

Hayek Reader 2: Liberty, Spontaneity and Easterly

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Introduction

In this second part of the “Hayek Reader” series, we shall go back to the first chapter of Friedrich Hayek’s book, “The Constitution of Liberty” to have an up-front definition of the term “liberty”, and what are the various shades and nuances of liberty. These notes were originally written in late 2005 in my blog, <http://hayekreader.blogspot.com>. Minor revisions from those notes were incorporated here.

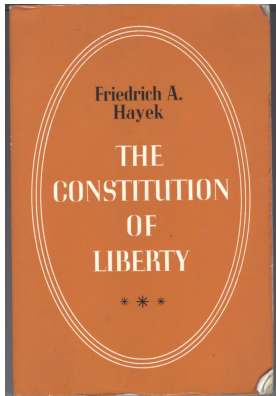
The book’s second chapter is a good fodder for those who are opposing, or at least not comfortable with, the idea of “managing change”, “managing globalization”, if not “managing individual behavior”. This is because Hayek was discussing and extolling the virtue of spontaneity, of economic and technological “accidents” if people are left alone to pursue certain individual ambitions and initiatives. So when some people would attempt to “manage” change or something, there is the implication that those people will control something and would leave little allowance for spontaneity and “accidental” innovation by those they want to control.

Third part of this paper is not about any chapter of the book, but about reflections on Hayek and his philosophy in relation to his contemporary thinkers and some of current known economists, like NYU’s William Easterly. My friend from the university helped me extend my understanding of Hayek’s political and philosophical ideas into economic ideas and issues.

As I have explained in the earlier “Hayek Reader” paper, my interest in Hayek’s political writings started when we have to read many chapters of that book during a colloquium, “The constitution of liberty in Asia” held in Phuket,

Thailand in 2005, sponsored by the Atlas Economic Research Foundation and the Friedrich Naumann Foundation.

Pictures below are Friedrich Hayek in the middle, and William Easterly on the right.



II. Shades of Liberty

Chapter 1, "Liberty and Liberties"

The chapter title is a bit confusing, but it's a good introductory chapter because Hayek immediately defined what "liberty" and "freedom" is -- absence of coercion; absence of arbitrary will of another person, absence of external impediment. Hence, he advises that "the task of a policy of freedom must therefore be to minimize coercion or its harmful effects, even if it cannot eliminate it completely."

The oldest meaning of "freedom" has been "independence of the arbitrary will of another." The range of possibilities for a person ...

Some people take freedom as absolute. That is, they do not consider the consequences of their thoughts and actions. Abuse of freedom can be harmful, both for other people (or for animals and the environment) and for oneself. That is why freedom should be coupled with responsibility, especially personal responsibility. Hayek wrote,

"We maybe free and yet miserable. To be free may mean freedom to starve, to make costly mistakes, or to run mortal risks."

This is true. One can be very rich as a result of inheritance from rich parents, or a result of good business performance in the past. When this is followed by uncontrolled spending that does not add to the firm's productivity and stock of investments, such wealth can vanish later. When freedom in spending is not matched by responsibility in saving and investment, or at least maintaining the

financial viability of the enterprises and investments inherited from one's parents, then that wealth will be gone after sometime. Once gone, it is very difficult to have it back. Freedom to starve is definitely not among the freedoms that individuals aspire for, unless they do it on purpose such as staging a "hunger strike" to pursue some personal or political goal.

Is liberty unique for all people? Liberties refer to various uses of liberty (political liberty, inner liberty, liberty as power) that do not touch on personal or individual liberty. For instance, political freedom includes the freedom to vote, except minors, mentally-handicapped, foreigners, others prohibited by certain laws. National freedom may mean absence of foreigners' interference, but it does not mean individual freedom because the local rulers or the majority can exercise coercive power over the minorities.

So what is the difference between "liberty" and "liberties"? Isn't the former just the singular form of the latter? Hayek defined them as:

"While the uses of liberty are many, liberty is one. Liberties appear only when liberty is lacking. Difference between liberty and liberties -- that which exists between a condition in which all is permitted that is not prohibited by general rules and one in which all is prohibited that is not explicitly permitted."

Thus, a symantic interchange of the words liberty and liberties is not only confusing but also a mistake, based on the above definition. Hence, a strict delineation of meaning between the two should be carefully noted and observed. Like "liberties" can appear when there is absence of individual "liberty", when there is oppression of the individual by some people who are practicing their national, cultural and collective liberty.

Hayek's sentence, "a condition in which all is permitted that is not prohibited by general rules (liberty) and one in which all is prohibited that is not explicitly permitted (liberties)", appears difficult to comprehend. Maybe it will be useful to reduce it further to

Liberty = everything allowed unless explicitly prohibited

Liberties = everything not allowed unless explicitly permitted.

Now, since the State is the biggest coercive force in any country or society, how should such power be limited, and how should the individual behave if he wants his liberty not to be trampled upon by State coercion? Hayek wrote,

"The coercion that government uses is reduced to a minimum by restraining it through known general rules, so that the individual need never be coerced unless he has placed himself in a position where he knows he will be coerced."

This is where the "rule of law" and not "rule of men" are distinguished. Rule of

law means that the rules are to be applicable to everyone, both rulers and ruled, governors and governed, masters and slaves, so that the rulers and governors themselves will not attempt to make very restrictive and rigid laws that will also impinge on their own individual freedom. Rule of men happens when the administrators and implementors of the law exempt themselves and their friends from the restrictions imposed by certain laws.

Government's main function is to secure the citizens' right to life, right to private property, and right to individual liberty. By becoming a bigger force that can control bullies among men. By setting simple and general rules that are applicable to everyone.

In many cases, however, Governments in many countries become the single biggest source of coercion in people's lives, the biggest violators of the rule of law. Here's how:

One, government can tell the citizens how much they can keep from their income, their inheritance (personal income tax, corporate income tax, estate tax,...), their take-home pay, and indirectly, how much they can spend and save since there are various forms of consumption-based taxes and various fees for various government-mandated or monopolized services.

Two, government can over-regulate business, require entrepreneurs to secure plenty of licenses and permits first before they can start or continue their business; or tell job creators how much wage they should give to their unskilled employees, that they cannot easily fire their employees even if some of them have committed serious mistakes in the work place, or without giving them generous separation benefits.

Three, government can restrict people to whom they can buy and sell their products and services, by how much quantity, at what price, through trade protectionism and import restrictions.

These are just a few instances where government becomes one big source of coercion. When laws become too restrictive, "rule of men" prevails because the law enforcers (police, courts, other government agencies) intend to exempt themselves and their allies from such restrictions, apply the laws only to the rest of the citizens.

II. Freedom, Spontaneity and Accidents

Chapter 2, "The creative powers of a free civilization".

Many people do not like spontaneity. They want things to be "in order", managed, planned and predictable. Hence, they resort to all sorts of

command and control of things. This practice is most prominent in many socialist countries in the past, and for organizations and institutions which have socialist aspirations.

Hayek can be a big disappointment for them because the man says there is a big role for spontaneity, accidents and unpredictability of things and events, for the advancement of human civilization. He wrote:

"The argument for liberty is not an argument against organization, but an argument against all exclusive, privileged, monopolistic organization, against the use of coercion to prevent others from trying to do better... Organization is likely to be beneficial and effective so long as it is voluntary. To turn the whole of society into a single organization built and directed according to a single plan would be to extinguish the very forces that shaped the individual human minds that planned it."

The biggest monopolistic organization, an entity with non-voluntary members, is government. Voluntary organizations like private enterprises in a competitive environment are the chief drivers of innovation, trial and error in business, and they either stay or expand, or go bankrupt and close shop.

The market system of exchange between suppliers and consumers is the only system that encourages voluntary exchange among people. Whereas governments have succeeded in propagating a huge army of often unproductive politicians, bureaucrats and regulators, soldiers and armies (and created world wars, instigated civil wars), and developed an extensive system of welfarism and citizen dependence on government. Such welfarism of course, is not costless; the costs are born by voluntary organizations like private enterprises and productive citizens who pay lots of taxes and fees, and/or stifled entrepreneurship for many others who were harassed and intimidated by piles of bureaucratic regulations and permits.

Hayek added,

"Liberty is essential in order to leave room for the unforeseeable and unpredictable. Because every individual knows so little that we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it."

This is so correct, and that is why the free-market system is superior compared to government-controlled and regulated system where politicians and planners, both national and international, tend to think that they know everything, they can plan and ration resources based on their political and personal biases, and they cannot allow spontaneity and unpredictability. The result is an extensive system of forced, not voluntary, collectivism; of forced equality.

The philosophy of “managing” things and changes in society, rather than “adapting” to social changes, is also rooted in this attitude of controlling and regulating things as much as possible. While managing a household or a firm or a village is understandable, managing society to a point where individual and firm level initiatives are restricted to attain certain social outcomes as defined by the politicians and administrators of the State is not a desirable condition. This is because individual initiatives by free individuals are revolutionary, they hate controls and plans that can restrict those initiatives. Change, endless and ruthless change, is supposed to be happening at a fast rate, and such changes are more likely to improve human society rather than pull it down to underdevelopment.

Hayek wrote further,

"Freedom means the renunciation of direct control of individual efforts that a free society can make use of so much more knowledge than the mind of the wisest ruler could comprehend... Freedom granted only when it is known beforehand that its effects will be beneficial is not freedom. Freedom means that many things will be done which we do not like. Our faith in freedom rests on the belief that it will, on balance, release more forces for the good than for the bad."

Not even the wisest of all politicians and lawyers, of all economists and businessmen, of all army generals and rebel commanders, would know the dreams and aspirations, whims and idiosyncracies, of the people. We just have to respect spontaneity and “accidents” in the process of innovation and technological inventions. Over the long-term, beneficial results will outnumber the bad ones. That more innovations in cellular phones, transportation and energy technologies will be initiated than innovations in firearms and nuclear weapons technology. That more research will be done in controlling malaria, HIV and bird flu, than research in poisonous and other destructive substances. So far, this is happening.

Finally, Hayek observed that

"Man owes some of his greatest successes in the past to the fact that he has not been able to control social life. We are not far from the point where the deliberately organized forces of society may destroy those spontaneous forces which have made advance possible."

Big, expansive, all-encompassing governments that regulate not only to whom we can buy or sell various products and services, what subjects can be taught in schools, but also regulate how much we can keep from our monthly or annual income, how much we can give to our children as inheritance, are with us. And there are many people around who think they got really bright ideas, so they justify confiscation of other people's money through taxation, to finance the testing and implementation of their ideas.

III. Keynes, Wolf and Easterly

The following are comments on Hayek and his ideas by a friend and former classmate in a graduate program at the University of the Philippines, School of Economics (UPSE), Joey Sescon. Joey is an engineer-economist, now teaching Economics at the Ateneo de Manila University. My reply follow after Joey's comments. He gave me permission to post these exchanges.

[July 5, 2008]

Noy, I think current thinkers consider Hayek in the lines of great thinkers such as Adam Smith, Marx, Keynes among others. Unfortunately, I have not read him yet. Hayek was Keynes' intellectual rival if we go by the economic and state roles since the great depression in the 1930s. Keynesianism was a vogue while Hayek's ideas were vanished into the sidelines for decades and only in the 1970s did his writings and teachings resurrected with much vigor at the time of the first phenomenon of "stagflation" (a recession with inflation, because normally, inflation only happens with strong growth such as what is happening now in Asia). But even before the 1970s, Milton Friedman in the 1950s – 60's was already a member of the small circle of group that Hayek formed. In that group they have set (and have known from the very start) that theirs is a long intellectual struggle. To think that Keynes and Hayek were together in Cambridge during the War (II) and the two climbed together the Cambridge Tower as watchmen to sound the alarm for incoming German bomber planes. Hayek was M. Thatcher's idol (ideas) in implementing the successful reforms in the UK.

To me ideas are ideas and they may be correctly and successfully applied at certain context and time period such as Keynesian ideas' success in the 1950s till the early 70s. I cannot imagine libertarian principles to become solutions after the great depression in the 1930s. Hayek has of course commented on the 'bad' effects of this success in the long term. Well, we may share the same passion in reading people's ideas on human societies and the world, although I can see you are more active. Now my favorite is reading economists such as Dani Rodrik, Jeffry Sachs, William Easterly who always criticize Jeffry Sachs, other noted economists such as Michael Spence, and Martin Wolf of course, in Financial Times.

Below is a statement from William Easterly on individual freedom and development quoting Hayek. Also from Martin Wolf. You see, there is irony in East Asian successful growth and development and freedom, think of China.

Easterly:

"Individual freedom" is not a simplistic slogan or a recipe; it is extremely difficult to understand, much less for societies to achieve. As Hayek pointed

out, the institutions that support individual freedom are "grown," not "made" (the latter seems to rule out an important role for development experts). It is true that "freedom" is oversold as an instantaneous panacea by some of its more zealous ideologues (which I am not), but that does not change the long-run relationship between freedom and development.

As for the oft-repeated "China exception" to the relationship between individual freedom and development, it is once again a question of changes versus levels. The LEVEL of individual freedom is associated with the LEVEL of per capita income (development) in the long run. It follows that it could very well happen that a big CHANGE in freedom such as occurred in China (certainly in economic freedom, and even in political freedom compared to totalitarian Mao) would be associated with a big CHANGE in per capita income (rapid economic growth).

Martin Wolf:

"I would also like to take this discussion a little deeper. At one point in my life, I read almost everything had Hayek written on freedom. It was evident (at least to me) that there was a deep internal contradiction.

"Hayek believed that freedom worked, because it allowed the right kind of social and economic evolution. Hayek also believed that evolution was the right way for a society to develop. So what is one to say if societies evolve away from freedom? Should one conclude that the absence of freedom was good because it had evolved or insist, instead, that freedom was good because it allowed the right sort of evolution.

"Much the same contradiction is buried in Bill's view. Should one recommend freedom as a strategy because it is the right approach? Or should one not recommend it because doing so would interfere in social evolution? The former is indeed a recommendation, however hedged around it may be. The latter amounts to saying that whatever is must be good, because if it were not good it would not be."

-- Joey

Joey, many thanks for this!

Some clarifications and counter-comments here.

First, the "Hayek Reader" that I wrote and posted was about Hayek the political philosopher, not Hayek the economist, of which at one time he was an Economics Nobel prize winner. His economics dabbling I think was more on monetary policy, and which I have not read myself.

So if you will read my essays on Hayek Reader, it was about "dangers of majority rule", "rule of law means no exception", and "safeguards of individual

liberty". Nothing on investments and trade, nothing on monetary and fiscal policy, or inflation and interest rates, or unemployment and supply-demand.

Second, statism and socialism was the "in" ideas almost anywhere in the world from the start of the 20th century up to post WW2. People have seen the dirtiest side of colonialism, capitalism and feudalism during and after the industrial revolution, so many intellectuals were in no way inclined to believe and persuade the workers and the jobless that entrepreneurship and inequality as a result of capital accumulation was a desirable social order. That partly explains why Karl Marx's ideas were so reverberatingly powerful and why Lenin was able to mount a successful socialist revolution in Russia. Developed countries that time like Germany and Italy have to conquer other countries through WW1 and WW2 in order to expand, say double or quadruple their economic wealth. There were not much "knowledge economy" that can help improve people's productivity across all sectors.

Having said those things, may I now turn to quotes from Bill Easterly and Martin Wolf that you posted.

I cannot understand why Easterly would say that "individual freedom is extremely difficult to understand." As I noted in my essays in the "Hayek Reader" paper, Hayek has a very simple definition: "freedom or liberty is absence of coercion". What's so difficult to comprehend there? If one says individual freedom is "extremely difficult to attain", I would agree because again, quoting Hayek, "coercion is a matter of degree". If Mr. X's son would want to watch tv all night and not work on his assignment, and Mr. X will turn off the tv and force him to finish his homework, the son can cry "coercion by his father". At the individual level, ie, the son's perspective, this could be true. When Mr. X wants sex with his wife but the wifey says she will agree to sex only if he will agree to enroll their 2nd son to a more expensive school and Mr. X is not inclined to do so, he can cry "coercion by the wife" and this could be true at the individual level. Hence, coercion is a matter of degree, from micro to macro levels.

About Easterly's statement that "the LEVEL of individual freedom is associated with the LEVEL of per capita income in the long run", I have some reservations in the validity of this statement. Compare an aspiring entrepreneur in developed France and his counterpart in underdeveloped Philippines.

In the former, there are plenty of government regulations that an entrepreneur MUST follow (labor laws, environmental laws, social security laws, health laws, animal rights laws, etc) and those regulations are more strictly enforced and implemented. With plenty of bureaucracies to face if one is an entrepreneur, many people would rather become "employee forever" and demand lots of "labor rights" like 35-hours work-week, 8 to 10 weeks paid leave, 1 year maternity leave, health insurance to cover all members of the

family, etc. It's a lot safer to become an employee forever than become a start-up entrepreneur and face all the various bureaucracies every year.

In the Philippines, there are also lots of government regulations, but such are not strictly enforced. One can be a jeepney driver in the morning and sell bar-b-q, "balut", other street foods at a corner stand in the afternoon, without paying too many regulatory fees or pay extra income tax. Here, the LEVEL of individual freedom to become a start-up entrepreneur is higher than that in developed France (although the level of productivity among French entrepreneurs are much higher than those in the Philippines). So Easterly's thesis can be wrong in this aspect.

On Martin Wolf, I would find it theoretically difficult if not impossible, to say that "societies evolve away from freedom." If people cannot have the freedom of entrepreneurship -- that classic profession where you produce something very useful to society and people will flock to you and you become rich, could be filthy rich; and if you produce something next to useless, people won't even come to you and you slowly die of bankruptcy and hunger -- how could society evolve for the better? Evolve backwards from homo sapiens to homo erectus, maybe.

At the practical level, if Wolf was referring to China of "society evolving away from freedom" since China remains a one-party, communist party monopoly state, the term "away from freedom" is not correct. During Mao and the "Gang of 4" and the "cultural revolution", to be an entrepreneur and businessman was equivalent to being an exploiter, while to be a peasant and communist party member was equivalent to being a liberator. In the late 70s when Deng Xiaoping and his gang of "revisionists" came, it was reversed to "to be rich is glamorous" and so entrepreneurship and "limited capitalism" was allowed, the rest is history. Was it evolution "away from freedom"? I do not think so.

-- Nonoy

[July 8, 2008]

Noy, great thinkers and philosophers as good as Hayek are consistent in their philosophy, from tools of analysis to application. That is what makes them great for their ideas are not compartmentalized (or disjointed). So the Hayek philosopher is the same as the Hayek economist, i.e. I expect that logically his thoughts on monetary and fiscal policies will follow his thoughts on politics and philosophy. When he resented Keynes' ideas despite its success in post WW II (the Bretton Woods era), he must have seen what was coming in the long run based on his basic philosophy and premises on freedom and society and then the economic arrangement that goes with it.

Philosophy deals with the most abstract concepts. But it is the power behind social or economic theories that can provide logic to certain solutions or conclusions. It can withstand one or two centuries and may even converge with other philosophies and thoughts. Think about minimal government and the “withering of the state” idea by Marx and Engels, or in parallel the most perfect competition and perfect information theory of consumers and buyers in all markets that presupposes no need of a state. They are three thoughts with a hairline of conceptual and operational differences emerging from extremely opposite philosophies. If we assume these three thoughts reaching the same end or social goals, then these three thoughts differ only in advocating the means to attain the same social end.

Ok, since as you said most people/intellectuals in early 20th century believed in 'statism' and socialism having seen the ugly beginnings of capitalism, it is understandable that they cannot be persuaded towards a freer society of entrepreneurs, capital accumulation, and inequality. This is Wolf's example of people and societies evolving away from 'freedom'. Are we to say that they were wrong? Socialism has failed eventually (it was exactly predicted by Hayek) but statism in different forms (even at the beginning of socialist Russia) had succeeded in bringing development in Europe and in East Asia in the form of Keynesian and Lenin's statism. Expectedly, it is on the retreat afterwards because after some development, people demand more freedom from coercive powers of the state.

To Hayek (and to you), freedom is simply the absence of coercion. I can fully comprehend that point allows the right kind of social and economic evolution. It will most likely help institutions that support individual freedom to grow. But still, there is the contradiction that people at some period are willing to sacrifice some freedom to gain something in return. Consider development as freedom by Amartya Sen, the philosophical basis of UN's human development index and reports.

Singapore's Lee Kuan Yew's made a critical comment a decade ago of the Philippines having too much freedom (the American way he said), that is why it has not develop as fast as Singapore, Malaysia, Taiwan, Korea, and China, countries that have very strong 'coercive states' at the start to fast track development. Are we to say then that the Philippines is right because we have more freedom from the state compared to our neighbors since 1986?

Easterly's definition of individual freedom is saddled with complexities of development as freedom (like Amartya Sen's) as compared to Hayek's. I'm sure Hayek has a purpose to simplify the meaning of freedom as a means. Freedom not just from coercion but freedom such as capability – a normal person has more freedom to move than a sick person. Being sick or disabled is not coercion I am sure; same as capability of a rich person and a poor person, assuming they were not coerced in the beginning to become rich or poor. Easterly's freedom is the average freedom (Sen's meaning) of society

and not that simplification as Hayek's degree of coercion. There is a study and data involved in Easterly's freedom and level of income.

As to China, your point is the same with Easterly's claim that from Mao's time, it has evolved to more freedom after Deng's leadership and an increase as well of Chinese per capita income. However, Wolf's statement may refer to China during Mao which can be interpreted as an evolution "away from freedom". The point is that people at some point in history embraced less freedom as a choice, maybe to trade for some stability, leadership, among others and that is also freedom of choice.

-- Joey 😊

Joey, thanks again for these insights. My understanding of Marx and Engels' idea of "withering away of the state" is that of a developed communist society where the expectation is, "from each according to his ability, to each according to his needs".

This is impossible, even at the level of theory, because different needs of different individuals can never be fulfilled and provided by a collective, say the government. For instance, person A's "need" is a big house with plenty of cars for his beautiful but egoistic wife that he loves so much; person B's "need" is a pool of sports physicians, wind tunnel laboratories, sprint consultants, various expensive medicines and food supplement, that will help him attain his goal of running 100 meters in just 8 seconds or less (note: current world record is 9.72 seconds), and so on.

The "withering away of the state" goal therefore, will not happen; on the contrary, the big state will stay forever because using it to deliver material wealth and individual freedom to the citizens, assuming that this is possible, will give philosophical ammunition to the state administrators that it should stay forever because it has delivered what it has promised. Compare that with the ideals of "limited / minimal government" that does not advocate zero government, but even a "strong government" on functions limited to just the protection of citizens' "right to life, right to private property, right to liberty". This is consistent with the Hayekian definition of "rule of law" as the main function of the state, where the state should institute laws that will apply to everyone and will exempt no one, both governors and governed.

Notice that those citizen rights explained above under a limited or minimal government condition, do not include the people's automatic "right to jobs and unemployment benefits", "right to free education till university, right to free health care and hospitalization, right to free/subsidized housing", and so on. Because if these were automatic "rights", then some people can drink and party as much as they want, be lazy and do nothing, because they are "entitled" anyway to have free education for their children, free housing, free health care, etc.

The marriage of freedom and responsibility is among the central themes of Hayekian definition of liberty. Thus, people who are afraid of responsibility are afraid of freedom itself.

If we are to extend this political philosophy to economics, it will be catastrophic, I would say, to a statist and interventionist government. Because an interventionist government hates personal responsibility; it wants everything to be "government responsibility" as much as possible. When government is big enough to give people everything they want, that same government will also be big enough to take everything that people have.

For instance, the law on personal income tax is not "rule of law" but rather, "rule of men", because those working for UN, WB, ADB, IMF, WTO, OECD, USAID, etc. are not covered by mandatory withholding tax in the countries that they are working with. They are not even expected to pay income tax I guess, even if these people live off on taxes. In addition, many businessmen, professionals, those in the "informal sector", and many politicians in less developed countries, do not pay the "right" income tax, if they pay at all. So one Hayekian implication of this is that income tax, at least personal income tax, should be abolished because it violates the "rule of law" criteria. Governments should enact and implement only tax laws that will apply to everyone and will exempt no one. A consumption-based tax like sales tax or value-added tax (VAT) that applies to all sectors of the economy will be a good law. This could be the only useful tax law that need to be implemented, and all other taxes can be abolished or reduced.

About the ugly features of colonialism, capitalism and feudalism that I earlier mentioned, I failed to mention that these social and political conditions were mostly driven by statism itself. Colonialism was initiated not by British, Spanish, French or American companies, but by British, Spanish, American or French kings, monarchy and/or governments. World wars 1 and 2 were initiated not by BMW or Deutsch Telecom or other German companies, but by the German state like Hitler's Nazi government. This means that the trajectory of German political evolution at that time was moving "away from freedom" and it produced not economic development as expected, but wars and devastation.

On the point of people surrendering a part of their individual freedom in exchange for greater individual freedom somewhere, I agree with it. The right to "do anything that one wants" is correct only if in the process, he does not step on the freedom of other people from doing the things they want. For instance, a person has the freedom to drink and party as much as he wants, but when he gets drunk, he has no more "freedom" to stab or shoot or sexually abuse other people because that is stepping on other people's "right to life, right to liberty".

That is why a rule of law under a limited or minimal government condition is the best socio-political set-up to encourage greater economic growth, more material wealth, more performance and innovation from the citizens. In this situation, people can work until midnight if they want, knowing that the State will ensure that there are no muggers, hold-uppers, robbers and rapists prowling the streets to victimize as many people as possible. Industrious people will not desire various subsidies from the State because they should be capable of providing their family's needs. A limited or minimal government will also not consider entrepreneurs and job creators as "potential criminals" by requiring them to secure so many licenses and permits, submit so many papers and certificates, and pay so many taxes and fees, before they can start their business.

Nonetheless, I admire Easterly's critique of foreign aid philosophy by many governments of rich countries. His "White man's burden" book is among the modern classic readings for many liberty-oriented scholars and students.

-- Nonoy

[July 9, 2008]

Noy, this is a good post of yours and there is more clarity of the logical basis of what you have been advocating these days. Since yesterday, I have been reading Hayek's *New Studies* (1978) with chapters or lectures on philosophy, politics, economics and history of ideas. I chose the book because such combination of topics will show you how they are stringed together. Indeed they are a great man's writings. A very short chapter was devoted to his recollection of Keynes as his friend and professional colleague. He has less respect of the economics of Keynes, and reading through part of his philosophy on how knowledge is produced and his critique on Keynes' theory of demand-side macroeconomics, I can very much appreciate the man.

Caution is always a good trait in embracing what appears to be a solution to economic problems such as those in the Philippines. Hayek has demonstrated this 'caution' by deciphering the basic philosophy of how knowledge is produced and generalized into a theory and then into an application. I'd rather have this discipline because for me, the problem in the Philippines is not just economics, but it is rooted as well in politics and culture. The equilibrium in our markets as defined in supply and demand are very much defined by our attitudes - trust, practice of freedom, attitude towards authority, among others. Hayek said that social scientists, including economists, easily assume knowledge and expertise when we actually knew so little on how order and chaos are produced and reproduced in economics and social situations. The statistics or econometrics discipline cannot fully capture how a social order came to such and how the equilibrium of a market was attained.

Bill Easterly said, what can World Bank and IMF economists offer to developing countries in terms of development is, Nothing. But he never said that we should not study what these economists are saying. This has been Hayek's point in discovering that it is impossible to master the knowledge of social sciences, but still we learn what parameters we can approximately measure while leaving other parameters to evolve into their own equilibrium.

-- Joey

Hayek wrote about the virtue of spontaneity and its contribution to social progress; hence, he never believed that some bright men and women should be authorized to control and regulate people so that these "bright" guys can plan and dictate public policies that they think are "good" for the people whose lives they have already controlled and regulated. And Keynes' economics is along the lines of command and control, like government hiking taxes, then government will distribute the confiscated money to certain sectors favored by the politicians and high State officials, or to sectors that are more vocal and more organized in their lobbying.

-- Nonoy