



**HOW LIBERAL IS NEOLIBERALISM? RETHINKING  
THE CONCEPTIONS OF THE WELFARE STATE,  
LEGISLATIVE ORGANS, SOCIAL JUSTICE, AND  
COMPETITION IN HAYEK'S THOUGHT**

**NEOLİBERALİZM NE KADAR LİBERAL? HAYEK'İN  
REFAH DEVLET, YASAL ORGAN, SOSYAL ADALET  
VE REKABET KAVRAMLARINI YENİDEN DÜŞÜNMEK**

**Selma TOKTAŞ\***

**ABSTRACT**

**With the expansion of US-led economic policy following the economic depression of the 1970s and the proliferation of new information and communication technologies, the 1980s became a crucial period signaling dramatic changes all around the world. By the end of these years, the Keynesian economy, which accredited states as active and interventionist players in the economy in order to ensure both growth and equity, began to break down. In this period economic liberalism gained power again and political and economic theories and practices turned towards neoliberalism. As a result, deregulation, privatization and the withdrawal of the state from many areas were accelerated. All these changes were significant and affected the structure of almost everything, including education, culture, life and trends in thought. Friedrich A. von Hayek was one of the pioneers of this transformation. Therefore, this descriptive study attempts to understand the points where neoliberalism combines with liberalism and how it is separated from liberalism through Hayek's views about the**

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\* Arş. Gör., Ankara Üniversitesi, İletişim Fakültesi, aselma@media.ankara.edu.tr, ORCID ID: <https://orcid.org/0000-0002-0007-7994>.

\* Makale Geliş Tarihi: 29.01.2018  
Makale Kabul Tarihi: 29.08.2018

welfare state, legislative body, social justice, and competition terms. In other words, this study aims to explore the extent to which Hayek's neoliberalism is a continuation or a break from liberalism.

**Keywords:** Hayek, Neoliberalism, Welfare State, Social Justice, Spontaneous Order, Competition.

## ÖZ

Yeni bilgi ve iletişim teknolojilerinin kullanılmaya başlandığı ve 1970'lerde tüm dünyada yaşanan ekonomik krizin ardından ABD'nin yönlendirdiği ekonomi politikalarının yaygınlaştığı 1980'ler bir dönüm noktası haline geldi. Devleti hem büyüme hem de eşitliği sağlamak üzere aktif ve müdahaleci oyuncular olarak gören Keynesyen ekonomi, bu dönemde gücünü kaybetti. Refah devlet modelinin parçalanması sonucu deregülasyon, özelleştirme ve devletin birçok alanda geri çekilmesi tüm dünyada yaygınlaşmaya başladı. Bütün bu önemli değişiklikler neredeyse her şeyi etkiledi. Sadece ekonomik ve politik düzen değil, aynı zamanda ekonomi ve politika değişiklikleri bağlamında eğitim, kültür, yaşam ve düşünce biçimleri gibi birçok alanda da değişimler gündeme geldi. Ekonomik liberalizmin yeniden güç kazandığı ve siyasi ve ekonomik arenada teori ve uygulamaların neoliberalizme döndüğü bu dönemde, neoliberalizmin öncülerinden biri de Friedrich A. von Hayek idi. Neoliberalizmin yaygınlaşmasında etkin bir rol oynamış olmasına rağmen çok fazla tanınan bir düşünür olmamıştır. Dolayısıyla bu çalışma, günümüzde hala etkisi yıkıcı süren neoliberal geleneğin önemli aktörlerinden biri olan Hayek'in refah devlet, yasama organı, sosyal adalet ve rekabet terimleri üzerinden neoliberalizmin temel dinamiklerini ortaya koymayı çalışmaktadır.

**Anahtar Kelimeler:** Hayek, Neoliberalizm, Refah Devlet, Sosyal Adalet, Kendiliğinden Düzen, Rekabet.

## INTRODUCTION

The worldwide economic crisis of the 1970s resulted in neoliberalism. The Keynesian policies that developed after the economic crisis of the 1930s were based on an interventionist state. Following the Great Depression, John Maynard

Keynes dominated economic theory from the 1930s all the way through the 1970s. As Gamble (2001: 129) notes, the Keynesian regime came into difficulty in the 1970s not only due to accelerated inflation, which had aggravated the fiscal crisis of the state, but also due to the sudden recession and to sharply increased unemployment. By the end of these years, the Keynesian economy, which accredited governments as active and interventionist players in the economy in order to ensure both growth and equity, began to break down. Economic liberalism gained power again and, with the proliferation of US-led economic policy, a new era started all around the world.<sup>1</sup> In other words, it can be said that neoliberalism began to arise as a critique of the Keynesian economy (Gamble, 2001: 128). According to Harvey neoliberalism is above all a theory that advocates practical economic and political changes based on the belief that society can be most improved by allowing free rein to entrepreneurs and individuals within a political structure that supports free trade, and free markets, and that strongly defends private property rights (2005: 1). Neoliberalism became widespread with economists such as Milton Friedman and Alan Walters, but it is taken into consideration that behind this phenomenon there were economists associated with the Austrian School and in particular with Friedrich Hayek (Gamble, 2001: 128). The effect of Hayek's specific approach on neoliberal policy comparing to other neoliberals is a matter of contentious debate, however, it is clear that he affected several politicians such as Margaret Thatcher, Ronald Reagan, and George W. Bush<sup>2</sup>.

Neoliberalism matured with the ideas of the Austrian School, the Chicago School of Economics and the Virginia School of Political Economics. Although these schools meet in some respects at a common point, they are also separated in their views about social order and the functioning of the state. There is an ontological debate on the nature of order between these schools of thought, which is to say between constructed order and spontaneous order. This tension is important in order to understand the theories each school supported. According to the supporters of *Constructive Rationalism* such as Friedman, a leader of the Chicago School of Economics, and James Buchanan, a leader of Virginia School,

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<sup>1</sup> From the 1980s, new right policies, defined as neoliberalism in the field of economy and neo-conservative ideology in the field of politics have begun to be implemented with the Reagan era in the US and the Thatcher era in the UK. For more information about neoliberalism see Gamble, 2001; Harvey, 2005; Johnston and Filho, 2005; Aguilar and Herod, 2006.

<sup>2</sup> The influence of Hayek on Thatcher and Reagan is contentious. Thatcher acknowledged his influence on her political and economic perspective, in both "The Path to Power" and "The Downing Street Years". For more details please consult John Ranelagh, *Thatcher's People: An Insider's Account of the Politics, the Power, and the Personalities*, London: HarperCollins, 1991. After the general election victory of 1979, Margaret Thatcher made Keith Joseph the secretary of state for industry. Joseph, founder of the Center for Political Studies, is known as a follower of Hayek's Austrian school of economics and was also heavily influenced by their theories (See <https://www.theguardian.com/politics/1994/dec/12/obituaries>)

the human mind provides the elements of social order. In contrast, according to defenders of *Anti-Rationalism* or *Libertarian Evolution*, the human mind should not be allowed to interfere in the economy and the economy must be left to its natural functioning. As an anti-rationalist, Hayek stated that leaving everything to natural development without reference to the human mind would increase individual well-being and, eventually, social well-being (quoted from Aktan, 1995: 14). Therefore, the main interest of his work in social and political philosophy is to connect “the classical to the modern and the rationalist to the skeptical liberalism” (Gray, 1981: 73).

As a prominent figure in 20<sup>th</sup> century liberalism, what has Hayek’s contribution to this century’s political and economic thought been, particularly with regard to neoliberalism? By responding this question, this study aims to contribute to studies on the political economy of the 20<sup>th</sup> century through the concepts of the welfare state, the legislative organ, social justice, and competition in Hayekian theory. In order to explain these issues, this study begins with a brief summary of Hayek’s intellectual life and his major works. Afterwards, the issues mentioned above are discussed in light of Hayek’s intellectual contributions.

## 1. MISES’S IMPACT ON HAYEK’S INTELLECTUAL JOURNEY

Friedrich A. von Hayek<sup>3</sup> was one of the important architects of neoliberalism in the 20<sup>th</sup> century. As Boneau writes, Hayek’s professional growth followed different paths in terms of qualifications and he worked in centers such as Vienna, New York, London, Chicago, Freiburg, and Salzburg (2004). After receiving doctorates in law and in political science at the University of Vienna, in 1921 and 1923 respectively, Hayek started working part-time at New York University as a research assistant and then returned to Vienna in 1924. In this period he wrote several articles on monetary theory which formed the analytical framework of his later work (Kresge and Wenar, 1994: 6-8).<sup>4</sup>

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<sup>3</sup> Hayek was born on May 8, 1899, in Vienna. He was a child of a family that could lay claim to a great academic tradition. His father was a doctor in the municipal health service but later he worked on regional botany. Both of his grandfathers were well known in academic circles. One of them was a zoologist; the other was an economist and also worked on constitutional law. As a young man, Hayek was interested in different academic areas such as genetics, psychology and psychiatry and he got university entry qualifications with philosophy (Boneau, 2004). Boneau describes Hayek’s young days as follows: “His youth is characterized by a difficult political environment during which massive strikes will paralyze the country. He witnessed the disorganization of the regimen under a double threat: one from populism, usually anti-Semite the other from revolutionary socialism turned radical by the introduction of Marxist thesis” (2004).

<sup>4</sup> For more detail about Hayek’s biography see Gray and Wenar, 1994.

Hayek participated in the seminars organized by the economist Ludwig Von Mises<sup>5</sup>, an Austrian-American theoretical Austrian School economist, in Vienna. Mises and Hayek founded the Austrian Institute for Business Cycle Research in 1927. Hayek was the head of this institution until 1931. A period of hyperinflation within these years affected Hayek's work and he started to write on the role and importance of money. He published his book entitled *Monetary Theory and Trade Cycles* in 1929 (Ebenstein, 2003: 51). It can be clearly seen that Hayek's subsequent work was significantly influenced by Mises' perspective.<sup>6</sup> The effects of Mises can be evaluated by way of three issues: anti-socialism, market functions and social reform. After he was influenced by Mises's writings, Hayek abandoned his thoughts related to Fabian socialism that he had in his youth. After that he became a proponent of social and political philosophy involving the criticism of socialism.

With the German invasion of Poland, the Second World War started, and became global in the beginning of the 1940s. In these years, Nazi Germany was the aggressor in this war. This country, as Boettke and others highlight, was seen "as a brutal dictatorship that allowed capitalist elites to maintain their entrenched positions" (2008: 5). In their study entitled, *The Continuing Relevance of F.A. Hayek's Political Economy*, they (2008: 6) state that Hayek was affected by these political conditions while writing his major work *The Road to Serfdom*<sup>7</sup> which was translated into several languages. According to him, the socialist ideology that led to the

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<sup>5</sup> Ludwig von Mises (1881-1973) was an Austrian economist, philosopher, and classical liberal in 20th political thought. He had a significant impact on the free-market libertarian movement. For more details about Mises and his effects on Hayek's journey see Ebenstein, 2003: 35-56.

<sup>6</sup> In addition to Mises, others from the Austrian School of Economics affected Hayek thought. Carl Menger was one of the most significant figures in Hayek's intellectual development. Menger thinking led to the first wave of the school. According to Mises, Menger's book, entitled *Principles of Economics*, is important not only to the Austrian School of Economics but also to of political and economic thought. "Marginal utility, subjective value, emphasis on knowledge and foreknowledge, the importance of prices and spontaneous generation of societal institutions" (Ebenstein, 2003: 26) were the fundamental issues of this school. For more details please see Yayla, 1993; Ebenstein, 2003: 19-34.

<sup>7</sup> *The Road to Serfdom* made Hayek famous in Britain. Winston Churchill made reference to Hayek's ideas in his first speech during the 1945 general election. Due to his fame, Hayek visited many institutions. It can be said that reputation that he obtained by this book had an effect on his participation at the Mont Pelerin Society in 1947 (Ebenstein, 2003: 121). After World War II, economists, historians and philosophers were invited by Friedrich von Hayek to meet at Mont Pelerin, Switzerland, to discuss the state and the possible fate of liberalism. After this meeting, the group described itself as the Mont Pelerin Society. This was an international organization composed of economists, philosophers, historians, intellectuals, business leaders, and others who favored classical liberalism. Friedrich Hayek, Karl Popper, Ludwig von Mises, George Stigler and Milton Friedman were the founders of this organization. This group aimed to bring like-minded scholars together and analyze market-oriented economic systems (Butler, 1985: 4-5). Today, this society continues its activities. For more details, visit <http://www.montpelerin.org/mpsAbout.cfm>.

Nazi movement was not a result of capitalism. Therefore, he claimed that “political tyranny” is a fundamental result of socialist policies (2008: 6)<sup>8</sup>.

## 2. HAYEK VERSUS KEYNES

Hayek was concerned with the political currents in Europe that resulted from periods of Nazi influence. In the years when Hitler was in power and the Great Depression was affecting the world economy, Hayek was invited by Lionel Robbins to give lectures on monetary theory at the London School of Economics (LSE). His theories were seen as an alternative to those of John Maynard Keynes<sup>9</sup> and the debate between these two men is fundamental to understanding economics in the 20<sup>th</sup> century. They differed substantially in their thought especially regarding the role of the state (2003: 88).

Skidelsky writes, “Hayek liked to think of himself as the hedgehog who knows one big thing, as opposed to Keynes as a fox who knows many things” (2007: 83). Both Hayek and Keynes were liberals and their basic ideas were based on individual freedom. However, they differed in terms of employment policy, market order, and the idea of collectivism. Keynes resolved the unemployment problem with inflation. In contrast, in Hayek’s thought the solution to inflation was unemployment (Ebenstein, 2003)<sup>10</sup>. Along with these, the main difference between their perspectives was on the role of the state. In contrast to Keynes, who defended an interventionist state, Hayek was a supporter of minimum state theory. Although he criticized “laissez faire” argument and argued for various kind of intervention, he thought that if the market were left to itself, it would work as a system that maximized social utility. Hayek believed that the Keynesian economy made the state “an economic dictator”.<sup>11</sup>

In the beginning, Hayek had favored a narrower, strictly economic, model but he later came to believe that his theories could apply in the broader context of social thought. The reason for his new perspective was that, first of all, political and economic changes were strongly interrelated. The second reason, coincidentally, was his participation in the socialist calculation debate.<sup>12</sup> The third reason can be summarized as “Keynes’s ascendancy and the movement of

<sup>8</sup> For Boettke’s evaluation of *The Road to the Serfdom*, see Boettke, 1995.

<sup>9</sup> Hayek’s theories were often presented as an alternative to Keynes’s. For more detail about the discussion between Hayek and Keynes, please see, Ebenstein, 2003: 77-105; Yay, 1993.

<sup>10</sup> Hayek’s view about this issue is controversial. His policies would involve unemployment while the readjustment took place; but it was the readjustment which was his concern, rather than his arguing for increased unemployment.

<sup>11</sup> Hayek developed his own capital theory in his book entitled *The Pure Theory of Capital* in 1941. See, Hayek, 1950. For further details about his political economy perspective, please see Boettke and others, 2008.

<sup>12</sup> For more details about this discussion, please see Caldwell’s paper on Hayek “‘The Trend of Economic Thinking’: Hayek’s Transformation History of Political Economy” (1988).

technical economic theory in a mathematical direction to which Hayek was unsympathetic” (Ebenstein, 2003: 94).

Their debate, especially on the role of the state clearly illustrates Hayek’s approach to the state. His view of the state is central to the origins of neoliberalism. It emerged as a criticism of the interventionist direction of the state. At this point, neoliberalism is separated from liberalism in terms of the role of the state on security, health and education. According to neoliberals, the interventionist role of state should be revised and states should play a limited role as a regulator in these areas. He gave great importance to individualism and freedom. He insisted that the state's control over the economy destroyed individualism and leads to totalitarianism. He explained his thought about dictatorship through an interview conducted by a Chilean interviewer when he said: “it is also possible for a democracy to govern with a total lack of liberalism. Personally, I prefer a liberal dictator to democratic government lacking in liberalism” (Corey, 2003).<sup>13</sup> With this answer, the basic elements of Hayek’s perspective on political economy can be clearly seen: freedom and spontaneous order. Here, it is useful to open a parenthesis on the nature of this freedom. Freedom for neoliberals, as well as for Hayek, means freedom for power and capitalists. Neoliberals would stress that their concern is freedom for everyone. The issue of ‘power’ and how it is best understood is contentious; but classical liberals typically argue that the freedom of everyone is properly limited by laws which protect the freedom of everybody. As Özkanç emphasizes, neoliberalism emerged as a form of “extreme domination” on a global scale, where power is directed solely through the market model (2005: 4). Hayek was a defender of political liberty. According to Hayek “economic productivity” is only possible with “political liberty”. Ebenstein contextualizes Hayek’s thought in relation to Mill and Tocqueville and writes that personal development is related to liberty (2003: 193). In Hayek’s *evolutionary liberalism*, when people’s behavior and decisions are left to themselves, they can function more effectively and create a multidimensional society, but this cannot be possible in a centrally dominated society (Aktan, 1995: 14).

Like Ebenstein, Marginson also states that Hayek's idea of freedom was characterized as a control and a means of defense “against government coercion as the centre-piece of the argument”. In other words, according to him, Hayek’s freedom, nourished by neoliberalism, is composed of “agency freedom” and “freedom as control”. He emphasizes that, due to the role of liberalism, Foucault called Hayek’s liberalism an “advanced liberalism” (2006: 12). All these

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<sup>13</sup> It is very important to underline here that this doesn’t mean that he was an advocate of dictatorship. He argued for the importance of the democracy. He wrote in the preface to the combined edition of *Law, Legislation and Liberty*, “I profoundly believe in basic principles of democracy as the only effective method which we have yet discovered of making peaceful change possible” (1998: xx).

arguments are relatively consistent within Hayek's writing. In his book entitled *The Constitution of Liberty*, he states that "the desire of making people more alike in their condition cannot be accepted in a free society" (Hayek, 1960: 87). The freedom theory of Hayek was shared by most liberals. Walras's general equilibrium theory, further developed by Pareto, and the spontaneous order theory in the market or catallaxy of the Austrian school are consistent with the metaphor of the "invisible hand" (Boneau, 2004). Especially with this metaphor, Hayek follows Adam Smith closely. At this point, according to Hayek, the state is essential and "possesses the monopoly of coercive power". Ebenstein indicates that, in Hayek's thought, the human condition would be "barbarous" without the state (2003: 114). According to Hayek, government has a primary role in the law. It also has more functions which are related to taxes, welfare benefits and society's general structure. He also saw the order created by free markets as productive organizations (Hayek, 1970: 46-48). He described the role of government with regard to these organizations in his book entitled *The Constitution of Liberty* (1960). According to him, there is a distinction between the coercive measures of government and those pure service activities where coercion does not enter or enters so only because of the need of financing them by taxation. In a free society, government not only has the monopoly of coercion but also it has the monopoly of the coercion operated in the same rules as everybody. The most important function of the government is the provision of a reliable and efficient monetary system. Not only this function but also all activities of government should be part of an effort to supply individual decisions and purposes (p. 222-223).

All these discussions give an indication that Hayek's legislative organ is adherent to his entire intellectual thought in particular with regard to the idea of freedom. In his book, entitled *The Political Order of a Free People*, Hayek states that in contrast to a constitution, legislation requires continuous process and has to keep having new developments and opinions (1997: 37). He argued for the need for legislation to be based on principles which can apply to actions in circumstances –and by people with purposes– which the legislators cannot foresee.

Up to here, it can be seen that the ideas of freedom and self-determination are significant components of Hayek's thought. For him, the idea of liberalism is related to the idea of a free society. Kukathas explains Hayek's liberal society as "governed by the rule of law, and that justice is served only if the law operates to delimit the scope of individual freedom" (1999: 3). This shows clearly that how he positioned the state with regard to his spontaneous order perspective. For him, an ideal system can be possible only with individual freedom and free market preserved by a limited welfare state.



### 3. CONCEPTUALIZING THE WELFARE STATE

Classical liberalism is associated with the free market order and the minimal state which means enacting only the basic functions of government. Thorsen and Lie (2008: 4) stated that this kind of state has a role in order to “uphold the most fundamental aspects of public order” so that it can be “described as a night-watchman state”. Economic liberals are in favor of *laissez-faire* economic policies. The liberal tradition emerged in the writings of Adam Smith in economics and in the writings of John Locke in political theory. It was also greatly affected by the Great Depression in the late 1920s. While Hayek was an economic liberal, he was different from many other contemporary economic liberals. He was not a proponent of “laissez faire,” or of the “night-watchman state” an idea that would suggest that government only has a responsibility to ensure the security of society, internally and externally, as well as enforce justice. He thought that the state should have limited functions in order to protect, and also develop, individual freedom. Therefore, he emphasized that the role of government should be limited but, while defining this role, it was important that this role should not prevent freedom or intervene in private space.

Does the welfare state prevent individual freedom or does it contribute to the development of it? An answer to this question necessarily shows how the welfare state is situated. According to Weale, there is a perspective that sees the welfare state as a “redistributive tax-transfer scheme” and a supplier of good education and health services. Others think that the welfare state supplies the institutions which give people freedom to define their interests. Some of them see the welfare state as an economic security provider. Other parties conceptualize it as a social organization that protects people from “the constraints of private property” (2009: 145). In contrast to these thoughts, Hayek criticized what he saw as the limitless role of the welfare state because, according to him, it threatened individual freedom. Andrew Gamble (2013: 343) states that for Hayek individual freedom was possible under the protective role of the state. Therefore, it must be clearly emphasized here that the state, for him, was a necessary and important condition for individual freedom.

In his book, *The Mirage of Social Justice*, Hayek summarizes the tasks of the state and writes, “the most important of the public goods for which government is required is not the direct satisfaction of any particular needs, but the securing of conditions in which the individuals and smaller groups will have favorable opportunities of mutually providing for their respective needs” (1976: 2). This shows that Hayek was not a defender of *laissez-faire* principles. He also emphasized that government had an important role to provide public needs “in assisting with the smooth-running of the market order” (Shearmur, 2003: 63). Therefore, it can be said that, unlike liberals who strictly defend the *laissez-faire* principle, Hayek

thought that the economy must operate as in a natural order, but limited government intervention is necessary to overcome the problems that might arise in this process. In other words, he pointed out that the spontaneous market order was only possible with the existence of the state, which was a human construction, but this existence must be limited. Although, his conception of the state had a contradictory aspect, he minimized this contradiction with his conception of law state.<sup>14</sup> Ebenstein states “according to Hayek, freedom has apparently not been possible. Law allows humanity to live at peace with one another and to interact effectively. Law is not the nullity of freedom—law *creates* freedom” (2003: 147). Like Friedman, Hayek believed that social policy programs reduce individual freedom. According to him, private lives are invaded by the welfare state because of the conflict between liberty and bureaucracy and so the welfare state can be an obstacle to a productive society (Weale, 2009: 147).

In Hayek’s thought, the business world should be able to predict the state’s decisions and practices. In particular, businesses and investors should know in advance how the state’s decisions will affect them. He insisted that a foreseeable and lawful order could be better for society and could be better safeguarded in self-evident case law than the laws created by the legislative organ (Aktan, 1995: 15).

Liberalism and neoliberalism unite in the point of view that political administration should be governed by individual freedoms and autonomies in terms of the effectiveness and legitimacy of the administration. The advantage he saw to neoliberal economic policies is that they avoid the problem whereby the welfare state undermines the original functioning of the market as well as the society; as such, his neoliberal policies point to the necessity of the limited tasks of the state to reform the society. Hayek and others from the Austrian School of Economics advocate for large-scales societies that need a well-functioning market economy. On the contrary the supporters of *Constructive Rationalism* underline the necessity of political intervention in order to regulate the society. According to this approach, the 'process of the market' is not regarded as a spontaneous phenomenon but as an 'artificial' situation, depending on political, legal, institutional and cultural conditions and interventions (Özkazanç, 2005: 5)

#### 4. COMPETITION IN THE MARKET ORDER

Hayek assigned the state the important role of regulating the market, but he also limited the power of the state. He explained the abolition of the government’s monopoly on services in his book, titled *Political Order of a Free People*, which was the third volume of *Law, Legislation and Freedom*. In this book, he argues that if

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<sup>14</sup> Hayek published his book on political philosophy, *The Constitution of Liberty*, focusing on the “primacy of the rule of law to liberty” in 1960. In this book Hayek developed his idea of “spontaneous order” in order to describe free society (1960).

public services are performed by a monopoly, social development cannot be assured and also people cannot protect themselves from being exploited by the monopoly without the possibility of competition for better services (1979: 147). Therefore according to him, in a market economy, competition is also necessary in order to prevent monopolies. Hayek assigns this important task to the government and governments should regulate the competition in the market.

Ebenstein states that even if Hayek supported the private sector in order to prevent the monopoly of the state, Hayek thought that the state is responsible for protection of the competitive market economy by preventing coercion of the private sector (2003: 145). Ebenstein wrote as follows:

Free society has met the problem of restricting coercion through the use of coercion, by conferring the monopoly of coercion on the state and by attempting to limit this power of the state to instances where it is required to prevent coercion by private persons. This is possible only by the state's protecting known private spheres ... creating conditions under which the individual can determine his own sphere by relying on rules which tell him what the government will do in different types of situations (2003: 145).

For Hayek, competition as an institutional feature within a market system is not a condition; it is an activity. Competition becomes a crucial element for discovering and understanding the market environment. Hayek preferred to consider competition "as a procedure for discovering facts". "Not only in the market" he said "but also in sporting events, examinations, the awarding of government contracts, or the bestowal of prizes for poems, not to mention science, it would be patently absurd to sponsor a contest if we knew in advance who the winner would be" (2002: 9). Also, according to him, due to the unpredictable outcomes of market functions and procedures, people tend to strive for these unknown results and the quality of what is produced in all processes and information, competition cannot exist (Hayek, 2002: 9-10). Market competition gives an opportunity to acquire more information. Therefore, Hayek's understanding of the market differs in some respects from the classical liberal market conception. While classical liberalists focus on scarce resources and the effective use of resources, Hayek focuses on market mechanisms through information; these same mechanisms allow for social welfare and are functions for enhancing development (Okay-Toprak and Tok, 2013: 43). While emphasizing that competition in the market economy is a necessary and important concept, Hayek insisted that, on the contrary, social justice in this economy is not very meaningful.

## 5. HAYEK'S CRITIQUE OF SOCIAL JUSTICE

Hayek likened the concept of social justice to the Trojan horse, through which totalitarianism can enter (Hayek, 1976: 136). This concept is seen by Hayek and other neoliberals as a desire to harken back to an earlier time when there was an accepted and shared political and social objective (Plant, 2010: 94). According to Hayek, political actions return to the totalitarian system as long as they are based on the belief in "social justice" and he says, "the more governments try to realize some preconceived pattern of desirable distribution, the more they must subject the position of different individuals and groups to their control" (1976: 68). It can be said that Hayek's view about social justice is wholly negative. It is important to point out explicitly here that Hayek was not critical of the idea of a limited welfare state, provided that it worked by non-market means.

In contrast, Aaron's interpretation of Hayek's thinking is that social justice means that no individuals are treated differently and that standards are applied universally. According to him, the theory of social justice overlaps with Hayek's liberty, securing all individuals and social order with social consent and rights (2009: 93). According to Hayek, two main types of social order occur. The first type is a *made order* or an *organization* which is designed. Johnston writes, "This type of order tends to be hierarchical in structure. It is maintained principally by relations of command and obedience" (1997: 82). The other type is *grown order* or *spontaneous order*. In this type of order, people have the chance to predict "the consequences of their own actions that are likely to prove correct" (Johnston, 1997: 83). He underlines the differences:

*The market order is Hayek's alternative to a social order that would aim at the attainment of social justice. Spontaneous orders are maintained by relations of mutual adjustment, give and take, and reciprocity. In contrast, organizations are maintained primarily by relations of command and obedience (1997: 92-93).*

In Hayek's thought, the concept of social justice is "empty" and "meaningless" particularly in a large-scale society organized on the basis of markets. According to him, this concept most probably appears as unbelievable to most people (Hayek, 1976: 68). He thought that the application of certain kinds of rules to society inherently meant justice. In accordance with Hayek's perspective, Johnston states, "the concept of social justice entails substituting organization for spontaneous order so as to secure the goal of substantive equality" (1997: 96).

Lukes (1997: 65-71) takes Hayek's rejection of the idea of social justice and summarizes it into six interrelated points: Social justice is meaningless, religious, self-contradictory, ideological, unfeasible and disastrous. Social justice becomes meaningless and cannot be applicable to the liberal market order in which the

economy operates spontaneously (1976: 68). In other words, Hayek gives meaning to social justice only in the following context:

In a directed or 'command' economy (such as an army) in which the individuals are ordered what to do; and any particular conception of 'social justice' could be realized only in such a centrally directed system. It presupposes that people are guided by specific directions and not by rules of just individual conduct (1976: 69).

In short, for him, the idea of social justice is meaningless in a free and market based society. He writes that it is essential to identify two different questions which demand “social justice” in a market order. Hayek’s answers to each of these questions was “no”:

- The first is whether within an economic order based on the market the concept of 'social justice' has any meaning or content whatever.
- The second is whether it is possible to preserve a market order while imposing upon it (in the name of 'social justice' or any other pretext) some pattern of remuneration based on the assessment of the performance or the needs of different individuals or groups by an authority possessing the power to enforce it (1976: 68).

Tebble also emphasizes that the idea of social justice or injustice in Hayek’s mind is meaningless in a liberal market economy. According to Hayek, social justice sometimes results in a social injustice. Due to the desire for the social justice of government, its intervention becomes an injustice by disrupting the spontaneous market order. Tebble indicates that Hayek’s critiques to social justice are related to his spontaneous market order theory “when applied to society’s economy, or ‘catallaxy’ in his own terminology, in which such orders are contrasted with organizations” (2009: 582).

In his book *The Mirage of Social Justice*, Hayek describes the concept of social justice as a term that is generally used in the same sense as “distributive justice”. The second concept, according to him, is clearer and he showed why this is meaningless in the market economy:

We are of course not wrong in perceiving that the effects of the processes of a free society on the fates of the different individuals are not distributed according to some recognizable principle of justice. Where we go wrong is in concluding from this that they are unjust and that somebody is to be blamed for this. In a free society in which the position of the different individuals and groups is not the result of anybody's design—or could, within such a society, be altered in accordance with a generally

applicable principle—the differences in reward simply cannot meaningfully be described as just or unjust (1976: 69-70).

It seems that with this perspective, Hayek had a different approach from classic liberalism. He argued that “the distributive justice system” was absolutely bad and that unilateral justice would take its place within the mechanism of the market. In addition, Hayek realized social justice as religious. He suggests that “the moral feelings which express themselves in the demand for 'social justice' derive from an attitude which in more primitive conditions the individual developed towards the members of the small group to which he belonged” (1976: 88). Above all, Hayek thinks that social justice restricted individual freedom. The idea and practice of social justice prevents the development of principles of political ethics. Therefore, according to him, a society cannot have freedom and social justice at the same time. This term does not imply a benefaction that would abolish misfortunes (Yayla, 1993: 187-190).

## 6. CONCLUSION

With the 1980s deregulation, privatization and the withdrawal of the state from many areas due to the disintegration of the welfare state model were all common all around the world. All these significant changes affected the structure of almost everything. The changes included not only economic and political orders but also many areas such as education, culture, and life and thought styles. These were altered in connection with the changes in economic and policy thinking. Neoliberal policies bring ideas from the Austrian, Chicago, Virginia, and Freiburg Schools of Economics together. This study attempts to display the Austrian School's neoliberal perspective in terms of Hayek's ideas on the welfare state, the legislative body, and social justice and competition. In addition, while discussing these terms, the objective is to understand the points where neoliberalism combines with liberalism, and the points where it separates from liberalism in Hayek's thought. Neoliberalism has moved away from traditional liberalism by assigning an absolute role to the Homo economicus with regard to wisdom, preferences and actions (İnsel, 2011: 10). In these terms, the liberal tradition has left the social and democratic elements it had already embraced behind. This was articulated by new right-wing discourse and turned into neoliberalism as a mode of domination in which social life is perceived and constructed by the market.

Friedrich von Hayek, the founder of the Neo-Austrian School, reconstituted liberalism as an integral whole. As one of the pioneers of neoliberalism, Hayek was a full proponent of individualism, the free market economy and limited and responsible state understanding. Hayek's intellectual structure was formed by four epistemological approaches: anti-rationalism, social evolution, spontaneous order, and methodological individualism. Evolutionist rationalism is one of the

basic elements of Hayek's liberalism. Neo-Austrian liberals who criticize rationalism and advocate a spontaneous social order conceptualize the state as a legitimate institution only if it undertakes certain limited functions (Aktaş, 1995: 28). Hayek explained the legitimacy of the market and its superiority to the state through the concept of "spontaneous order". According to him, the market is a "spontaneous order" and the result of individuals matching their behavior with others while pursuing their own goals. The market can maximize social utility only when it self-regulates.

According to Hayek, the basic function of the state is to protect and develop individual freedom. Since individual freedom is indispensable in a market economy, the task of the state is to regulate the market. Therefore, the "laissez faire" concept, which defines the state as only having the task of ensuring the continuity of the national security and legal system, is considered apart from the conception of the state. According to him, the active role of the state is necessary in order to guarantee individual freedom. However, this activity should be a limited and defined activity of the state, an institution that runs the risk of preventing freedom. In this sense, Hayek attached great importance to the concept of the legal state. Hence, it can be said that Hayek's approach is different from other liberals who defend the "laissez faire" principle more strictly. Unlike liberalism, neoliberalism advocates that the state must exist as a regulator in areas such as education, security, and health.

The world is still dominated by neoliberal ideas that emerged as a critique of the state's interventionist position. In the light of above, it is clearly seen that Hayek is an important figure to settle neoliberal policy. Hayek and other neoliberals have been constructed this idea so strongly that its destructive effect still remains today.

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