

**Hayek and Knight on the Conditions of Liberal Society:  
How two critics of “liberals” came to different conclusions**

Masanobu Sato<sup>1</sup>

Kansai University

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**Abstract**

The purpose of this paper is to clarify the different views of Friedrich August von Hayek (1899-1992), and Frank Hyneman Knight (1885-1972) on the conditions of liberal society, and to answer the question of why these two famous critics of liberals adopted different conclusions and positions. For this purpose, we reconsider the meaning of Knight's critique of Hayek's *The Constitutions of Liberty* and examine their different dichotomies of freedom (namely, Hayek's negative/positive dichotomy and Knight's formal/effective dichotomy) .

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<sup>1</sup>Kansai University, Faculty of Economics, 3-3-35, Yamate-cho, Suita-shi, OSAKA, 564-8680. masanobu@kansai-u.ac.jp

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Masanobu Sato  
Faculty of Economics, Kansai University  
masanobu@kansai-u.ac.jp

## **1. Introduction**

The purpose of this paper is to clarify the different views of Hayek and Knight on the conditions of liberal society, and to examine how these two famous critics of American liberals adopted different conclusions and positions. This inquiry may contribute to re-mapping social philosophies in early twentieth-century economic thought.

### **Hayek and Knight as Critics of Liberals**

Friedrich August von Hayek (1899–1992) and Frank Hyneman Knight (1885–1972) were known as critics of progressives and liberals in the United States in the twentieth century. The main targets of Hayek’s most popular book, *The Road to Serfdom* were American progressives and liberals; Knight is also known as a one of the founders of Chicago school of economics and a critic of American liberal reformists. In *The Constitutions of Liberty* (Hayek 1960), Hayek mentioned Knight positively many times, especially regarding his views on freedom. Both seemed to share principles of “classical liberalism,” and they have been categorized within the same group. They were both founding participants of the Mont Pelerin Society.

### **Knight’s Ambivalent Attitude**

However, Knight took a critical position toward Hayek’s *The Road to Serfdom* (1944). Knight did not evaluate *The Road to Serfdom* positively in his Reader’s Report to the General Editor and Committee on Publication of University of Chicago Press (Knight 1943c):

.....(T)he work is essentially negative. It hardly considers the problem of alternatives, and inadequately recognizes the necessity, as well as political inevitability, of a wide range of governmental activity in relation to economic life in the future. .... In sum, the book is an able piece of work, but limited in scope and somewhat one-sided in treatment. I doubt whether it would have a very wide market in this country, or would change the position of many readers. (Knight 1943c, pp. 249–250)

Furthermore, Knight wrote a critical review of Hayek's *The Constitutions of Liberty* (1960) and criticized his views on the history of liberalism, on equality and inequality, and on the role of democratic discussion (Knight 1967). Although his critical points were manifold, it is remarkable that Knight criticized Hayek's view of freedom itself:

The supreme absurdity in Hayek's book is reached in his discussion of opportunity and particularly equality of opportunity ... True, it was absurd of Commons and Dewey to spread an ideology that identified freedom with power (if they did); but it is also absurd for Hayek to ignore the close connection between the two. Freedom, correctly conceived, implies opportunity, unobstructed opportunity, to use power, which must be possessed, to give content to freedom. (Knight 1967, p. 445)

Most readers of *The Constitutions of Liberty* must have been thrown into confusion: Hayek frequently referred to Knight's arguments on freedom in the footnote of that book, taking them as corroboration of his own view: that freedom must be interpreted in a negative sense, in other words, that it should be understood as freedom from coercion and arbitrary power. Although Knight criticized contemporary liberal reformists, as will be discussed later, this does not mean that Knight took the same position as Hayek with regard to freedom. Their different attitude seems to reflect different implicit dichotomies of freedom. As we shall see later in further detail, Knight clearly stated that Hayek's dichotomy of positive versus negative freedom was misleading, and preferred the dichotomy of formal versus effective freedom. This different view on freedom leads Hayek and Knight to different conclusions on the conditions of liberal society.

### **The Problem**

I will scrutinize Hayek and Knight's understanding of freedom closely, and clarify how these views led to different views on the conditions of liberal society. In this process, I will pay attention to the influence on Knight's view of John Maurice Clark, a prominent institutionalist. It is necessary to clarify why two famous critics of liberals came to different conclusions, and what led to their different positions with regard to understanding the conditions of the liberal society.<sup>2</sup>

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<sup>2</sup> Emmett (2007, 2010) has discussed this issue, and persuasively shows the different views of Hayek and Knight, especially with regard to their understanding of spontaneous order and democratic discussion. This paper concentrates on their different attitudes to contemporary American liberals in order to paying elucidate their use of different dichotomies of freedom.

Firstly, I will outline Hayek's critique of liberals and identify the main targets of his criticism (Section 2). Secondly, I will consider the meaning of Knight's critique and pay attention to the influence of John Maurice Clark on Knight's concept of freedom (Section 3). Finally, I will make some concluding remarks (Section 4).

## **2. Hayek as a Critic of American Liberals in the Twentieth Century**

### ***In The Road to Serfdom***

A conventional reading places the turning point in Hayek's transition from economist to social philosopher at the publication of *The Road to Serfdom* in 1944. Hayek pointed out in this book the danger that socialism might consequently turn into totalitarianism. He confessed in an interview that when he wrote this book he thought only of the situation in England, and did not consider American readers. Yet there the reaction to this book in the United States was overwhelming.

After referring to the measured reaction to the book in England, Hayek discussed the American reception:

In America it was wholly different. Socialism was a new infection. The great enthusiasm about the New Deal was still at its height, and here there were two groups: people who were enthusiastic about the book but never read it—they just heard there was a book which supported capitalism—and the American intelligentsia, who had just been bitten by the collectivist bug and who felt that this was a betrayal of the highest ideals which intellectuals ought to defend. So I was exposed to incredible abuse, something I never experienced in Britain at the time. It went so far as to completely discredit me professionally. (Kresge & Wenar (eds.) 1994, pp. 102–103)

In *The Road to Serfdom*, Hayek regarded “the subtle change” in the meaning of the word “freedom” as most problematic. Although the word had traditionally meant freedom from coercion and arbitrary power, the new meaning of the word became closer to freedom from necessity. Hayek pointed out that it was a “characteristic confusion of freedom with power” and that “(t)he most explicit defender of this confusion is, significantly, the leading philosopher of American left-wingism, John Dewey” (Hayek 1944, p. 78).

The characteristic confusion of freedom with power, which we shall meet again and again throughout this discussion, is too big a subject to be thoroughly examined here. ...The most explicit defender of this confusion is, significantly,

the leading philosopher of American left-wingism, John Dewey, according to whom "liberty is the effective power to do specific things" so that "the demand for liberty is demand for power" ("Liberty and Social Control", *The Social Frontier*, November 1935, p. 41) (Hayek 1944, p. 78)

Hayek argued that "the confusion of liberty as power with liberty in its original meaning inevitably leads to the identification of liberty with wealth, and this makes it possible to exploit all the appeal which the word 'liberty' carries in the support for a demand for the redistribution of wealth" (Hayek 1944, pp. 67–68).

### ***In The Constitutions of Liberty***

Hayek further scrutinized this "subtle change" in *The Constitutions of Liberty* (Hayek 1960). He criticized liberals, such as Commons and Dewey, who attacked the concept of freedom in the negative sense.

The reinterpretation of liberty is particularly ominous because it has penetrated deeply into the usage or some of the countries where, in fact, individual freedom is still largely preserved. In the United States it has come to be widely accepted as the foundation for the political philosophy dominant in "liberal" circles. Such recognize intellectual leaders of the "progressives" as J. R. Commons and John Dewey have spread an ideology in which "liberty is the demand for power," while the absence of coercion is merely "the negative side of freedom" and "is to be prized only as a means to a freedom which is power." (Hayek 1960, pp. 66–67)

Hayek also referred to some institutionalists in addition to Commons, such as John Maurice Clark and Walton Hale Hamilton, as "men who were critical of the competitive order" (Hayek 1960, p. 338, pp. 450–451). Thus, it is important to note that Hayek's *The Road to Serfdom* targeted progressives and liberals in the United States, such as Dewey and institutionalists.

But the majority who call themselves liberals today are committed to the principle that organized society must use its powers to establish the conditions under which the mass of individuals can possess actual as distinct from merely legal liberty. They define their liberalism in the concrete terms of a program of measures moving toward this end. They believe at the conception of the state which limits the activities of the latter to keeping orders between individuals and to securing redress for one person when another infringes the liberty existing law has given m, is in effect simply a justification of the brutalities and inequities of the existing order. (Dewey 1935, p. 35)

Knight criticized Dewey's *Liberalism and Social Action* (Dewey 1935), especially on account of its scientism (Knight 1936). However, we should, once again, note that, Hayek's target was broader than Dewey, since it also classified contemporary institutionalists as liberals. This point may reflect the different attitudes to them between Hayek and Knight. Indeed, as discussed later, Knight's attitude toward contemporary institutionalists seemed not simple but nuanced one.<sup>3</sup>

### **3. Knight as a Critic of Liberals and His Ambivalent Attitude toward Institutionalists**

#### **Knight and the Institutionalists as "Liberals"**

In general, American institutionalists were known as liberals, and Knight is viewed as a conservative. In the 1930s, the time of the Great Depression and the New Deal, many institutionalists committed to the Hoover and Roosevelt administrations; however, Knight "was in the depth of deep depression about the state and prospects for liberalism" (Shils 1981, p. 179), and long afterward he called the New Deal a "virtual dictatorship" (Knight 1968, p. 89).

Knight focused on worries about the transformation of liberalism in the 1930s. In order to understand what made him so pessimistic, we should look to his views on the world after the Great Depression and the New Deal.

For the first two years or so after the economic crisis of 1929, I was one of the large group of students of economics who condemned the idea that this was fundamentally different from other depressions. But I have become convinced that I was in error, that we are actually in the course of one of the world's great economic and political revolutions... The nineteenth-century liberal system is played out, and the world of West-European civilization, based on political "democracy" and economic "freedom," will go through a drastic reevaluation of its "modern" ideas and values. (Knight 1934, pp. 27–28)

Knight referred to the "New Deals" in Germany and the United States as the "latest main episodes in a change going on all over the world of European liberal civilization." He argued that such movements represented not only economic crises, but also a

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<sup>3</sup> Additionally, Knight is known as a critic of Dewey's pragmatism. However, recently some scholars have insisted that such an understanding oversimplifies Knight's view and must be reconsidered (Hands 2006, Luca 2009). This point is related to this paper's theme, but it remains a matter for further investigation in its own right.

decline of the idea of freedom, which meant a fundamental historical change in European civilization. Such a pessimistic view of the New Deal and the transformation of liberalism was contrary to the institutionalists. For example, as we will see later, Clark was fundamentally positive about the “new era of control.” Therefore, one could suggest that institutionalists were advocates of *positive freedom* and that Knight was an advocate of *negative freedom*.

However, this would appear an oversimplified view on Knight and institutionalism. Firstly, Knight took a more nuanced position on institutionalism. Secondly, institutionalists were not a uniform school, and seemed to display diverging views on control and freedom. While Knight was seen as an orthodox or neo-classical economist and as an ideological opponent of institutional economics, some studies have emphasized the heterodox elements of his works and their affinity with those of the institutionalists. Hodgson (2001), especially, considered Knight to be an institutionalist. Then, the picture of Knight as a critic to institutionalist may be one-sided.

Clark was certainly one of the representatives of the institutionalist movement in the interwar period who advocated a controlled economy<sup>4</sup>; however, his view on the conditions of liberal society differed from that other institutionalists, such as Rexford G. Tugwell, who advocated a totally planned economy. In a similar way, Knight seemed to be one of the forefathers of the Chicago School, but recent studies have focused on the differences between his stance and Chicago libertarianism. As we will see later, Knight’s criticism should perhaps be examined with regards to freedom as a formal liberty.

### **Clark’s Influence on Knight?**

Concerning this point, Gonce (1992) has indicated the possibility of Clark’s influence on Knight’s works on the meaning of freedom.<sup>5</sup> Gonce has surmised that “the essay

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<sup>4</sup> Furner interpreted Clark as a “reluctant statist” (Furner 1990, p. 16). “I will prefer...to define him [Clark]...as a social economist devoted to grounding the moral plane of competition in the society’s aspirations for security, shared abundance, and distributive justice.” (Furner 1990, p. 15) “Rather than the oft-cited trio, Veblen-Commons-Mitchell, which have always seemed something of an anomalous mix, my A-team of institutionalists is [Henry C.]Adams-Commons-Clark the younger... [T]hese are the three who make most coherently visible salient features in the economists’ contribution to the making of the statist liberal discourse.” (Furner 2005, p. 21)

<sup>5</sup> When Knight became an instructor at the University of Chicago in 1917, he became acquainted with Clark, who belonged to the University from 1915 to 1926. In the late 1910s and early 1920s, they developed an intimate personal relationship as colleagues and seemed to share the belief that the foundations of economic theory had to be reconsidered. In fact, they criticized its static assumptions and its implicit value standards in their works during this period.

touching on negative and positive freedom by Clark [1940] may have stirred [Knight]" (Gonce 1992). Regrettably, Gonce only refers to the title of Clark's article (Clark 1940), and does not examine this problem further. Additionally, he does not mention that Clark and Knight did not use the dichotomy of positive and negative freedom. Moreover, Knight, as we will see later, criticized the dichotomy of positive and negative freedom as "question-begging and misleading" (Knight 1943, p. 180).

Knight criticized contemporary liberal reformists (Knight 1939); however, this does not mean that he took embraced negative freedom. Instead, he espoused a dichotomy of formal versus effective freedom.

... (I)t may at least be suggested that such terms as "formal freedom" and "effective freedom" would be less question-begging and misleading than "positive" and "negative" freedom. Unquestionably, again, the individual's right to a rightful share in the distribution of means of action in society...is a real ethical right. (Knight 1943, p. 180)

### **Clark on Formal Freedom and Its Content**

We might, thereafter, examine how Clark considered this problem. Clark discussed the freedom in several articles, including "Forms of Economic Liberty and What Makes Them Important" (Clark 1940), "The Relation of Government to the Economy of the Future" (Clark 1941), and "Our Economic Freedom" (Clark 1942). His articles suggest a vision which seems to represent a kind of "new liberalism."

Although Clark realized that the free market presented many problems as a control system, he also perceived a Soviet-type planned economy may be incompatible with fundamental personal liberties. Thus, regarding this last possibility, he wrote that "We should seriously consider the possibility that, if political and intellectual freedom are used to put an end to economic freedom, they may thereby commit suicide" (Clark 1940, p. 306).

While business liberty can and must be restricted, it seems overwhelmingly probable that it cannot be wiped out, or restricted beyond its power to maintain a healthy the more important senses." (Clark 1940, p. 306)

Regarding the necessary regulation of economic freedom, Clark insisted that

The most important fact, if we wish to know whether restrictions have gone too far, is the scope of liberty that remains. It may be, with powers and restrictions both increasing, that the sum of what we are in effect free to do is increasing also,



rather than diminishing” (Clark 1940, p. 307).

On the subject of increasing spheres of freedom, Clark discussed the distinction and relationship between personal (formal) freedoms and new types of freedom (or the “content” of freedom) that are supported by socialism. “The real issue is whether a sane balance can be struck between formal liberty and protection of its ‘material content,’ or whether we must go to one extreme or the other” (Clark 1940, p. 311). Therefore, for Clark, the purpose of liberal society was not to maintain only formal freedoms or to secure their content at the sacrifice of personal liberty, but to search for an adequate balance between them (Clark 1940, p. 311). For Clark, the most important task was to investigate the proper “balance” between formal liberty and the protection of its content. This attitude is reminiscent of Knight’s critique of “absolutism” (Knight 1967, p. 444).

The problem is not laissez-faire versus political planning and control in general, but the comparison of the result of market freedom with that of possible action by democratic procedure on specific problems. The citizen must understand the general principles of the two systems but not draw practical conclusions from an abstract analysis of either. (Knight 1967, p. 449)

### **Knight on Effective Freedom and Economic Inequality**

By referring to Clark’s view on freedom and assuming its influence on Knight, we may be able to understand Knight’s ambivalent attitude to Hayek. Knight emphasized that effective freedom needs some economic basis, and loses its substance with income inequality. Hayek may have thought such a view opened the door to the reinterpretation of freedom, as the liberals had done, but Knight argued that freedom without limitation of income inequality loses its content.

In an individualistic-utilitarian view of life, freedom means freedom to use power, and economic freedom means freedom to use economic power, without political interference or restraint. Such freedom may in effect become slavery for the person who has little power at his disposal, since life itself requires practically continuous control of a certain minimum of economic power.” (Knight 1935b, 284)

The content of freedom is relative to what one wishes to do—and men’s wants must be “right” as well as “rational” if the result of action is to be “good”—and is also dependent on the possession of power to act. In exchange relations, moreover, effective freedom requires power not too far inferior to that possessed

by the other party to any transaction; hence general freedom implies some limitation on inequality. (Knight 1941, p. 239)

#### **4. Concluding Remarks**

In this paper, I started from the enigma of Knight's unusual attitude to Hayek in order to consider how two critics of liberals came to different conclusions. I outlined Hayek's critique of liberals and identified the main targets of his criticism, which are not only Dewey but American institutionalists. I also consider the meaning of Knight's critique and devoted some attention to the presumed influence of a representative of institutionalists, John Maurice Clark, on Knight's concept of freedom.

Considering Clark and Knight's interaction, and referring to Clark's view on freedom, we may be able to understand Knight's attitude to Hayek. Although Knight aligned with Hayek insofar as he attacked the liberals' view of freedom as power, he could not agree with Hayek's rejection of the need for some power for effective freedom. Knight drew attention to the relationship between freedom and power, and argued that the use of "freedom" as a purely formal way to indicate only a lack of coercion was fundamentally inappropriate. This implied that Knight could allow for a form of income redistribution by the government. On this point, Knight held a similar view to the liberal Clark's. Therefore, we might argue that Knight was a critic of freedom only in its formal form, and that he was, in a sense, an advocate of a different type of positive freedom.

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