

# Hayek's Fatal Conceit

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Oskar Lange famously said, against the background of the debates over Ludwig von Mises' economic calculation argument, that a statue of Mises should be erected in the planning ministry of a future socialist society, in honor of the service he performed to socialism in forcing socialist theoreticians to grapple with the challenge his argument presented. But if any capitalist ideologue – Austrian or not – deserves to be honored for his services to socialism, it's Friedrich Hayek. (That's not to say he shouldn't also be burned in effigy, in every college history department in the world, for his crimes against historiography.)

**Capitalism and the Historians.** In his introductory essay to *Capitalism and the Historians*, Hayek observes: "...[T]he historical beliefs which guide us in the present are not always in accord with the facts; sometimes they are even the effects rather than the cause of political beliefs. Historical myths have perhaps played nearly as great a role in shaping opinion as historical facts."<sup>1</sup>

And shortly after:

...[M]ost of the assertions to which [socialist history] has given the status of "facts which everybody knows" have long been proved not to have been facts at all; yet they still continue, outside the circle of professional economic historians, to be almost universally accepted as the basis for the estimate of the existing economic order.<sup>2</sup>

But Hayek goes on, here and elsewhere, to demonstrate that he himself is guilty of asserting ahistorical "facts which everybody knows."

The capitalist legitimizing ideology relies heavily on ahistorical myths: e.g., the "original accumulation of capital" through thrift and abstention; the "initial appropriation of the land" and origin of modern forms of private property through peaceful homesteading to "remove it from the common"; the cash nexus's rise to hegemony through a natural human "propensity to truck, barter, and exchange"; and the predominance of specie currency arising as a solution to the problem of "dual coincidence of wants."

And Hayek is one of the more egregious – and self-confident – promoters of these just-so stories.

In the ensuing discussion in his introductory essay, Hayek focuses almost entirely on challenging the predominant perception among radicals that the working class standard of living declined in

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<sup>1</sup> Friedrich A. Hayek, "History and Politics." Introduction to Hayek, ed., *Capitalism and the Historians* (Chicago: University of Chicago Press, 1954), pp. 3-4.

<sup>2</sup> *Ibid.*, p. 7.

the early industrial revolution. To this he opposes the consensus of economic historians that living standards in fact rose under factory employment, and places strong emphasis on the role of such employment in supporting those who – due to lack of land or income – would otherwise have starved.

In so doing he studiously ignores the question of just *how* these workers came to be devoid of land and consequently in need of employment. He ignores, likewise the issue of employers' collusion with the state to reduce the bargaining power of labor and ensure that capital's share of output relative to labor was artificially large. In other words, he ignores the two most important subject areas of English radical historiography.

He devotes himself almost entirely to refuting *The Condition of the Working Class in England*, while ignoring the much more fundamental earlier issues of the enclosures and the imposition of authoritarian social controls on the working class. In this he is like Lincoln's anecdotal Jesuit who, charged with killing ten men and a dog, triumphantly produced the dog in court.

Although Hayek delves more deeply into actual historical questions in *The Fatal Conceit*, his approach from the outset is almost totally ahistorical, comprised almost entirely of just-so stories from capitalist ideology that are directly contradicted by actual history.<sup>3</sup> He starts by defining

3 In the interest of both accuracy and charity (given my especially harsh language toward Hayek regarding this book in particular), I should mention that there seems to be some controversy over whether *The Fatal Conceit* is, at least in its entirety, the work of Hayek himself. Jeffrey Friedman writes:

In 1986 I served as research assistant to W. W. Bartley, III, Hayek's officially designated biographer and the "editor" of the book while it was being written — apparently by Bartley, with little noticeable input from Hayek, who was mortally ill. What Bartley characterized as confused and mostly unusable notes and passages written by Hayek, some of which ended up in the book's Appendices, apparently served as the basis of Bartley's efforts to complete a manuscript; the products of Bartley's labors were allegedly reviewed by Hayek.

And Friedman raises some questions as to whether Hayek played any significant role in reviewing the final product. I had noticed independently that the general tone of this book is much more right-wing than that of Hayek's books from the 1940s. Whether that reflects Hayek's own intellectual evolution over the years, or Bartley's idiosyncrasies, I can't say. In any case it's an open question just how much the text reflects Hayek's considered views.

Jeffrey Friedman, "What's Wrong With Libertarianism," *Critical Review: A Journal of Politics and Society* (1997), pp. 463-464n <<https://sci-hub.do/10.1080/08913819708443469>>. I'm grateful to Roderick Long for bringing this to my attention.

Greg Ransom, of the Hayek Center, stated on the Center's Twitter account regarding Hayek's role in writing the book:

@hamandcheese Hayek wrote extensive drafts of the book -- most of the documents are in the Hayek archive.

August 31, 2015 <<https://twitter.com/FriedrichHayek/status/638381661957197828>>.

I've read the various typescripts of *\*The Fatal Conceit\** found in the Hoover Archive and I can vouch that most of it is written by Hayek -- but we do need a scholars edition which identifies the sentences and word added by @bryan\_caplan and William Bartley. (*Footnote continued on the following page.*)

capitalism as an "extended order of human cooperation," and asserting that the order "resulted not from human design or intention but spontaneously...."<sup>4</sup>

But capitalism, at least as much as any hypothetical socialist order, required centrally directed social engineering for its establishment. It's ironic that Hayek quotes Henry Sumner Maine, on the indispensability of "several property" to civilization, as the epigraph to Chapter Two.<sup>5</sup> In the body of that chapter, Hayek handwaves about the development of several property in land, in the vaguest of terms, as an outgrowth of "cultural and moral evolution" or "slow selection by trial and error."<sup>6</sup> Several property in land, he speculates, developed in some unspecified way by expanding the concept of private possession of moveable goods like tools. He cites the Greeks and Romans, in particular, as having learned through collective social experience about the inseparability of property from freedom.

The first individually crafted durable tools probably became attached to their makers because they were the only ones who had the skill to use them... Separate ownership of perishable goods, on the other hand, may have appeared only later as the solidarity of the group weakened and individuals became responsible for more limited groups such as the family. Probably the need to keep a workable holding intact gradually led from group ownership to individual property in land....

...There will also have developed, especially with regard to land, such arrangements as 'vertical' division of property rights between superior and inferior owners, or ultimate owners and lessees, such as are used in modern estate developments, of which more use could perhaps be made today than some more primitive conceptions of property allow.<sup>7</sup>

We find ourselves, in other words, in the realm of edifying but ahistorical nursery fables, like the "initial appropriation of land" by "withdrawing it from the common" through "admixture of labor." Capitalist legitimizing ideology relies heavily on promoting the assumption that its dominant institutions arose peacefully and spontaneously, and Hayek's outgasings here are very

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June 8, 2019 <<https://twitter.com/FriedrichHayek/status/1137447393358516224>>

We know that Hayek wrote a draft of *\*The Fatal Conceit\** which James Buchanan hated because Buchanan was a Locke / rationalist and Hayek was a Hume / Burke / Coke / Darwin evolutionary whig. Bartley & Caplan "modernized it" with eg references to Foucault & a bit of Bartley/Popper.

June 8, 2019 <<https://twitter.com/FriedrichHayek/status/1137448220672479232>>.

4 Friedrich A. Hayek, *The Fatal Conceit: The Errors of Socialism*. The Collected Works of F.A. Hayek, Vol. 1. Edited by W.W. Bartley III (Chicago: University of Chicago Press, 1988), p. 6.

5 *Ibid.*, p. 29.

6 *Ibid.*, pp. 35-36.

7 *Ibid.*, pp. 29-31.

much in keeping with that imperative.<sup>8</sup>

Now, in one sense the Romans learned a great deal about the connection between property and freedom, considering how much of the plebs lost its freedom to debt slavery thanks to the privatization of the *ager publicus*. But at no point does Hayek reference such actual historical phenomena. Maine, better than almost anybody, could have told him about the real – i.e., collective – nature of property in land in ancient society, and the extent to which violence and robbery were required to establish "private property" as we understand it.

Hayek's Disneyfication of the origins of capitalism in Europe is even more impressive. The expansion of capitalism in the late middle ages "owes its origins and raison d'être to political anarchy." Capitalism expanded

not under the more powerful governments, but in the towns of the Italian Renaissance, of South Germany and of the Low Countries, and finally in lightly-governed England, i.e., under the rule of the bourgeoisie rather than of warriors, that modern industrialism grew. Protection of several property, not the direction of its use by government, laid the foundations for the growth of the dense network of exchange of services that shaped the extended order.<sup>9</sup>

Well, except for a few inconvenient details like the fact that the establishment of capitalism involved the suppression of the free towns by the gunpowder armies of the absolute states. Or that the creation of the wage system on which the English Industrial Revolution depended presupposed the expropriation and enclosure of arable land on a nationwide scale. Or that the Industrial Revolution, according to Lewis Mumford, was brought about by a constellation of class forces including the agrarian capitalists who enclosed all that land, the armaments industry, and the mining and coinage industries – all allied with the absolutist political regime.

Despite all the platitudes Hayek quotes from Locke, Hume, Ferguson et al (e.g. "Where there is no property there is no justice"), he seems remarkably reticent to look into the actual origins of the property of Locke's Whig patrons – and who they stole it from.

Especially laughable is framing the adoption of modern "private property" as unconnected with any benefits foreseen by the adopters. Hume wrote, Hayek says,

that these rules 'are not derived from any utility or advantage which either the *particular*

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<sup>8</sup> For an examination at length of such nursery fables and just-so stories in capitalist ideology, see Kevin Carson, *Capitalist Nursery Fables: The Tragedy of Private Property, and the Farce of Its Defense* (Center for a Stateless Society, 2020) <<https://c4ss.org/content/53305>>.

<sup>9</sup> Hayek, *The Fatal Conceit*, p. 33.

person or the public may reap from his enjoyment of any *particular* good'.... Men did not foresee the benefits of rules before adopting them, though some people gradually have become aware of what they owe to the whole system.<sup>10</sup>

Hence his strawman dismissal of those who "suspect some secret and dishonest manipulation – some conspiracy, as of a dominant 'class' – behind 'designs' whose designers are nowhere to be found."<sup>11</sup>

I'm morally certain that the landed gentry and nobles who enclosed the open fields for sheep pasture envisioned themselves as the beneficiaries of that process. And the ruling class literature of the mid- and late-18th century is full of very explicit complaints that, with rights of access to common pasture, wood, and fen, and the right of landless peasants to build a cottage on the waste, the laboring classes would not work as hard or as cheaply for wages as capitalist farmers desired; the creation of the modern property regime from the late middle ages on was consciously envisioned, at every step of the way, as a project to increase the extraction of surplus labor. And it was every bit as radical a reordering of society, according to a conscious design, as Hayek attributes to the socialists.

Indeed J.L. and Barbara Hammond argued that Britain, in the revolution from above imposed through Enclosures and the totalitarian social controls instituted for the working class, was "taken to pieces ... and reconstructed in the manner in which a dictator reconstructs a free government."<sup>12</sup> And ironically, Soviet theoreticians like Yevgeny Preobrazhensky explicitly compared the "socialist accumulation" of forced collectivization, in which a surplus was to be extracted from the countryside in order to subsidize industrialization, to the primitive accumulation in early industrial Britain.

If the above examples of Hayek's historical illiteracy are not enough, there's also this (God help us):

Capitalism created the possibility of employment. It created the conditions wherein people who have not been endowed by their parents with the tools and land needed to maintain themselves and their offspring could be so equipped by others, to their mutual benefit....

Thus the whole idea that the rich wrested away from the poor what, without such acts of

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<sup>10</sup> *Ibid.*, p. 76.

<sup>11</sup> *Ibid.*, p. 82. Of course none of this anti-conspiracism stops him from accusing American socialists of "deliberate deception" in "appropriating" the term "liberalism." Hayek, *The Fatal Conceit*, p. 100.

<sup>12</sup> J. L. and Barbara Hammond, *The Village Labourer (1760-1832)* (London: Longmans, Green & Co., 1913) 27-8, 35-6.

violence would, or at least might, belong to them, is absurd.

The size of the stock of capital of a people, together with its accumulated traditions and practices for extracting and communicating information, determine whether that people can maintain large numbers. People will be employed, and materials and tools produced to serve future needs of unknown persons, only if those who can invest capital to bridge the interval between present outlay and future return will gain an increment from doing this which is at least as great as what they could have obtained from other uses of that capital.

Thus without the rich – without those who accumulated capital – those poor who could exist at all would be very much poorer indeed, scratching a livelihood from marginal lands on which every drought would kill most of the children they would be trying to raise.<sup>13</sup>

I can't resist mentioning, in passing, that in addition to Hayek's sanitized vision of the history of capitalism, he also – like most right-libertarians who take others to task for their alleged ignorance of economics – fails to grasp its present-day functioning:

It evidently has not occurred to them that the capitalists who are suspected of directing it all are actually also tools of an impersonal process, just as unaware of the ultimate effects and purpose of their actions, but merely concerned with a higher level, and therefore a wider range, of events in the whole structure.<sup>14</sup>

The last I heard, the assortment of artificial scarcities and artificial property rights, state-enforced entry barriers, socialized inputs, and direct subsidies, through which big business extracts the economic rents that constitute the bulk of its profits, were no more the result of an "impersonal process" than were the various acts of Enclosure two hundred years before. And it's a safe bet that the corporations that lobby for all these measures are *quite* aware of the purpose of their actions.

He exhibits the same incomprehension when he attributes anti-capitalism to opposition to commerce, reflecting in turn a popular unwillingness

to accept that quantitative increases of available supplies of physical means of subsistence and enjoyment should depend less on the visible transformation of physical substances into other physical substances than on the shifting about of objects which thereby change their relevant magnitudes and values.<sup>15</sup>

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<sup>13</sup> Hayek, *The Fatal Conceit*, pp. 123-124.

<sup>14</sup> *Ibid.*, p. 82.

<sup>15</sup> *Ibid.*, p. 92.

The problem, again, is that this ignores the extent to which capitalist profit depends, rather, on *stopping* or *hindering* the "shifting about of objects," by means of legal monopolies, entry barriers, and artificial scarcities – resentment of which is, therefore, entirely justified.

Likewise this: "Concern for profit is just what makes possible the more effective use of resources."<sup>16</sup> No; under actually-existing capitalism, profit is more likely to result from *hindering* (or threatening to hinder) the most effective use of resources. This is done by means referred to variously as "capitalized disserviceability" (i.e., the collection of tribute for the "service" of not obstructing production)<sup>17</sup> or "monopolizing natural opportunities."<sup>18</sup>

What that means, in practical terms, is this: In marginalist theory, the "marginal productivity" of a factor input is what it contributes to the final value of a good or service – essentially, whatever its owner is able to charge for it. So a landlord can fence in a piece of undeveloped land, or a patent owner can put a legal fence around an idea, and then charge tribute for what they "contribute to production" by allowing others to put it to use. Marxist economist Maurice Dobb used the illustration of government granting, to a specific class of people, the privilege of erecting toll-gates across all the highways in a country and collecting tribute for the favor of not obstructing traffic – the revenue going, not to fund maintenance of the highways, but simply to enrich the gate-owner. In marginalist theory, a gate-owner's toll would be their reward for the "service" of not obstructing the road, and whatever the tolls added to the price of goods and services would be the "marginal productivity" of raising the bar.<sup>19</sup>

But in Hayek's imaginary universe, the most noteworthy monopolies engaged in restricting production or hindering efficiency are "monopolies of organised groups of workers, 'unions', which create an artificial scarcity of their kind of work by preventing those willing to do such work for a lower wage from doing so."<sup>20</sup>

It's instructive, in evaluating Hayek's claims for the spontaneous origin of capitalism, to contemplate what recognizable aspects of the British industrial capitalism of 1750-1850 would be left if we subtracted the late medieval enclosure of open fields, the Parliamentary Enclosure of common pasture and waste, the whipping of vagrants and forcing of "masterless men" into peonage, the Established Church's suppression of feast days and merriment, the Navigation Wars, the Battle of Plassey and Hastings' Permanent Settlement, the Poor Laws and Laws of Settlement, the Riot Act, prohibitions on friendly societies and societies of correspondence, the Combination

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16 *Ibid.*, p. 104.

17 Thorstein Veblen, quoted in John R. Commons, *Institutional Economics* (New York: Macmillan, 1934), p. 664.

18 Henry George, Jr., *The Menace of Privilege: A Study of the Dangers to the Republic from the Existence of a Favored Class* (London: Macmillan, 1905), p. 411.

19 Dobb, *Political Economy and Capitalism: Some Essays in Economic Tradition*. Second revised edition (London: Routledge & Kegan Paul Ltd, 1940, 1960), p. 66.

20 Hayek, *The Fatal Conceit*, p. 131.



Laws, and mass repression like that at Peterloo. For the ordinary person at the village level, the period of the sixteenth and seventeenth centuries which Hayek celebrates as a freeing up of individual energies and intellect was, rather, a massive retreat into repression and authoritarianism compared to the height of the late Middle Ages.<sup>21</sup>

Equally instructive is to ask a similar question as to what would be left of the American capitalism of Hayek's day, had it not been for the railroad land grants, the industrial tariff, patent pooling and cartels, the role of government in promoting highways and trucking and creating the civil aviation system virtually from whole cloth, and the use of federal troops and the National Guard for breaking strikes.

It's doubly ironic that Hayek characterizes socialism as proposing "the abolition of individual ownership of means of production," placing them under direction by a "central authority."<sup>22</sup>

As Marx argued in *Grundrisse*, capitalism and the wage system came into being by essentially destroying any meaningful individual property rights in the means of production for the overwhelming majority of the population. The property rights of the peasant and the artisan in the pre-capitalist economy amounted to "the relation of the working (producing or self-reproducing) subject to the conditions of his production or reproduction as his own," as member of a clan or village.<sup>23</sup> Far from guaranteeing this property right, capitalism presupposed the *nullification* and *abolition* of the only meaningful property claims of the vast majority of the population. For capitalism to come into existence, propertyless laborers with only their labor-power to sell had to confront the owners of the means of production. Laborers had to be "freed" of their relations to the means of production – "*free of all property*; dependent on the sale of [their] labour capacity... as [their] only source of income."<sup>24</sup> This required robbery. Capitalism was established through the negation of the property rights of the overwhelming majority.

The ultimate result was to concentrate property in the means of production in the hands of a small number of artificial legal persons known as corporations. The investment resources of society are allocated among these corporations by an even smaller number of banks, with production centrally planned by the corporations' managerial oligarchies. For the great bulk of the population today, "private property" consists at most of a dwelling space and small surrounding yard – and even among so-called "home-owners," in most cases the putative owner is a tenant of the bank into old age.

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21 Anyone curious for more specifics on these claims can start with Silvia Federici's *Caliban and the Witch: Women, the Body and Primitive Accumulation* (New York: Autonomedia, 2004), and Kropotkin's treatment of the early modern period in *The State: Its Historic Role* (London: "Freedom" Office, 1898).

22 Hayek, *The Fatal Conceit*, p. 6.

23 Karl Marx, *Grundrisse: Foundations of the Critique of Political Economy*. Translated with a Foreword by Martin Nicolaus (London, New York, Victoria, Toronto, Auckland: Penguin, 1973), p. 495.

24 *Ibid.*, pp. 503, 507.

In other words, under capitalism, "individual private property" for most actual individuals is nothing more than a right to work with the means of production owned by someone else, and to spend every living moment in space owned by someone else.

Although Hayek contrasts the "collectivism" of socialism with the "individualism" of capitalism, Marx was correct in arguing that collectivism was in fact created by capitalism itself. Industrial production became a collective phenomenon in which enterprises employing thousands of people were collectively owned by capital, as represented by fictitious collective persons, rather than by any identifiable individuals or partnerships between individuals. The only thing that remained individual was the rentiers who clipped the coupons, and the only thing "private" was the nominally private status of the corporations in capitalist legal theory.

And as Marx also argued, for most of the population socialism would in fact be a return to meaningful individual property rights in the means of production for the first time in their lives. The outcome of the working class expropriating the capitalists is "for labour to relate to its objective conditions as its property again..."<sup>25</sup>

This is the restoration, on a higher technical level, of the pre-capitalist right of access to the conditions of production and subsistence, by virtue of membership in society.

Of course, Hayek might point out in response that an individual worker has no meaningful right of ownership in a state factory whose output is determined by a planning ministry in the national capital. And he would be correct to do so – although it would remain equally true that a factory owned by a large capitalist corporation is not private or individual property in any meaningful sense. The point is that the very distinction between "public" and "private" property becomes meaningless when we talk about national governments and oligopoly corporations that are not accountable in any real sense to those affected by them. It is for this reason that I go on to argue for a model of socialism based on social ownership of land, and of the means of production, through distributed, self-managed, human-scale institutions.

Hayek's presentation of the alleged contrast between the old, negative liberal conception of freedom, and the new, positive one of the socialists, sheds some light here – albeit perhaps inadvertently.

To the great apostles of political freedom the word had meant freedom from coercion, freedom from the arbitrary power of other men, release from the ties which left the individual no choice but obedience to the orders of a superior to whom he was attached. The new freedom promised, however, was to be freedom from necessity, release from the

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<sup>25</sup> *Ibid.*, p. 510.

compulsion of the circumstances which inevitably limit the range of choice of all of us, although for some very much more than for others. Before man could be truly free, the "despotism of physical want" had to be broken, the "restraints of the economic system" relaxed.

Freedom in this sense is, of course, merely another name for power or wealth.... What the promise really amounted to was that the great existing disparities in the range of choice of different people were to disappear. The demand for the new freedom was thus only another name for the old demand for an equal distribution of wealth.<sup>26</sup>

And in a footnote, he remarked on the "characteristic [i.e. of socialism] confusion of freedom with power..."<sup>27</sup>

But the distinction he makes is to a large extent arbitrary, and reflects unstated assumptions about where power and coercion lie – or do not lie – within the present system. A legal guarantee of access rights to some share of the means of production and subsistence, as in a share in governance and returns of a worker-controlled enterprise, or to rent-free housing in a community land trust, is a return to the usufruct or possessory property and guaranteed rights of access to the means of production (e.g. a guaranteed share of subsistence as a member of a hunter-gatherer band, or to a certain number of furlong strips and pasturage rights as a member of a village) that prevailed within pre-capitalist societies before it was forcibly stamped out by states in league with capital. Hunter-gatherer bands and stateless agrarian villages had solidarity-based economies characterized by usufructory property rights and mutual aid – along with what Murray Bookchin, borrowing from Paul Radin, called the "irreducible minimum":

the shared notion that all members of a community are entitled to the means of life, irrespective of the amount of work they perform. To deny anyone food, shelter, and the basic means of life because of infirmities or even frivolous behavior would have been seen as a heinous denial of the very right to live. Nor were the resources and things needed to sustain the community ever completely privately owned: overriding individualistic control was the broader principle of usufruct—the notion that the means of life that were not being used by one group could be used, as need be, by another.<sup>28</sup>

And such social models based on usufruct and the irreducible minimum persisted in many places even under class and state rule – for example in Bengal until it was stamped out by Warren

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<sup>26</sup> Hayek, *The Road to Serfdom* (London and New York: Routledge, 1944), pp. 26-27.

<sup>27</sup> *Ibid.*, p. 26n.

<sup>28</sup> Murray Bookchin, "What Is Social Ecology?" in M.E. Zimmerman, ed., *Environmental Philosophy: From Animal Rights to Radical Ecology* (Englewood Cliffs, NJ: Prentice Hall, 1993). Hosted at Anarchist Archives <[http://dwardmac.pitzer.edu/Anarchist\\_Archives/bookchin/socecol.html](http://dwardmac.pitzer.edu/Anarchist_Archives/bookchin/socecol.html)> (accessed November 25, 2020).

Hastings, in East Africa until destroyed by British colonial authorities, and in the Russian Mir until suppressed first by Stolypin and then by Stalin.

Indeed the very distinction between "negative" and "positive" freedom, as it is made by right-libertarians – i.e. that "positive" freedom requires compulsion or invasion of the rights of others – relies on the assumption of a society of atomistic individuals with no communal or social property rights. And that form of society is in fact the product of state violence, which forcibly nullified communal property rights, and suppressed all social institutions that guaranteed an irreducible minimum of support by virtue of one's membership.

If we reject Hayek's ahistorical assumption that the distributions of wealth and economic power under the present system are spontaneous outcomes of free interaction and treat them as the forcible usurpations they are, it follows that common access rights and the irreducible minimum constitute negative freedom against the arbitrary authority and coercion of landlord or employer. In this sense freedom *is* power; the freedom of the British subject in his or her "castle" against arbitrary invasion of the state is directly analogous to freedom from arbitrary eviction or dismissal.

And Hayek's negative vs. positive framing of the equal distribution of wealth makes sense, similarly, only if we start from his unstated assumption that existing inequalities result from the freedom of the market, rather than from rents on artificial property rights based on past robbery, and that greater equality requires forcible intervention into the natural order of things. On the other hand if we view inequality largely as the fruit of robbery and of ongoing rent extraction, and the existing authority of landlords and employers as a violent imposition, it follows that the restoration of the majority's rightful property in the means of production, and the abolition of special privilege, will result in an equalization of wealth through greater freedom.

**The Road to Serfdom.** This was the book that made Hayek's name, and it figured highly among the things that helped kick off the right-libertarian propaganda offensive. Nevertheless, many of his critiques of central planning are useful from a libertarian socialist perspective.

One of the problems with a central planning regime, Hayek argues, is that it tends to remove ever greater areas of policy from legislative oversight and reduces the legislative role to one of rubber-stamping. More specifically, it requires permanent delegation (i.e. virtual alienation) of authority to administrative bodies

because the matter in hand cannot be regulated by general rules but only by the exercise of discretion in the decision of particular cases. In these instances delegation means that

some authority is given power to make with the force of law what to all intents and purposes are arbitrary decisions....<sup>29</sup>

Perhaps even more alarming, he argues that a planned economy would lead to authoritarianism, because the imperative of protecting the planning state against constant political disruption and reversals with every change of government would lead to restrictions on parliamentary democracy. He cites a rhetorical question raised by Harold Laski as to "whether in a period of transition to Socialism, a Labour Government can risk the overthrow of its measures as a result of the next general election..."<sup>30</sup>

But the truth is that *any* economic order requires treating some fundamental rules as foundational, and beyond the reach of ordinary politics.

In fact Hayek's own "liberal" order of private property and contract requires granting special constitutional status to capitalism's particular rules of property and contract – which are actually particular arbitrary selections from among many alternative possible sets of such rules – and removing them from the realm of politics.

The United States Constitution was created in large part to counter the perceived danger of populist coalitions in the state legislatures cancelling debt and redividing land – hence the explicit prohibition on states passing legislation to impair the obligations of contract. And in discussing provisions to guarantee to the states a republican form of government, and authorizing the US military to suspend habeas corpus and put down insurrections, Federalist polemicists referenced the cancellation of debt and redivision of land as the sorts of "wicked projects" that might result in those clauses being invoked.

What's more, capitalist ruling classes have a long history, in various countries, of resorting to extra-legal violence and political repression when capitalism's property and contract rules *do* come under political threat. This has been true in comparatively liberal regimes of the imperial core areas – e.g. the blackshirts in Italy as a response to the post-WWI factory occupations, the American Legion and Ku Klux Klan as a response to postwar radicalism in the United States, McCarthyism and COINTELPRO in the post-WWII period, etc. But it is true even more so of the formerly colonized areas of the Global South, in which the United States and other Western powers have repeatedly intervened via coups, military invasions, and covert support for death squads when the interests of capital were threatened in one area or another.<sup>31</sup>

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<sup>29</sup> Hayek, *The Road to Serfdom*, p. 70.

<sup>30</sup> *Ibid.*, p. 66.

<sup>31</sup> See, for example, William Blum, *Killing Hope: U.S. Military and C.I.A. Interventions Since World War II*. Revised edition (London: Zed Books, 2014).

**The Fatal Conceit.** The title of the book refers to “the fatal conceit that man is able to shape the world around him according to his wishes.”<sup>32</sup> Its general perspective is indicated by one of its epigraphs – a quote from Carl Menger: “How can it be that institutions that serve the common welfare and are extremely significant for its development come into being without a common will directed towards establishing them?”<sup>33</sup> As already suggested by our discussion in the first section, Menger’s stated assumption begs the question.

Nevertheless, although Hayek’s (or his editor’s – see footnote 3) ahistorical treatment of capitalism in this book as a spontaneously emerging system rather than the creation of power is laughable, his critiques of social engineering and hubristic attempts to schematically remodel society – in addition to its inadvertent usefulness as a critique of many of the institutions of capitalism itself – is also genuinely useful for envisioning the general outlines of a post-capitalist society. Specifically, he attacks social engineering (“the notion that man can consciously choose where he wants to go”) and constructivist rationalism (“the... interpretation of systems of law and morals according to which their validity and meaning are supposed to depend wholly on the will and intention of their designers”).<sup>34</sup>

Useful to us, in particular, is “the astonishing fact, revealed by economics and biology, that order generated without design can far outstrip plans men consciously contrive.”<sup>35</sup>

...[O]ur values and institutions are determined not simply by preceding causes but as part of a process of unconscious self-organisation of a structure or pattern. This is true not only of economics, but in a wide area, and is well known today in the biological sciences. This insight was only the first of a growing family of theories that account for the formation of complex structures in terms of processes transcending our capacity to observe all the several circumstances operating in the determination of their particular manifestations. When I began my work I felt that I was nearly alone in working on the evolutionary formation of such highly complex self-maintaining orders. Meanwhile, researches on this kind of problem – under various names, such as autopoiesis, cybernetics, homeostasis, spontaneous order, self-organisation, synergetics, systems theory, and so on – have become so numerous that I have been able to study closely no more than a few of them.<sup>36</sup>

And elsewhere: “There can be no deliberately planned substitutes for such a self-ordering process

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<sup>32</sup> Hayek, *The Fatal Conceit*, p. 27.

<sup>33</sup> *Ibid.*, p. 3.

<sup>34</sup> *Ibid.*, pp. 51, 52.

<sup>35</sup> *Ibid.*, p. 8.

<sup>36</sup> *Ibid.*, p. 9.

of adaptation to the unknown."<sup>37</sup> For Hayek, this means we do not "create" a self-ordering system through conscious design, but – based on what limited knowledge we possess of the structures of existing self-ordering systems – create the optimal conditions under which such a system can create itself. "For in fact we are able to bring about an ordering of the unknown only by causing it to order itself."<sup>38</sup> "In order to induce the self-formation of certain abstract structures of inter-personal relations, we need to secure the assistance of some very general conditions, and then allow each individual element to find its own place within the larger order."<sup>39</sup>

In short: "The difference between the two kinds of rules is the same as that between laying down a Rule of the Road, as in the Highway Code, and ordering people where to go; or, better still, between providing signposts and commanding people which road to take."<sup>40</sup>

This dovetails considerably with the general body of thought in the field of complexity theory on emergent, self-organizing systems. Everywhere we look we see systems characterized by modular, building-block architectures because such a structure (M. Mitchell Waldrop writes)

transforms a system's ability to learn, evolve and adapt... Once a set of building blocks... has been tweaked and refined and thoroughly debugged through experience... then it can generally be adapted and recombined to build a great many new concepts... Certainly that's a much more efficient way to create something new than starting all over from scratch. And that fact, in turn, suggests a whole new mechanism for adaptation in general. Instead of moving through that immense space of possibilities step by step, so to speak, an adaptive system can reshuffle its building blocks and take giant leaps."

A small number of building blocks can be shuffled and recombined to make any number of complex systems.<sup>41</sup>

Starting from a large number of modular individuals, each capable of interacting with a few other individuals, and acting on other individuals according to a simple grammar of a few rules, under the right circumstances it's possible for the modular individuals to undergo a rapid phase transition. According to systems theorist Stuart Kauffman: "The growth of complexity really does have something to do with far-from-equilibrium systems building themselves up, cascading to higher and higher levels of organization. Atoms, molecules, autocatalytic sets, et cetera."<sup>42</sup>

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37 *Ibid.*, p. 76.

38 *Ibid.*, pp. 82-83.

39 *Ibid.*, p. 83.

40 *Ibid.*, p. 78.

41 M. Mitchell Waldrop, *Complexity: The Emerging Science at the Edge of Order and Chaos* (New York, London, Toronto, Sydney, Tokyo, Singapore: Simon & Schuster, 1992), pp. 169-170.

42 *Ibid.*, pp. 316-317.

Hayek frames the superiority of emergent, self-organizing orders as an indictment of "socialism," because for him — as for all right-libertarian polemicists since Mises and Rand — socialism equates to government ownership and central planning. For most of the libertarian commentariat, the more stuff government owns and controls, the more socialist it is.<sup>43</sup>

Nevertheless, all of this has a high degree of relevance to interstitial models of post-capitalist transition that see a socialist successor system as the emergent product of a wide range of present-day building blocks that are gradually developing and coalescing in a self-organized manner.

I contrast this model of post-capitalist, post-state society not only to socialist models that assume high degrees of centralized coordination and planning, but to all schools of anarchism or socialism that envision systematically new-modeling society on the basis of any uniform organizational template — whether it be syndicates, councils, markets, municipal assemblies, agro-industrial communes, or whatever.

The latter models, although gratifying to the world-building instincts of anyone — including myself! — with a utopian imagination, are what Marx dismissed as "writing recipes for the cook shops of the future." And they're fundamentally misguided, when contrasted with any realistic understanding of how systemic transition is likely to take place.

Corporate-state capitalism is highly unlikely to be replaced by any coherently-designed successor system, in a transition process brought about by converting everybody to the same political "ism" or getting everyone to agree on the same organizational template as a basis for constructing the new society. A successor society is much more likely to emerge as the sum total product of the myriad of spontaneous actions people take, out of necessity, to survive the crisis tendencies of the present one. A thousand different organizational expedients and forms of praxis, distributed throughout the interstices of the present society, are the seeds of the successor society.

A polymathic Twitter commentator who goes by the handle yungneocon expressed a similar approach in an extended thread. After stating his preference for a "negative" approach — i.e. starting out by eliminating the most extractive institutions that define the character of the present system — he continues:

I don't mean this in some "yeah destroy everything" infantile way — but where coercive

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<sup>43</sup> For an especially egregious display of this tendency, see Jacob Hornberger's series "Socialism, American Style," in *Future of Freedom*. In Part 1 of that witless series, he writes "A 100 percent socialist society is one in which the state owns everything — the businesses, industries, houses, farms, and all other personal and real property. In a purely socialist society, everyone is a government employee." "Socialism, American Style, Part 1," *Future of Freedom*, May 2020, p. 2 (online at <<https://www.fff.org/explore-freedom/article/socialism-american-style-part-1/>>).



and extractive structures exist, that function by suppressing or eliminating pre-existing, or, dare I even say "natural" positives, their elimination IS literally positive.

A bad faith critic would be inclined to say I am all negative (by focussing on ending extraction, enclosure, retribution, prisons, and private land monopoly), but this isn't fair – I'm simply an agnostic/pluralist about what the positive post-emancipation project would be

There are many social systems, when stated in 'ideal' terms, I would be fine living with, for the most part – gift economies, communization, FALSC, mutualist hobby markets + common ownership, Parecon/Participatory Planning, cybernetic socialism, council communism, etc.

Would I be comfortable positing any of these as the final state? or sufficient? or perfect? or superior to the other alternatives presented? or the only available options? absolutely not on all counts.

I also *trust* people, and do not think we *can*, let alone need, to figure out every detail ahead of time – such arrogant confidence in the ability to predict, plan, control, and address contingencies, localities, novelties, etc, is fatal to success & emancipation.

If I were to somewhat mis-use the terminology of complexity & systems, I think our positive projects are best seen as 'attractors' – focal points around which dynamic systems adapt & to which they tend; catalysts & resources for action, but not pre-determined outcomes....

Thinkers, ranging across eras, disciplines & ideologies as Aristotle, Ibn-Khaldun, Smith, Darwin, Kropotkin, Hayek, Taleb, Ostrom, Meadows, Bookchin, Scott, Polanyi, Collins, Sahlins, Ward, Graeber & others, emphasize complex, evolved, decentralized, organic systems.

These emerge in time & space through slow plodding, tacit knowledge, learning, trial & error, cooperation, evolution, selection, internalization, canalization, and so on, without unitary top-down planners global/universal in time & space.

Obviously, what the Smith, Hayek, Taleb, style crew ignores is that these systems DO involve planning – indeed, even central planning, at times – but they do so in a piecemeal, often local, temporary, evolved, contingent, and, if not spontaneous, at least novel fashion.

Now, in the cases where systems have built up, by trial and error, habits, norms, practices, knowledge, skills, traditions, cultures, histories, systems, and so on, over a long period of time, it is the case that these systems will tend to be more robust, adaptable & unique

When someone comes in and tosses out these decentralized, evolved tacit traditions, and attempts to impose grids & order, they often end up doing devastating damage, sometimes losing incredibly robust knowledge irreparably<sup>44</sup>

The "I *trust* people" comment, in particular, echoes the stated approach of David Graeber: "When people ask me what sorts of organization could exist in an anarchist society,"

I always answer: any form of organization one can imagine, and probably many we presently can't, with only one proviso—they would be limited to ones that could exist without anyone having the ability, at any point, to call on armed men to show up and say "I don't care what you have to say about this; shut up and do what you're told."<sup>45</sup>

I'm less interested in figuring out what sort of anarchist I am than in working in broad coalitions that operate in accord with anarchist principles: movements that are not trying to work through or become governments; movements uninterested in assuming the role of de facto government institutions like trade organizations or capitalist firms; groups that focus on making our relations with each other a model of the world we wish to create. In other words, people working toward truly free societies. After all, it's hard to figure out exactly what kind of anarchism makes the most sense when so many questions can only be answered further down the road. Would there be a role for markets in a truly free society? How could we know? I myself am confident, based on history, that even if we did try to maintain a market economy in such a free society— that is, one in which there would be no state to enforce contracts, so that agreements came to be based only on trust—economic relations would rapidly morph into something libertarians would find completely unrecognizable, and would soon not resemble anything we are used to thinking of as a "market" at all. I certainly can't imagine anyone agreeing to work for wages if they have any other options. But who knows, maybe I'm wrong. I am less interested in working out what the detailed architecture of what a free society would be like than in creating the conditions that would enable us to find out.<sup>46</sup>

Instead of central planning and development according to a centralized design, we should pursue

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44 Twitter, September 26, 2018. Thread beginning at Sept 26 2018  
<<https://twitter.com/yungneocon/status/1045047763258535951>>.

45 David Graeber, *The Democracy Project: A History, a Crisis, a Movement* (Spiegel & Grau, 2013), pp. 187-188.

46 *Ibid.*, pp. 192-193.

something like the decentralized development of a pattern language, in which a very large set of basic building blocks – an alphabet – is endlessly combined and recombined into an infinity of molecular forms by local initiative, according to a basic grammar. Instead of redistribution, or distribution by planning bureaucracies, we have predistribution – primarily through the definition of basic property rules. As opposed to redistribution, predistribution designs the system for optimal distribution in the first place.

Chris Dillow, a Marxist economist who is adamantly anti-managerialist, equally adamant about the value of distributed knowledge, and open-minded about the role of markets, advocates models of socialism along such lines. He challenges neoliberal arguments that inequality is the product of an efficiently functioning market and reflects differences in marginal productivity, and argues instead that inequality is "a symptom of malfunctioning markets – that... 'the system is rigged.'"<sup>47</sup> His proposals for predistribution include initially defining property rights so as to build workers' bargaining power and broad claims to income streams directly into the system. Under such a model, equality of distribution automatically results from the distribution of bargaining power and property rights, rather than requiring the ongoing intervention of a managerial state. Among the examples Dillow himself suggests are "increasing unions' strength; encouraging the growth of worker coops; and a citizens basic income sufficiently high to allow people to reject low wages and poor working conditions."<sup>48</sup>

Alongside the above provisions Dillow mentions, which are all aimed at increasing the bargaining power of labor, we might add industrial co-determination on the German model as a transitional measure. Or, since we're envisioning full-blown post-capitalism, perhaps the entire elimination of absentee firm ownership and, in its place, automatic ownership of the firm by its workforce. This is the focus of David Ellerman's large body of left-libertarian scholarship, as well as a major organizational component of left-libertarian utopias ranging from Callenbach's *Ecotopia* books to Robinson's *Mars Trilogy* to Yaris Varoufakis's *Another Now*.

Other changes in property rules might include abolishing intellectual property in order to reflect the non-scarce and non-rivalrous nature of information – a measure Hayek himself considers worthy of consideration, as we shall see below – and commons-based ownership of land and natural resources through community land trusts, Ostromite commons governance of natural resources, etc.

Dillow also notes that such predistribution through redefined property rights would have the

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47 Chris Dillow, "Begging the inequality question," *Stumbling and Mumbling*, April 30, 2014  
<[https://stumblingandmumbling.typepad.com/stumbling\\_and\\_mumbling/2014/04/begging-the-inequality-question.html](https://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2014/04/begging-the-inequality-question.html)>.

48 Dillow, "Predistribution — Good, Bad & Unoriginal," *Stumbling and Mumbling*, September 6, 2012  
<[https://stumblingandmumbling.typepad.com/stumbling\\_and\\_mumbling/2012/09/predistribution-good-bad-unoriginal.html](https://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2012/09/predistribution-good-bad-unoriginal.html)>.

advantage of increased productivity, which stands to reason given that the existing definition of property rights largely reflects the role of the rentier classes in state policy, with property rules mostly designed to enable rentiers to extract unearned surpluses from the productive – to increase the size of the rent-extractors' slice of the pie, in other words – rather than to maximize productivity.

As Dillow argues, not only do existing property rules under capitalism decrease efficiency at the point of production, but the resulting inequality diverts resources into wasteful and irrational avenues.

...[A]ctually-existing capitalism itself contains many dysfunctional incentives – ones that constrain innovation and encourage rent-seeking...

One such bad incentive is that high inequality gives the rich stronger incentives to protect their privilege by investing in methods which keep or increase their share of the economic pie without much increasing it. Sam Bowles and Arjun Jaydev show that unequal countries employ more "guard labour" – policemen, security guards, supervisors and so – than egalitarian ones. They say:

"A significant portion of an economy's productive potential may be devoted to the exercise of power and to the perpetuation of social relationships of domination and subordination."

A similar thing applies to innovation. Capitalists have incentives to invest in power-biased technical change – devices such as CCTV, Worksnap or tachographs that help bosses monitor workers. Such technologies reduce the need for efficiency wages and so boost profits. But it's not clear they are good for aggregate output.<sup>49</sup>

Socialist models based on predistribution and the initial definition of property rights have, among other things going for them, the fact that "marginal productivity" is a largely circular concept. That is, since the marginal productivity of a factor input or market actor is whatever its remuneration adds to the final price of a commodity, its marginal productivity really amounts to whatever it's able to charge for its "services." In other words, "marginal productivity" follows power.

Predistribution is about changing the distribution of power – arguably in ways that are more rational, insofar as they vest it in parties that make the highest contribution to productivity,

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49 Dillow, "Capitalism's bad incentives," *Stumbling and Mumbling*, October 7, 2017  
<[https://stumblingandmumbling.typepad.com/stumbling\\_and\\_mumbling/2017/10/capitalisms-bad-incentives.html](https://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2017/10/capitalisms-bad-incentives.html)>.

possess the most vital knowledge, or have the highest monitoring costs, as per New Institutionalists like Oliver Williamson – and then stepping back and letting the system run itself.

As testimony in favor of a socialist system based on the automatic application of abstract, general rules rather than ongoing planning, we have Hayek himself.

The question then is how to secure the greatest possible freedom for all. This can be secured by uniformly restricting the freedom of all by abstract rules that preclude arbitrary or discriminatory coercion by or of other people, that prevent any from invading the free sphere of any other.... In short, common concrete ends are replaced by common abstract rules. Government is needed only to enforce these abstract rules, and thereby to protect the individual against coercion, or invasion of his free sphere, by others. Whereas enforced obedience to common concrete ends is tantamount to slavery, obedience to common abstract rules (however burdensome they may still feel) provides scope for the most extraordinary freedom and diversity.<sup>50</sup>

And again: "...[T]here is a difference between following rules of conduct, on the one hand, and knowledge about something, on the other.... The habit of following rules of conduct is an ability utterly different from the knowledge that one's actions will have certain kinds of effects."<sup>51</sup>

The advantages are in part practical, of course – i.e. in superior efficiency of coordination. "The state" – or, as anarchists, we should say "society"

should confine itself to establishing rules applying to general types of situations, and should allow the individuals freedom in everything which depends on the circumstances of time and place, because only the individuals concerned in each instance can fully know these circumstances and adapt their actions to them.<sup>52</sup>

But a society organized around general rules rather than administrative coordination also permits a much greater degree of day-to-day freedom. A free society, Hayek argues, requires the Rule of Law, in the sense of a set of conditions in which people can confidently make life decisions based on an understanding of the general principles that govern them, with a high degree of assurance that they will not be subject to interference by arbitrary and unpredictable action by the authorities.

Stripped of all technicalities this means that government in all its actions is bound by rules fixed and announced beforehand – rules which make it possible to foresee with fair

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<sup>50</sup> Hayek, *The Fatal Conceit*, pp. 63-64.

<sup>51</sup> *Ibid.*, p. 78.

<sup>52</sup> *Ibid.*, p. 79.

certainty how the authority will use its coercive powers in given circumstances, and to plan one's individual affairs on the basis of this knowledge.... While every law restricts individual freedom to some extent by altering the means which people may use in the pursuit of their aims, under the Rule of Law the government is prevented from stultifying individual efforts by *ad hoc* action.<sup>53</sup>

Economic planning of the collectivist kind necessarily involves the very opposite of this. The planning authority cannot confine itself to providing opportunities for unknown people to make whatever use of them they like. It cannot tie itself down in advance to general and formal rules which prevent arbitrariness. It must provide for the actual needs of people as they arise and then choose deliberately between them. It must constantly decide questions which cannot be answered by formal principles only, and in making these decisions it must set up distinctions of merit between the needs of different people. When the government has to decide how many pigs are to be reared or how many buses are to be run, which coal mines are to operate, or at what prices boots are to be sold, these decisions cannot be deduced from formal principles, or settled for long periods in advance. They depend inevitably on the circumstances of the moment, and in making such decisions it will always be necessary to balance one against the other the interests of various persons and groups. In the end somebody's views will have to decide whose interests are more important; and these views must become part of the law of the land, a new distinction of rank which the coercive apparatus of government imposes upon the people.<sup>54</sup>

He cites, as an example of universally binding, abstract, and impersonal rules, Hume's "three 'fundamental laws of nature' : 'the stability of possession, of its transference by consent, and of the performance of promises'."<sup>55</sup> Since this simple ruleset – a society based on alienable, fee-simple property with secure absentee title, and enforceable contracts – was imposed in considerable part through conscious design, we shouldn't fall too far afoul of Hayek in imposing a similarly small and simple set of rules for a socialist society, leaving the specifics to work themselves out as an emergent property of those rules.

Then too, Hayek's speculation on the forms of experimental tinkering he regarded as permissible for adapting property rules to ongoing experience included radically scaling back or eliminating patents and copyrights altogether.<sup>56</sup> In fact he viewed a considerable number of measures we would consider quasi-socialist to be, at least theoretically, compatible with his liberal order.

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<sup>53</sup> Hayek, *The Road to Serfdom*, pp. 75-76.

<sup>54</sup> *Ibid.*, p. 77.

<sup>55</sup> Hayek, *The Fatal Conceit*, p. 34.

<sup>56</sup> *Ibid.*, pp. 36-37, 69.

There is... a strong case for reducing this inequality of opportunity [resulting from inheritance] as far as congenital differences permit and as it is possible to do so without destroying the impersonal character of the process by which everybody has to take his chance and no person's view about what is right and desirable overrules that of others.<sup>57</sup>

He also acknowledged that the provision of some minimum guaranteed income to all through a welfare state, "outside of and supplementary to the market system," was compatible with individual freedom.<sup>58</sup>

And this throwaway observation is especially intriguing, even though Hayek himself raises the possibility and dismisses it:

That the ideal of justice of most socialists would be satisfied if merely private income from property were abolished and the differences between the earned incomes of different people remained what they are now, is true. What these people forget is that in transferring all property in the means of production to the state they put the state in a position whereby its action must in effect decide all other incomes.<sup>59</sup>

He dismisses it for illegitimate reasons: namely his conflation of abolishing private income from property with nationalization and centralized governance of property, and his inability to imagine alternatives like a regime of distributed communal property owned by people on a local basis as members of land trusts, coliving complexes, worker cooperatives, stakeholder-governed public services and platforms, and the like.

The structure of the new society should be the outgrowth of seeds already developing in the present one, and the precise form it takes should be worked out in large part stigmergically, through collective, distributed intelligence.

No less a radical than Marx saw the communist society of the future as something already existing, in embryonic form, in the capitalist society of his day, preparing to "burst out of its capitalist integument" when it reached the proper stage of development and could no longer progress within the bounds of its old cocoon. And aside from tentative transitional programs in the *Communist Manifesto* and *Critique of the Gotha Program*, and a piece of occasional writing in which he treated the Paris Commune as illustrating likely features of a future proletarian dictatorship, he mostly avoided writing "recipes for the cook shops of the future."

Hayek makes a convincing argument for a polyarchic system, even if it's not the capitalist one he

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<sup>57</sup> Hayek, *The Road to Serfdom*, p. 102.

<sup>58</sup> *Ibid.*, p. 120.

<sup>59</sup> *Ibid.*, p. 103.

has in mind.

It is only because the control of the means of production is divided among many people acting independently that nobody has complete power over us, that we as individuals can decide what to do with ourselves. If all the means of production were vested in a single hand, whether it be nominally that of "society" as a whole, or that of a dictator, whoever exercises this control has complete power over us.<sup>60</sup>

The proper approach is to achieve the goals of distributive justice, not through the conscious and ongoing direction of a central authority, but by the initial distribution of property rights between a large number of self-governing entities – the land trusts, cooperatives, and other institutions we enumerated above – operating according to general and impersonal rules which prevent property from becoming concentrated into a small number of hands or becoming a source of economic rents. Once these preconditions are established, the specific forms of coordination between the various entities is a secondary matter. It matters little whether they coordinate their mutual relations through socialist markets, through horizontal and reciprocal planning between nodes in a network, or through some combination of the two.

**The Use of Knowledge in Society.** At the outset of this article, Hayek states the nature of the problem facing any would-be central planner: that the sum total of knowledge needed for rational planning is not available to any one decision-making center.

The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate "given" resources – if "given" is taken to mean given to a single mind which deliberately solves the problem set by these "data." It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge not given to anyone in its totality.<sup>61</sup>

...This is not a dispute about whether planning is to be done or not. It is a dispute as to whether planning is to be done centrally, by one authority for the whole economic

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<sup>60</sup> *Ibid.*, p. 104.

<sup>61</sup> Friedrich Hayek, "The Use of Knowledge in Society," *The American Economic Review* XXXV:4 (September 1945), pp. 519-520.



system, or is to be divided among many individuals. Planning in the specific sense in which the term is used in contemporary controversy necessarily means central planning-direction of the whole economic system according to one unified plan. Competition, on the other hand, means decentralized planning by many separate persons.<sup>62</sup>

Hayek posits a contrast between theoretical and practical knowledge essentially identical to that James Scott draws between *techne* and *metis*.

Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge. But a little reflection will show that there is beyond question a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances of time and place. It is with respect to this that practically every individual has some advantage over all others in that he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active cooperation. We need to remember only how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs, and how valuable an asset in all walks of life is knowledge of people, of local conditions, and special circumstances. To know of and put to use a machine not fully employed, or somebody's skill which could be better utilized, or to be aware of a surplus stock which can be drawn upon during an interruption of supplies, is socially quite as useful as the knowledge of better alternative techniques.<sup>63</sup>

He argues, ironically, that such distributed practical knowledge is looked down on because of intellectuals' disdain for "commerce," and it is believed that such knowledge should be replaced by universally available knowledge.

It is a curious fact that this sort of knowledge should today be generally regarded with a kind of contempt, and that anyone who by such knowledge gains an advantage over somebody better equipped with theoretical or technical knowledge is thought to have acted almost disreputably. To gain an advantage from better knowledge of facilities of communication or transport is sometimes regarded as almost dishonest, although it is quite as important that society make use of the best opportunities in this respect as in using the latest scientific discoveries. This prejudice has in a considerable measure affected the attitude toward commerce in general compared with that toward production. Even economists who regard themselves as definitely above the crude

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<sup>62</sup> *Ibid.*, pp. 520-521.

<sup>63</sup> *Ibid.*, pp. 521-522.

materialist fallacies of the past constantly commit the same mistake where activities directed toward the acquisition of such practical knowledge are concerned—apparently because in their scheme of things all such knowledge is supposed to be "given." The common idea now seems to be that all such knowledge should as a matter of course be readily at the command of everybody, and the reproach of irrationality leveled against the existing economic order is frequently based on the fact that it is not so available. This view disregards the fact that the method by which such knowledge can be made as widely available as possible is precisely the problem to which we have to find an answer.<sup>64</sup>

But to bring back our friend Chris Dillow, the premier example of central planning in our post-Berlin Wall world is not Gosplan, but the capitalist corporation. To quote Dillow, "if you want to find people who still believe in central planning today, you should look not among Marxists but in company boardrooms. It's bosses who believe complex systems can be controlled well from the top down..."<sup>65</sup> And elsewhere: "My support for worker democracy owes less to Marx – who wrote little about post-capitalism – than it does to Hayek."<sup>66</sup>

Production workers' distributed knowledge of the production process, and the human capital involved in their work relationships, is in fact the main source of value added. And the dominant approach of management, in both the capitalist corporation and the state socialist planned economy, has been to attempt to reduce *metis* to forms of knowledge which are legible to managerial hierarchies through deskilling strategies like Taylorism.

Authority relations of the sort that exist within the managerial hierarchies of capitalist corporations, likewise, are the main barriers to aggregating the distributed knowledge of those directly engaged in the production process. When superior rungs of a hierarchy do not represent the lower rungs, and have interests opposed to theirs, those on the lower rungs have an incentive to hoard knowledge and to economize on effort. They know very well that any contribution they make to increased efficiency will be used against them in the form of downsizings, speedups, and increased management compensation. The capitalist managerial hierarchy, by its very nature, exists in order to extract value from those at the bottom; any gains in productivity will be appropriated by those in a superior position of power.

Hierarchies exist, not because of their superior efficiency at aggregating dispersed information, but because of their superior efficiency at extracting a surplus from people who have a fundamental conflict of interest with the people they're working for. A hierarchical organization

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<sup>64</sup> *Ibid.*, p. 522.

<sup>65</sup> Dillow, "Bad arguments against Marxism," *Stumbling and Mumbling*, May 23, 2016 <[https://stumblingandmumbling.typepad.com/stumbling\\_and\\_mumbling/2016/05/bad-arguments-against-marxism.html](https://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2016/05/bad-arguments-against-marxism.html)>.

<sup>66</sup> Dillow, "Diversity: a rightist ideal," *Stumbling and Mumbling*, August 3, 2018 <[https://stumblingandmumbling.typepad.com/stumbling\\_and\\_mumbling/2018/08/diversity-a-rightist-ideal.html](https://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2018/08/diversity-a-rightist-ideal.html)>.

is designed to trade suboptimal performance for ease of surplus extraction. It imposes standardized work rules, even at the cost of reducing the discretion of those with the most situational knowledge, because the latter cannot be *trusted* with the discretion to use their knowledge with the greatest effectiveness. They have no personal interest in the goals of the organization, and no interests in common with those running it.

The situation is explained by the anarchist Shevek, in a conversation with an elderly conservative, in Ursula LeGuin's *The Dispossessed*:

Atro had once explained to him how this was managed, how the sergeants could give the privates orders, how the lieutenants could give the privates and the sergeants orders, how the captains . . . and so on and so on up to the generals, who could give everyone else orders and need take them from none, except the commander in chief. Shevek had listened with incredulous disgust. "You call that organization?" he had inquired. "You even call it discipline? But it is neither. It is a coercive mechanism of extraordinary inefficiency – a kind of seventh-millennium steam engine! With such a rigid and fragile structure what could be done that was worth doing?" This had given Atro a chance to argue the worth of warfare as the breeder of courage and manliness and weeder-out of the unfit, but the very line of his argument had forced him to concede the effectiveness of guerrillas, organized from below, self-disciplined. "But that only works when the people think they're fighting for something of their own – you know, their homes, or some notion or other," the old man had said. Shevek had dropped the argument. He now continued it, in the darkening basement among the stacked crates of unlabeled chemicals. He explained to Atro that he now understood why the Army was organized as it was. It was indeed quite necessary. No rational form of organization would serve the purpose. He simply had not understood that the purpose was to enable men with machine guns to kill unarmed men and women easily and in great quantities when told to do so.<sup>67</sup>

It follows, therefore, that the ideal "method by which such knowledge can be made as widely available as possible" is to eliminate the conflicts of interest inherent in the authority relationship. This means to place the role of coordinating production in the hands of those directly responsible to those who possess distributed knowledge and create value through it, and to guarantee that all productivity gains produced by effective use of distributed knowledge are fully internalized by its possessors.

So we wind up with yet another argument from Hayek in favor of decentralization – in this case its superior aggregation and utilization of dispersed, or tacit, knowledge – in addition to those in *The Road to Serfdom* and *The Fatal Conceit*. As he argues,

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<sup>67</sup> Ursula LeGuin, *The Dispossessed* (New York: Harper Paperbacks, 1974), pp. 305-306.

the sort of knowledge with which I have been concerned is knowledge of the kind which by its nature cannot enter into statistics and therefore cannot be conveyed to any central authority in statistical form. The statistics which such a central authority would have to use would have to be arrived at precisely by abstracting from minor differences between the things, by lumping together, as resources of one kind, items which differ as regards location, quality, and other particulars, in a way which may be very significant for the specific decision. It follows from this that central planning based on statistical information by its nature cannot take direct account of these circumstances of time and place, and that the central planner will have to find some way or other in which the decisions depending on them can be left to the "man on the spot."

If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decisions must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them.<sup>68</sup>

Hayek goes on to argue, in the second half of the article, that his "men on the spot" in turn need a way of obtaining the dispersed knowledge of others which they are lacking. Within the firm, as I have argued, this means management that represents and reflects the interests of all those in possession of the knowledge.

So far this essentially corresponds to what Harvey Liebenstein called "X-efficiency." The concept of allocative efficiency, to which neoclassical economics pays far greater attention, treats the internal workings of the enterprise for all intents and purposes as a black box, and focuses instead on the most efficient combination of gross inputs that can be allocated to the firm. X-efficiency, on the other hand, concerns the best use of resources that are available *within* the firm – in other words things like the best placement of machines, and other details of the work process.<sup>69</sup>

But in regard to production inputs from outside the firm – allocative efficiency – the aggregation of dispersed knowledge also requires knowledge as to the relative scarcity and cost of production of such inputs, and which to economize on. And in regard to outputs, it requires knowledge of relative demand for competing products.

Hayek uses this as the jumping-off point for essentially restating Mises' version of the economic calculation argument, based on the need for an ordinal ranking system of cost and benefit –

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68 Hayek, "The Use of Knowledge in Society," p. 524.

69 Harvey Liebenstein, "Allocative Efficiency vs. 'X-Efficiency'," *American Economic Review* 56 (June 1966).

namely price. There has to be private property in producer goods like machinery and raw materials, Mises argued, in order for a system of market prices to develop that convey information about the relative scarcity and costs of the inputs, and the comparative value of returns from the alternative uses to which they might be put.

Now, as I already suggested, I'm agnostic on the relative efficiency of market pricing and horizontal planning, in a decentralized libertarian socialist economy.

But I would also add that the value of prices as a source of information for the allocation of resources is only as good as the quality of the process by which the prices are generated. The "Garbage In, Garbage Out" rule applies. And the quality of input pricing under capitalism is almost entirely garbage. "Market pricing," as such, does not result in calculational rationality if the prices are themselves irrational.

We have to keep in mind that, however much apologists for capitalism imply otherwise, property rules do not arise *through* the market; rather, the market *presupposes* them. And no particular set of property rules is self-evident. Rather, the definition of property rules is logically prior to the functioning of the market; market-clearing prices are established given a pre-existing set of property rules, and the equilibrium prices that result will vary greatly depending on which among many possible alternative rule sets exists. As I have written elsewhere:

Whether "strong property rights" facilitate or impede economic progress depends on the specifics of how they're drawn up and who they're assigned to.... There is a wide range of possible property rights, with varying effects. Some forms of property rights are conducive to economic progress, and some forms are a drain or impediment. The optimal design of property rights is the subject of a whole field of institutional economics, perhaps best exemplified by Oliver Williamson.

If property rights are well-designed – if they're assigned to stakeholders who create the bulk of value, and/or whose contractual performance is hardest to verify and control under the terms of an incomplete contract – they will facilitate progress.

If they're badly designed, they will siphon productive resources into high-cost management surveillance, guard labor, economic rents, and waste production. Badly designed property rights benefit rentiers at the expense of producers, and disincentivize productive activity by the latter. And economic rents – that is, returns greater than needed to bring services to market – will, by definition, not incentivize additional output.<sup>70</sup>

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<sup>70</sup>Kevin Carson, "'Economic Calculation,' 'Strong Property Rights,' and Other Lies Koch-Funded Libertarian Commentators Told Me," Center for a Stateless Society, August 3, 2019 <<https://c4ss.org/content/52310>>.

Indeed, if a system of property rules is badly designed, so as to misrepresent the relative scarcity or abundance of material inputs, or create information and incentive problems in the governance of the enterprise, the resulting price signals will create as much calculational chaos as any socialist planning system Mises could imagine.

So we find that, if Mises' calculation proves anything with regard to existing capitalism, it proves too much – *far* too much. For the property rules we have now could not have a greater distorting effect had they actually been designed for that purpose.

We already discussed the informational and incentive problems caused by the existing model of property rights and governance in the firm.

In addition, property in information makes it artificially scarce and expensive. It erects toll-gates to knowledge sharing that hinder collaboration and innovation, and impede the "shoulders of giants" effect. And generally speaking, it prevents the use of knowledge and technique to their full effect.

But our system of property rights in land and natural resources, in contrast, makes material inputs artificially abundant and cheap to the propertied classes (the heirs and assigns of the past expropriators and enclosers of said resources), and artificially scarce and expensive to everyone else.

So on the one hand we've had centuries of a capitalist growth model based on the extensive addition of more artificially cheap material inputs. The imperialist powers fight resource wars, install governments friendly to extractive industry, encourage economic development in the Global South based on the export of raw materials, and resort to eminent domain and liability caps to maximize the supply of energy and mineral inputs.

Corporate agribusiness is so inefficient in terms of output per acre, compared to small-scale intensive forms of cultivation, because it treats land as a free good. Latin American haciendas hold almost 90% of their ill-gotten land out of cultivation, while neighboring land-poor peasants must resort to working for them as wage laborers. And the U.S. government pays farmers to hold land out of use, so that sitting on idle land becomes a real estate investment with a guaranteed return. Patented "Green Revolution" seed varieties are designed to be used on giant plantation farms built on stolen and enclosed land, with access to enormous amounts of heavily subsidized irrigation water and other inputs.

Indeed the very metrics of capitalism – "marginal productivity," corporate accounting rules, and GDP – all treat the expenditure of resources, as such, as the creation of value. And capitalism's

chronic tendencies towards surplus capital and idle capacity create an imperative for subsidized waste – through planned obsolescence, military spending, suburbanization and car culture, etc. – in order to avoid Depression.

And on the other hand, there's an artificially high degree of surplus labor extraction in the wage system because the working class was forcibly separated from the land. Access to land for housing and subsistence is artificially expensive thanks to the appropriation and enclosure of vacant and unused land, and continuing landlord title to unused buildings.

But what if we start from the assumption of a socialist system in which prices *accurately* reflect actual scarcity and cost, and property rules in the firm maximize efficiency in aggregating and utilizing knowledge? For example, we make all information Free and Open Source. We in effect reverse the enclosures, incorporating residential, commercial, and agricultural land into land trusts, and place natural resources under the kind of commons governance bodies that Elinor Ostrom envisioned. We reorganize utilities and public services (including platforms like Amazon, Twitter, Uber, and Airbnb) as stakeholder cooperatives, and convert manufacturing firms into self-managed worker co-ops.

Given such property rules as the starting point, the market price system would be likely to operate quite effectively in conveying information between the various decentralized local bodies constituting the economy. It would, ironically, be exactly the kind of market socialism whose practicability Hayek denied in his debates with Lange, on the grounds that it could not meaningfully price inputs.

**Conclusion.** So we see that, far from being the unassailable critiques of socialism or defenses of capitalism he imagined, Hayek's arguments are in fact not only quite helpful in thinking through the outlines of a future libertarian socialist society, but fairly devastating as critiques of capitalism itself. Not only are the corporate hierarchies and authoritarian employment relationships that exist under capitalism directly counter-productive to the transmission and aggregation of information, but a self-managed and cooperative socialist system in which decision-making power is vested in those who possess the relevant knowledge and contribute the effort would be ideal for putting distributed knowledge to work. Rather than facilitating rational economic calculation, it is more accurate to say that the prevailing property rights under capitalism render it impossible; the pricing of inputs enabled by decentralized cooperative and social control of resources would come the closest to accurately conveying information of any available alternative. Not only did he fail in his purpose of justifying capitalism or ruling out socialism, but Hayek actually demonstrated the non-viability of any society founded on authority, hierarchy, or class. For this anarchists owe him a debt of gratitude.

Only one thing stands in the way of replacing Mises' statue in the future socialist planning ministry with one of Hayek: A libertarian socialist society will have no need for such a ministry.