



FINDING HAYEK

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Probably unlike most authors in this issue, I did not discover Hayek until relatively late: my third year in law school. I remember clearly how it happened. I was in Professor Henry Hansmann's advanced Law and Economics seminar at Yale Law School, writing a paper about fish.¹ For some reason, the management of fisheries had caught my interest, and I became intrigued with the weird fluctuations in salmon populations in the Pacific Northwest and the hopeless efforts of Canadian bureaucrats to manage them. It seemed the planners were always at least one step behind Mother Nature, the only predictable thing being that they always seemed able to make things worse.

At the same time that I was struggling with my term paper—the first draft was one of the worst things I have ever written—we were discussing in class something having to do with economic planning. Emboldened by my deep understanding of fisheries management policy, I opined broadly that governments just were not competent to plan economies. The only reason I had for thinking this, really, was that everyone else in the recently-founded Yale Law School Federalist Society was saying it, and I was, to some extent, just parroting the party line. But I also really did intuitively think it was true. I vividly remember Professor Hansmann's reply. He said *of course* the state could plan the economy: economic planning was just a matter of solving a lot of simultaneous equations. I did not know what he was talking about at the time, but later I realized he must have been referring to input/output tables—that technique of economic planning for which Wassily Leontief won his Nobel Prize in economics. The prize emanates, after all, from Sweden.

Hansmann's comment troubled me. It made me wonder why states were so bad at economic planning. I did not have much doubt that they were, notwithstanding the professor's comments. But I did not really understand what made economic planning difficult, or how to explain why I believed the almost comical failure I saw in the fishy Canadian northwest was so typical. I had some vague no-

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¹ There is actually a rich and famous literature in economics about fisheries. See generally R. Quentin Grafton et al., *Private Property and Economic Efficiency: A Study of a Common-Pool Resource*, 43 J.L. & ECON. 679 (2000).

tion that the relevant phenomena—like the complex dynamics of food species populations, which are still far from being completely understood—were just too much for a cumbersome bureaucracy to handle. But that was about it. Then somebody—perhaps my classmate and now colleague Mike Rappaport—suggested I read Hayek’s famous essay, *The Use of Knowledge in Society*.² It was a good suggestion.

There are not many books, let alone essays, that I can honestly say changed my life, or at least my mental life, but Hayek’s essay surely did. I do not plan to give an account here of what he says in those few astonishing pages but only to recount the impression it made on me at the time. Hayek vividly, even viscerally, made me understand for the first time that an economy is all about accomplishing enormously complicated tasks when no one person or organized set of people could possess even close to all of the information necessary to coordinate all that human activity. He conveyed the almost unbelievable complexity of even the most mundane economic activities. Scholars could spend their lives studying how bread is made, supplied to the market, priced, and sold, yet still not understand the process thoroughly.

Hayek stressed that reality is more complicated, and by implication more interesting, than any theory. This is a very healthy lesson for a student to learn. It is easy to slip into thinking that economics is about what economists think, their concepts and theories—but it is not. Real economics is about the world and how it works. That is what makes it, at least potentially, a science. Philosophers might want to dissect Marx’s concept of exploitation or Friedman’s idea of freedom, but economists try to figure out how the world works. Hayek knew this.

From Hayek, I learned that economies work in large part by economizing on knowledge, or information. Human institutions and practices like markets help us get things done, even though we do not understand, or perhaps even begin to understand, how they work. As if following the advice of his fellow Austrian, Ludwig Wittgenstein,³ Hayek *showed* how prices work. By doing so he explained how markets allow us to coordinate fantastically complex activity by responding spontaneously to prices, even though we cannot decode the information in prices or plan that same activity beyond anticipating how people might respond to it.

In that brief essay, Hayek implanted in my brain a picture of many actors making many decisions, responding in real time to the changing circumstances around them, all with an eye to making money, but with the unintended consequence of moving products to the market. It was the first time I really understood that human activity could be ordered, coordinated, and remarkably well organized, without anybody ordering, coordinating, or organizing it. Although rough was the notion I had at the time about how information is embedded in markets and other

² Friedrich A. Hayek, *The Use of Knowledge in Society*, 35 AM. ECON. REV. 519 (1945).

³ Wittgenstein’s early philosophy, set out in *TRACTATUS LOGICO-PHILOSOPHICUS* (1922), was the subject of a reportedly devastating critique by Hayek’s friend Karl Popper. It would be interesting to know what Hayek thought—or would have thought—of Wittgenstein’s later philosophy, as developed in *PHILOSOPHICAL INVESTIGATIONS* (G.E.M. Anscombe trans., 1953).

processes, it was still perfectly obvious to me that no centralized bureaucracy could hope to keep up with, let alone improve upon, such a process. The example I was more familiar with than any sane person would want to be—Canadian bureaucrats blundering about, trying to respond to last year’s hopelessly outdated data about salmon catches—was as good as any. With only that much in mind, I could see how silly it was to think that an input/output table could model even a relatively small industry, let alone a whole economy. You might as well move blood around the body based on a chart composed by some expert defining how many cubic centimeters the lungs need and how many the brain needs, under what circumstances, all while the patient turns white on the table. If you think about how prices change constantly in response to new information, and how markets are created and disciplined by individuals striving to act on the latest and best information in order to make money, the idea of an input/output table—with government officials constantly revising (daily? hourly?) their estimates of how much X the United States will need this year—becomes laughable. It may not be easy to *define* the information set that a market can utilize and state planners cannot, but it is certainly easy to *see* the difference.

In the days and weeks after that revelation, I saw spontaneous order everywhere I went, like a student dazzled by his first physics class sees mechanics in every motion around him. As delighted as I was to see this dimension of human life, I was also chagrined that I had made it through four years of college, two post-graduate years at a great English university, and two years at what was supposed to be one of the nation’s best law schools, without ever being exposed to Hayek, or even any Hayekian ideas. Those ten pages or so hit me like a pail of cold water, or a brilliant flash of light. Great swaths of the world suddenly made *sense*. Why on earth hadn’t some wise teacher suggested I read Hayek ten years ago?

While ignorance is always one’s own fault, it was not as if I had turned away any opportunities to study Hayek as an undergraduate. I understand that all education is self-education, but sometimes you wonder what you, your parents, alumni, and taxpayers are shelling out thousands of dollars *for*. I was a philosophy and history major at Cornell, and had taken a fair number of economics and government courses as well, yet I never heard the name Hayek even mentioned. I had heard of Marx and even Walter Benjamin, the famous Marxist literary critic. I knew a little of Jacques Derrida and Theodor Adorno and William Appleman Williams, but Hayek? Never heard of him.

Nor had I, in eight years of economics, philosophy, and political theory, heard mention of any Hayekian notions, such as spontaneous order, markets processing information, or the difference between human action and human design. Not *once*. When I read philosophy and economics at Oxford, I studied Keynes, Hume, Locke, Adam Smith, Ricardo, Marx, Rawls, Nozick, and many others. I even read other Austrians, like Wittgenstein, but no Hayek. There must have been Hayekians at Oxford in the late 1970’s—this was the dawn of Thatcherism—but I never met one. Maoists were more common. The Hayekians, whoever they were, must have been deep underground. How the Thatcherites discovered Hayek, I do

not know. It certainly was not from the dons at Oxford and Cambridge; maybe they were in London. Though my thinking was roseate, I started going to Conservative Party functions while at Oxford because, difficult though this may be to credit, I found the people friendlier and less snobby. Even among Conservatives at Oxford, Hayek was not well known. Or at least nobody mentioned him to me. And I was always on the prowl for things to read, for I was an earnest student. I had heard of Michael Oakeshott, but not Hayek. It says something about the intellectual climate of the not-to-be-mourned twentieth century that many of the most useful ideas in political economy were simply not to be found in universities, with the possible exception of the University of Chicago, which for me might as well have been Mars.

The same was true in the mid-1980's at Yale Law School. It was not a teacher who told me to read Hayek, but another student member of the Federalist Society. The spectrum of debate in terms of the views of the faculty went from socialism on the left to market socialism on the "right." There were some exceptions, such as then-visiting scholar Robert Bork and lawyer-economist George Priest, but they kept pretty much to business on campus. They undoubtedly knew about Hayek, but he did not come up in class. I can still become infuriated when I think of how I spent those years in university study, fascinated with all aspects of political economy and philosophy, and equipped with far more energy than I have now, having to grub for nuggets of truth amongst the vast, scorched plain that was the intellectual landscape of the late twentieth century.

Students today are far more fortunate. With the fall of the Soviet Union and the ongoing transformation of China (not to mention the embarrassing counter-examples of Cuba, North Korea, and Vietnam), the intellectual prestige of the dead-end of socialism has fallen and continues to fall. (Quite apart from intellectual currents, it is also nice not to have to worry anymore about communists taking over the world.) Among those who will not be future victims of that evil thought empire are the students who will not stuff their heads with nonsense which, like fat, is much easier to incorporate than get rid of. You have to envy students growing up in the much freer and less misguided intellectual atmosphere of the early twenty-first century. Remember that as you read your Hayek.

I have never gotten over my first eye-opening exposure to Hayek. I am no Hayek scholar and certainly make no claim to any deep understanding of his complex legal and constitutional views. Nor am I an acolyte of his, in the sense of thinking it important to fuss about where he ranks in the pantheon of important political thinkers of the last century. I accept that contemporary macro-economists reject most of his macroeconomic views. (I saw macroeconomists in action, however, in President Reagan's Council of Economic Advisers, and it did not inspire any confidence in the invariable correctness of their judgments.) Political economists are not athletes, to be ranked against some abstract scale of perfection. Some professors tend to think that way, but it is a delusion. Economists who are worth anything are scientists, and whether their ideas are particularly elegant or not, they earn their keep by advancing the cause of truth. That is what Hayek did.

What I like about Hayek is not the systematic nature of his thought that so many Hayekians admire, nor any sort of aesthetic quality that beguiles many Kantians, Marxists, and Hegelians. It is rather that he has the all-too-rare advantage of having been right, of having gotten his hooks into a deep set of truths about political economy. He knew, for example, that commercial and social practices, norms, and laws evolve; that they are “the product of human action, but not of human design.”⁴ Yet, like the design of a survival strategy by a simple organism, a biochemical structure, or a food chain, unintentionally designed systems display a genius that is better than human, sometimes even better than rational. This is an insight that will only become more important as biological, evolutionary, computer, and other informational sciences progress.

The news is not all cheery, however. The academy has a long way to go. Last weekend, I was sitting at a conference of moral philosophers. At the table were three or four of the leading moral and legal philosophers in the English-speaking world. The topic was something about conforming law to morality, and changing law to fit moral truth. One of my colleagues, who I know is an admirer of Hayek, made the Hayekian point that established moral norms and practices are the product of evolution and should not be changed lightly.⁵ We do not always know, he observed, how moral rules function in the social world, and it is easy to overestimate our ability to foresee all the consequences of our moral “reforms.” My poor colleague might as well have been imitating a barking seal. Not only did these leading lights of moral philosophy fail to credit his point, but its force was utterly wasted on them.

This is not too shocking, since one might uncharitably observe that, to the extent moral philosophers produce anything, it is new things to tell us we must or must not do. If old ways are not to be reformed lightly, it obviously narrows the scope of the reforms moral philosophers can hope to bring about, and what fun would that be? It was vivid evidence that there is still something about Hayek that just repels and mystifies many people in the morals business. A distinguished philosopher did observe, however, that it was not clear that Russia was any better off now than it had been under Stalin. So Stalin found at least a qualified philosophical defender. But only the law professor brought up Hayek.

So it would be overly optimistic to say that Hayekian ideas have found a home near the center of legal, economic, and philosophical discourse. True, he was the guiding spirit of the transformation of political economy across the planet in the second half of the twentieth century. But one would be hard-pressed to find a course on his thought at most colleges and universities in the United States or England. I would not be surprised, however, to discover courses on Hayek in Poland,

⁴ See, e.g., F.A. HAYEK, *The Results of Human Action but not of Human Design*, in *STUDIES IN PHILOSOPHY, POLITICS AND ECONOMICS* 96 (1967) (quoting ADAM FERGUSON, *AN ESSAY ON THE HISTORY OF CIVIL SOCIETY* (Kessinger Publishing 2004) (1767)).

⁵ In this vein, see FRIEDRICH A. HAYEK, *THE FATAL CONCEIT: THE ERRORS OF SOCIALISM* (W. W. Bartley ed., 1989). In this book, Hayek branches out into moral theory, anthropology, and evolution, among other subjects, and proves himself an extremely versatile and penetrating thinker.

Hungary, or the Czech Republic. As in a tree, the life in academic discourse is sometimes found around the edges rather than at the core.

Not all of the reasons for ignoring Hayek are bad. As I alluded to above, his theories of macroeconomics may be wrong and have apparently been superceded. His theories of coordination and spontaneous order have, until recently, resisted embodiment in mathematical models, which is now the settled language of economics. The main reason, however, that most universities neglect Hayek—let's not be naïve—is that his greatest accomplishment and influence was as a devastating critic of socialism.

Hayek's academic reputation may grow in the twenty-first century. Some of the most exciting work being done today in economics, politics, and law has a distinctly Hayekian flavor, even though its authors may not know it. Hayek was ahead of his time, and, remarkably enough, still is. I will give a couple of examples. First, take the quintessentially Hayekian idea of spontaneous order. Economists are just beginning to really see the economy as a "complex self-organizing system" and to develop techniques to rigorously model its organization. Paul Krugman wrote a book about it.⁶ Hayek will probably not get the credit he is due, but as Ronald Reagan was fond of saying, anything is possible if you do not care who gets the credit.

Hayek was hostile to the mathematicization of economics. He considered it a doomed attempt to apply the techniques of classical physics to an inevitably social science. He was probably wrong about that, in my view. He was, however, in no position to see the advances in modeling and computers that have emerged in the last ten years. What are economists and others discovering using these new techniques? Spontaneously emerging norms. Spontaneously emerging structures. Synchronization. Emerging properties of astonishing variety, complexity, and—yes—beauty. Today, economists are *much* better able to study complex systems because of mathematical innovations and the power of modern computers. If Hayek were a young man today, he would probably not deem math an inappropriate tool for the study of economics. He probably would have done a fellowship at the Santa Fe Institute or in economics and computer science at the University of Michigan, two hotbeds of the new stuff.⁷ Indeed, here's hoping there are some young Hayeks out there.

What these new models show us is that complex systems, with no organizer or coordinator running things, really do have marvelous powers to organize themselves. Hayek saw this and expressed it intuitively, but he was in no position to express it rigorously. That newfound ability has, appropriately enough, evolved out of parallel developments in game theory, computer science, mathematics, economics, and the spontaneous interaction of workers in these increasingly interrelated fields. In twenty or thirty years, when some new billionaire decides to leave

⁶ PAUL R. KRUGMAN, *THE SELF-ORGANIZING ECONOMY* (1995).

his fortune to promote the study of the interrelations of economics, game theory, evolution, ecosystems, cellular automata, spontaneously emerging orders in virtual worlds, and the like, he ought to call it the Hayek Institution.

I will provide one more example. A professor of political science at UCLA, Michael Suk-Young Chwe, recently published a book called *Rational Ritual*.⁸ In the book, Chwe shows how people use rituals, social customs, advertising, and other familiar human activities sometimes thought of as trivial, to solve coordination problems that would otherwise make many forms of human activity impossible or much more costly. There is nothing explicitly Hayekian about the book, which applies game theory to political science. Yet, by demonstrating the rationality of common customs, it is Hayekian in spirit. For example, Chwe offers an elegant explanation for why groups pondering risky joint action, such as a potentially dangerous political demonstration, spontaneously gather in circles. Coordinating joint activity requires levels of knowledge and meta-knowledge. It turns out that an efficient way to establish it is for groups to meet in a way that makes possible eye contact among everyone in the group. More and more, Hayekian-in-spirit insights will make it into academic literature as economists, political scientists, and others figure out ways to model the truths that Hayek simply saw. Maybe this is because they finally have the mathematical tools that allow them to analyze realms of human action and institutions that Hayek understood intuitively.

Someone once commented that Einstein was a twenty-third century physicist who fell by accident into the twentieth century. He meant that Einstein, who was no great mathematician by physicist standards, was blessed with a strange ability, a “physical intuition,” to see how the universe worked. His theories will still be generating implications two centuries from now. Hayek, I think, was somewhat similar. At least in his theories of spontaneous order and his insights about the economy of activities usually thought to be non-economic, he delivered insights and intuitions he had, in a sense, no right to know already. Perhaps Hayek was just able to see things other people could not, partly because they were too intoxicated by the heady fumes of socialism, but also because they just did not have Hayek’s idiosyncratic, penetrating eye for how economic and social institutions and practices work.

Of course, it is ironic that Hayek’s influence was much more profound in the capitals of the West, most notably in those of the “New Europe,” than it has been yet in the headquarters of academic inquiry. And some of Hayek’s theories probably deserve to be matters of mainly historical interest. To the extent that Austrian economics is an *a priori* undertaking instead of an empirical one, it will probably not prosper in a world that is increasingly rich with data and the means to analyze it. For my money, however, these criticisms of Hayek’s political economy miss

⁷ For examples of scholarship produced at the Santa Fe Institute and the University of Michigan, see CHRISTOPHE P. CHAMLEY, *RATIONAL HERDS: ECONOMIC MODELS OF SOCIAL LEARNING* (2004), and JOHN H. HOLLAND, *HIDDEN ORDER: HOW ADAPTATION BUILDS COMPLEXITY* (1995).

⁸ MICHAEL SUK-YOUNG CHWE, *RATIONAL RITUAL: CULTURE, COORDINATION, AND COMMON KNOWLEDGE* (2001). Hayek does not appear in the index.

the point, because they hold him to an impossible standard. No one holds it against Einstein that he wrongly rejected quantum physics or failed to come up with a unified field theory. Hayek made a great prediction in his career—that socialism was impossible and would therefore fail—and he was right. He explained that socialism simply could not be as productive as capitalism, which the Soviet Union and its captive states demonstrated. Hayek foretold the disastrous results of the great social and economic experiment of the twentieth century, and he was dead on. He understood that only markets can coordinate production and consumption and that markets have the salutary side-effect of liberty. He understood that the state's attempts to plan the economy are not only economically doomed but also, in the process of failing, strip humans of their liberty. On this Hayek was spectacularly correct. He reached his conclusion partly because he came from a philosophical tradition, like his fellow Austrian Karl Popper, that emphasized the limits of human knowledge. Hayek was a disciple of Kant who finally defeated the disciples of Marx.

I said I was not going to rank Hayek as a scientist. Ranking him as a prophet, an inspiration, and an intellectual guide for the liberation of the world from the shackles of socialism, is not easy either. But who should rank higher? Churchill? Reagan? Thatcher? Walesa? John-Paul? Perhaps Hayek belongs in that company. Hayek's followers look to the future from "the commanding heights."⁹ Eventually, in due course, perhaps he will feature prominently, with the rest of them, in a course called something like "The History of Freedom."

⁹ DANIEL YERGIN & JOSEPH STANISLAW, *THE COMMANDING HEIGHTS: THE BATTLE BETWEEN GOVERNMENT AND THE MARKETPLACE THAT IS REMAKING THE MODERN WORLD* 15 (1998).