "political freedom", the participation of man in the choice their government, in the process of legislation, and in the control of administration. It derives from an application of our concept to groups of men as a whole which gives them a sort of collective liberty. But a free people in this sense is not necessarily a people of free; nor need one share in this collective freedom to be free as an individual...The application of the concept of freedom to a collective rather than to individuals is clear when we speak of a people's desire to be free from a foreign yoke and to determine its own fate. In this case we use "freedom" is the sense of absence of coercion of a people as a whole (Hayek, 1960: 13- 14).*

### ***The Critics of Constructivist Rationalism***

Hayek divides rationalism into two by making specific kind or there are two different traditions in the theory of liberty; empirical and unsystematic, the other rationalistic. "The first based on an interpretation of traditions and institutions which had spontaneously advanced and were but imperfectly understood, the second aiming at the construction of a utopia, which has often been tried but never successfully" and the first, Hayek called evolutionary tradition, has formed in England, the second, called rationalistic is French tradition (Hayek,1960: 54). Rationalism, which has been criticized by Hayek, is the type of rationalism that does not accept the reason as partial reason and knowledge. Hayek did not set fully aside the reason, but drew it into its limits because methodological individualism stands for individuals being able to carry out rational preference. The constructivist rationalism assumes that the societal order may be arranged by a reason that stands high and above of and external to it This type of rationalism, which sets forth that the institutions of the civilizations are created by humans and their limits are laid down by human reason, therefore are liable to be changed in line with wishes expressed by reason, relies upon determination principle. Under such circumstances, the reason would not be concerned only with discovery of social rules or with the finding of compatible solutions. According to constructivist rationalism, the function that reason and science take on is to view beforehand the future in line with cause and effect relationships and to shape the society by radical interventions to be brought thereon.

As a result, Hayek criticized the constructivist rationalism on the grounds that it attempted to eliminate the extended order. Owing to improbability of collecting knowledge under a single hand, such an attempt would mean conversion to taxis of cosmos. Due to this fact, the planned economy would lead inescapably to totalitarianism at the periods where the totalitarianism is relative successful, the society would bear a simple, hierarchical, single-centered, coercive feature. Only extremely simplified structures may only be handled from a single center. Owing to this fact, Hayek asserted that the final stage of a cosmos administered by a centralized planning, which is nothing but an extension of the constructivist rationalism would be totalitarianism in the way to serfdom (Hayek, 1999).

In the work *“The Counter Revolution of Science”*, Hayek put forward that the society was a complex phenomenon, which could not be elucidated by using simplified models in use in the physical sciences. Moreover, each and every individual forming that complex structure is an entity whose estimation cannot be made using any verification criteria.

Social sciences were not concerned with relations between things and objects, but rather between things and human beings or between human beings and human beings (Hayek, 1979: 41). Social sciences are concerned also with activities which human beings conduct and the object of coping with social sciences is to make clear undesired and non-intended results arising from activities thus conducted. For Hayek, If the methods used by the constructivist rationalism, for example scientism, were implemented by any authority, social and political life would be encircled by totalitarianism. In the other words, cosmos will replace into taxis. Scientism grounded upon acceptance of the fact that principles attained by science were universal and absolutely valid and such principles should govern all and any field of the living. This means that a small minority, acting on the basis of an assertion that they have attained the reality, would interfere into the subjective preferences of the millions of human beings acting according to societal values such as customs, habits, traditions, rituals and ways of living and to knowledge they have acquired (Hayek, 1963: 12-13; Lesnoff, 1999: 156-158; Popper, 1995: 55).

### **The Political Results of Hayek’s Epistemology**

Hayek was against any interference in “spontaneously order” like the market or society. A central purpose of Hayek’s works was to demonstrate that political co-ordination of societies through bureaucracies was inferior to economic co-ordinations through markets. He wanted to minimize the role of politics and government as much as possible. Hayek was not an anarcho-capitalist, he accepted that the state must have a role, but his Austrian perspective

made him pessimistic that the state could ever be organized so as to preserve the features of the social order which he values (Gamble, 1996: 75). According to Hayek, any type of State intervention towards economic way of living done in the name of social justice would pave the way for the society to take the road of serfdom. Hayek, in his book entitled "*The Mirage of Social Justice*" (1976), laid the emphasis upon the function of the word "social" and warned that it should not be underrated in the verification of the "social justice" concept. Social meant having relevance to society, with characteristics bearing on and upon structure and function of the society. Without being present the adjective social, justice was a social phenomenon and the addition of the adjective social is excessive. Hayek declined accepting the use of "social justice" expression in the sense of its being understood as "social norms". Social justice was an understanding which the society was forced to lean over. As the word social has gained an ethical approval with the soul of the time after World War II, It has been attributed to the entire interests of the society. As regards its application, stage by stage this came to the understanding of holding responsible the government from the material status of all members of the society and from the provision of opportunities for these members to acquire what they deserved. In brief, this understanding attained a point where it required to direct societal processes towards specific outcomes and where the society was becoming an object acting in conformity with the ethical principles.

Hayek maintained nothing was respect of collective pressure groups being of any use. The meaning enclosing the words social or societal is also in effect for the word "collective". For instance, while individual egotism directed individual to act as such to ensure protection of the social order, the egotism of a closed group would fall contradictory to the interests of the larger society. One of the reasons of this is the desire put forward for the conversion into a closed group of all members. Another one linked to this would be the desire of protecting interests of the members. That is to say, these groups would use their joint power to obtain a price high and above the price the consumers are ready to pay. For instance, the case is for providers of utilities such as food, electric supply, transportation. While his/her personal interest incites individual to make marginal contribution till the lowest price at which he / she may sell out his / her goods and services, the control exerted by the members to the profession on the whole of goods and services falls at variance with the community interests (Hayek, 1976: 139-150).

Hayek described such government as a game ball of the all interest groups which Hayek qualified as mirage the social justice. However, while criticizing situations that would come to the fore in the realization of the social justice, he came in touch with the impossibility

of designing plans for. In this respect, social applications were the hold of all steps leading to the planning of the whole society. The reason of taking an approach towards a centralized management at a time where the thought of giving to a central authority the handling of all economic activities irritated many a people is linked to the hope that a middle road would be found between pure competition and centralized management. Hayek put forward that the application even in small doses of the planning cannot ensure the benefit expected to accrue there from. In other words, in the planning, competition may in one case be together; this would be by the way of making plans not in order to eliminate competition but rather in order to realize it (Hayek, 1999; 56). The planning which Hayek criticized, was the planning that intended substituting it in the way of becoming an alternative to the competitive system.

According to Hayek, many idealists, while they believed final goals in the first sense of the word, declined understanding by which tools and means such goals would be achieved. Yet, in the philosophy of Hayek, tools and means are of utmost importance which would had direct effect on societal living. As the information was partial, dispersed and located at various points, the central planning board as an constructivist-rationalist entity whose being unsuccessful is inescapable. Because, the planners, would not, in order to determine prices, attained the level of information which local units own, formed as an outcome of mutual, numerous and continuous interactions between individuals and would not thereby be able to adjust their own price according to such information (Gamble, 1997: 28).

Therefore, Hayek nullifies the view that the planning is inescapable owing to complexity of the civilization of our times. On the contrary, due to utmost complexity of the work division, competition is the sole means to ensure coordination (Hayek, 1999: 75).

The unease that Hayek maintained as regards the planning would originate a centralized power and such a power would be arbitrarily and nonchalantly put to use comes to the fore of questions which Hayek considered linked to freedom. The assertion that the concept of planning falls at variance with concepts such as democracy, equality, freedom takes place in the work entitled “The road to serfdom” of Hayek. This book is directed towards showing the evidence that a collectivist system where the method of planning is put to use would lead to totalitarianism.

The state, even if managing a portion of resources, would bring important impacts upon the rest of the economy and all would be placed under control which the state would exert. When a selection was to be made between differing and contradictory goals by the specialist and servant cadre of the state, interests of some groups would be sacrificed and priorities would be granted to social groups the most influential. Therefore, interests at



variance with others would never be compatible. When the state strives to confer priorities between incompatible interests and makes a selection, the principle of impartiality and the principle of governing law would be transgressed. At the moment the question on who will own how much of wealth is left to the discretion of the political authority the principle of equality before justice would be infringed. To the opinion of Hayek, this lead to economic dictatorship. Because to confer all authorizations to a dictator was the best tool by which coercion may be exerted to achieve the plan. In order that economic activities are conducted as desired, it requires to remove freedoms placed under the guarantee of the state. Democracy without freedom may proceed with under totalitarianism or under any guise. The liberal democracy approach of Hayek and his criticism of the participatory democracy is in here seen clear. There is no ground to justify the thought that a power obtained through use of democratic ways cannot be led arbitrarily; the thing that prevents a power from becoming arbitrary is not the source of that power but its limits (1976: 95).

The only way of making the activities conducted by the government subjected to pre-determined rules is the sovereignty of the law. The distinction between the sovereignty of the law and arbitrary administration is in the same time the distinction between “spontaneously order” and “the organizational order”. In the first, the government determines conditions according to which resources would be utilized and leaves their usage to the discretion of the individuals. In the second, it orders use for the realization of specific goals of the production means. That is to say: “cosmos” is converted to “taxis” and universal laws are replaced by organizational rules.

Hayek stood also against seeking connection between economic freedom and political freedom. To the opinion of Hayek, “economic freedom” means” political freedom. Because in the planned administration, it is difficult for the authoritarian order to remain limited with economic problems. Hayek articulated the view that the person that controls the economic living takes from their hands the freedom of selection which the individuals obtained through money they earned. He reckoned faulty to consider economics as a part of the living that ranks second in importance and laid focus on economics with importance ranking the first (Hayek, 1999: 150).

One gets increasingly closer to the end of the road leading to totalitarianism. When economic power is integrated with political power, instead of remaining as separate powers, the managerial class having that power will have at hand all means to control both social activities and social aspirations. The individuals are from now on identified. The demand for “distributive justice” has reached the final point together with many problems. How this

centralized power will be used, what would be the principles to govern such use, how merit will be determined, according to what value criteria hierarchy will be established. The planning is not something specific only to socialism. The same method may be used to serve the interests of an aristocratic dictatorship, or the interests of a selected “body” pertinent to a specific race. He is not partisan of the view that considers separate the fascist regime that prevailed in Germany and Italy and the communist regime of the Soviet Union. According to him, these regimes were nothing but an incidental image of the left and right front always existing in the socialist wing. Fascism and Nazism were not the dictatorship of the privileged classes but the socialism of the middle class whose social status suffered from continuous loss of value (Hayek, 1946: 894).

As seen, at Hayek, each step towards public property leads to despotism. However, when the question came to limit the role the state would play in the economics, it required to have before all a threshold which currently remains unknown. The state having a maximum role to play in the economics brings economics to a halt and furthermore cause destruction to take place therein. On the other edge, there is a minimalist, laissez-faire understanding. Under current conditions, this is empirically not possible (Berger, 1996: 6)

### **Conclusion**

In conclusion, Hayek has established his discourse against constructivist rationalism. But it is understood that Hayek is not an anti-rationalist. Hayekian epistemology emphasised the evolutionary rationalism by criticizing the constructive rationalism. Hayek’s economical and political thoughts are part of this epistemology or prolongation. Hayek says, constructivist rationalists, like Descartes, Hobbes, Rousseau, Comte etc, accepted human reason, human would have human intention as constructive in all human institutions and behaviour. So they believed that societies can be mastered by reason and reconstructed according to rational criteria. For Hayek this is impossible. Because, first of all no individual mind can have all knowledge which are needed for construction of whole society. Secondly, the social science is different from natural science. Hayek believes that the methodology of natural science is objective and the methodology of social science is subjective. Because, the subject of social science is the human with all respects.

Of course, there are a lot of questions about Hayek’s theory: Is the scope of applicability of the theory very narrow? Does Hayek’s Methodological individualism contradict his evolutionary approach? Is Hayek’s concept of following rules naturalistic? Or does his theory ignore the significance of the state power and historical accidents? Can his

theory be falsified? Etc. (Feldmann, 2005: 1-47). We tried explain relation between Hayek's important key concepts. At the first part of this study, constructivism and its methods have been. The subject of second part is methodological individualism and spontaneous order. At the last part, it can be understood that Hayek's main thesis is that even a small intervention in spontaneous order such as free market or great society through planning (or anything else) might lead to destruction of freedom. This thesis has been used in order to justify new right policies after 1980s.

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## END NOTES

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