

Noble Markets: The Noble/Slave Ethic in Hayek's Free Market Capitalism

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ABSTRACT. Friedrich A. von Hayek influenced many areas of inquiry including economics, psychology and political theory. This article will offer one possible interpretation of the ethical foundation of Hayek's political and social contributions to libertarianism and free market capitalism by analyzing several of his important non-economic publications, primarily *The Road to Serfdom*, *The Fatal Conceit*, *The Constitution of Liberty* and *Law, Legislation and Liberty*. While Hayek did not offer a particular ethical foundation for free market capitalism, he argued consistently that free markets are liberating and, for the markets to be truly free and for individuals to participate freely in markets, they should be subject to little control. Beyond some very basic principles, such as the protection of private property, that enable the free market to function properly, individuals are both free to and required to determine their own ethical compass. The central question, then, is what are the ethical principles that underlie Hayek's view of the successful organization and operation of a free market? If formal rules and regulations must be kept to a minimum, then ethical behavior is an individual choice as well as an important foundation for the self-regulating free market. This article will argue that one possible ethical foundation underlying Hayek's libertarian justification for free market capitalism are Friedrich Nietzsche's "will to power" and noble/slave ethics. This article will rely primarily on Nietzsche's *On The Genealogy of Morals*, *Beyond Good and Evil*, *Zarathustra*, and *the Will to Power*.

KEY WORDS: free market capitalism, Hayek, Nietzsche, noble/slave ethics, will to power

Friedrich Hayek was an important and influential political economist who made significant theoretical contributions to free market capitalism and libertarianism. This article will focus on his political writings and the role of ethics in his conception of free market economics. Hayek is often portrayed as a liberal

supporting individual liberty and the institutions supporting it. True to a point, as we shall discuss below, Hayek rejects much of what has become contemporary liberalism, as he rejected socialism and conservatism. His ideal state is one in which the freedom of the individual is a minimal state based upon abstract principles, leaving the maximum amount of human freedom. Though his writing is replete with references to ethics, he does not offer an ethical system. That is a free choice he leaves to each individual. One can choose any ethic one wishes so long as this ethic does not violate the freedom of others to choose. One could choose religious ethics, or utilitarian ethics or some other ethical system.

Why not Nietzsche? We will argue that Hayek's silence on the ethical foundation needed to support his version of free market capitalism leaves open the possibility of an application of the philosophy of Friedrich Nietzsche. At first glance, it may seem odd to suggest that Hayek was influenced to any extent by Nietzsche, since in the works cited in this article there is only one passing reference to him in a footnote with a brief quotation from Zarathustra (Hayek, 1994, p. 156). Hayek's political writings demonstrate a comprehensive and eclectic understanding of philosophy, in many respects they are a philosophical tour de force. Yet the absence of direct references to Nietzsche is telling. He may have been hesitant to reference Nietzsche directly since he published his major political and social writings during and after the Second World War, a time when the Nazis claimed an affinity with Nietzsche.¹ Hayek was not only aware of Nietzsche, as the footnote suggests, but Hayek, as a German speaking European, must have been familiar with his work and its influence on twentieth century European thought.² The major themes in Hayek's political

writings parallel to a large extent those found in Nietzsche. Both deal with the psychological foundations of human behavior, both saw human development as a clash of world views, both had a view of human evolution, and both conceived an ideal world based upon freedom where human creative talents could be given full reign. Even if we accept that Hayek read only Zarathustra, Nietzsche presented important ideas in this work, ideas we will argue below may have influenced Hayek.

Like Nietzsche, Hayek, though acutely aware of the importance of ethics in a world based upon maximum freedom, did not develop a complete ethical theory to support the functioning of free market capitalism. Like Nietzsche, Hayek does not claim to know the meaning of morality or, in Nietzsche's case, good and evil.³ Beyond support for the principles needed to anchor the functioning of free markets and the institutions needed to support them, Hayek left it to individual actors to develop their own moral principles, so long as these did not contradict those needed to support free markets. It was not his intention to prescribe a detailed ethical system to support free market capitalism because to do so would violate his principle of freedom and curtail the creativity of markets. Yet, the world described by Hayek is one where individuals have substantial power to control their destiny and seek their own level, a world where talent and risk dominate, a world governed by self interest, a world where individuals have few responsibilities to others, and a world driven by competition where reward goes to the successful. He described a world open to Nietzschean ethics.

In *The Road to Serfdom* (1994) and *The Fatal Conceit* (1988) Hayek presents a powerful and eloquent attack on twentieth century totalitarianism. In *The Road to Serfdom* he argues that the socialist experiment must inevitably lead to totalitarianism and the complete elimination of individual liberty and freedom. In the name of principles of social justice, society installs a system of centralized social and economic planning, substitutes collective decisions for individual ones, and requires each person to adopt an identical and complete set of social values. Furthermore, to achieve its objectives, the socialist state must determine in great detail the allocation of resources and insure that each individual performs precisely his/her assigned role. Planned economies

must substitute collectivist thought, values and behavior and eliminate any room for individualism.

Hayek labels this *weltanschauung* the "fatal conceit." It is fatal because it cannot achieve its objectives and it is conceit because it overestimates the role of human rationality and man's ability to control social and economic processes. He sees constructivist continental European philosophic thought, primarily Cartesian rationalism, as the source of this error (Hayek, 1948, pp. 9–10; 1973, pp. 9–12). This philosophic tradition argues that man can understand the world completely and, therefore, social and economic processes can be understood completely and molded to fit human will.

Hayek considers this a foolish, self-serving and arrogant position.⁴ Certainly, humans have a powerful intellect and reasoning skills. Human reason, though powerful, has its limitations and cannot completely understand with any certainty how human institutions and social processes evolved and how they operate. He views the evolution and development of human institutions, be they money, markets, or ethics as spontaneous, self-generating orders. Systems, if you will, evolving gradually, accidentally, on the basis of incremental change; not as a result of human design. He labels this "between instinct and reason." Humans can understand to some extent how human society evolved from clan based societies into modern, complex ones based upon individualism and abstract rules, but we cannot know the processes or mechanisms of this evolution in sufficient detail to bend them to our will. We can tweak the social and moral systems but cannot engineer them. Man can modify social processes and their underlying ethical foundations; but, in the final analysis, we must accept them as is.⁵

Since social process and institutions obey their own set of evolutionary principles which man cannot know completely, it is best for these to evolve on their own, without much human interference. In *The Constitution of Liberty* (1960) and *Law, Legislation and Liberty* (3 vols., 1973, 1976, 1979) Hayek develops his ideas about the proper principles of economic and political organizations and their underlying ethical foundations. The fundamental principle of social organization must be based upon the principle of liberty, which may be defined as "that condition of men in which coercion of some by others is reduced as much as possible in society"⁶

(Hayek, 1960, p. 11). Hayek's conception of the free, just and moral society is not one where there is a complete absence of coercion but where coercion is limited to those situations where it is required to prevent a reduction in the liberty of others. Society may use coercion to protect private property and to secure individual rights and conditions which allow each person the maximum amount of personal freedom to make choices of their own. This is accomplished through a limited set of abstract rules "that apply equally to all" which protect private or several property, enforce contracts, and prevent fraud and deception" (Hayek, 1960, pp. 140, 141, 143, 155).

While Hayek is concerned with just and moral principles of economic, political and social organization, he views attempts to achieve "distributive justice" as the root cause of the immorality brought about by planned economies. In order to achieve the desired goals, human behavior must be planned in minute detail, thereby eliminating freedom of choice. Achieving collectivist goals mean that there can be no individual ones. Organizing to control every outcome means there cannot be individual choice. Social control means there will be little individual control and it is all doomed because humans cannot understand completely the mechanisms needed to reach their objectives. The only solution must be the free market and the minimal organizational principles required for it to operate efficiently. Since these are few and well known, it will be easier to succeed and create a just and moral society. Allow the market free reign and the just and moral society will follow according to its own principles.

The question, then, is what principles underlie the free market and other social systems? Hayek in many ways is a supporter and heir to the liberal traditions of Adam Smith, David Hume, J.S. Mill and others. In this respect, there appears to be a strong utilitarian aspect to his views of freedom and markets. Allowing markets to develop spontaneously and with very limited restrictions enables progress to take place and civilization to advance. For Hayek these are synonymous. "In one sense, civilization is progress and progress is civilization... Progress is movement for movement's sake, for it is in the process of learning, and in the effects of having learned something new, that man enjoys the gifts of his intelligence" (Hayek, 1960, pp. 39, 41).

Therefore, humanity can only benefit from the spontaneous development created by markets and the freedom they require to operate effectively. This beneficial spontaneous development is founded upon "rules of human conduct that gradually evolved (especially those dealing with several property, honest contract, exchange, trade, competition, gain, and privacy)" (Hayek, 1988, p. 12).

One might see in this a utilitarian approach. In one sense this is true, but it may be characterized better as a "general consequentialism." Hayek is convinced humanity is far better off in a world where spontaneity is welcome and only basic rules accepted. This allows for freedom, which is unquestioningly good, change and movement for change and movement sake, and the advancement of civilization. Hayek rejects utilitarianism except in what he calls a wide sense and general sense.⁷

Freedom, as the basic foundation of the just and moral society "will prevail only if it is accepted as a general principle whose application to particular instances requires no justification" (Hayek, 1973, p. 61). Therefore, the general rules regulating markets have utility because they can be defended on historical grounds through their contribution to change and progress and not on the basis of any specific outcome or future benefit.

Hayek uses the term utilitarianism in what he calls the narrow sense. Originally, the term simply meant useful. Since Bentham, it has come to mean something more specific. Now utilitarian means that something can contribute to a particular outcome and be associated with particular acts. Thus utility is no longer a general quality but something quite specific to a desirable outcome. "Bentham's conception of a calculus of pleasure and pain by which the greatest happiness of the greatest number is to be determined presupposes that all the particular individual effects of any one action can be known by the acting person" (Hayek, 1976, p. 19).

Furthermore, rule utilitarianism cannot be the foundation for society's rules because "no system of generic or rule utilitarianism could treat all rules as fully determined by utilities known to the acting person..." (Hayek, 1976, p. 20). Utilitarianism of whatever flavor is a false foundation for moral rules because it requires omniscience when in fact ignorance makes the rules necessary. "Man developed rules of conduct not because he knows but because

he doesn't know what all the consequences of a particular action will be" (Hayek, 1976, p. 20).

In the moral and just society the foundation for human interaction is the limited number of abstract rules supporting freedom, private property and so forth. Since this situation provides for the maximum human freedom and responsibility, the issue of what regulates human behavior becomes critical. Just as human institutions and society have evolved, so has humanity. Social customs and morality have evolved from a small group focus, where individual success depended upon group survival, to one where the individual is more independent because of a wider and more complex set of relationships, what Hayek calls the extended order that goes far beyond the small band and group. Morality has evolved from an altruism, where the individual must subordinate individuality to group success, to one based upon the individual alone. As humanity develops, ethics become individual and the individual must become more responsible for her behavior. However, though she may be responsible, her responsibility can only be limited because individual knowledge is incomplete and no individual can understand the full consequences of her actions.⁸

The challenge is to understand what motivates individuals and how these motivations can be channeled productively. According to Hayek, in market-based societies, individuals are motivated by self-interest. Self-interest does "not mean egoism in the narrow sense of concern with the immediate needs of one's proper person" (Hayek, 1948, p. 13). Rather, it means that individuals "ought to be allowed to strive for whatever *they* think desirable" (Hayek, 1948, p. 15 italics in the original). If individuals should be allowed to seek what they consider desirable, then they must be responsible fully for their choices and behaviors.

Hayek is usually categorized as a liberal in the Scottish tradition of Smith and Hume and as a member, and an important one, of the Austrian School of Economics, in the tradition of Menger, Mises, Schumpeter, etc (Horwitz, 2001). Hayek's view of cultural evolution and the issue of market dynamics raised by the Austrian School present significant explanatory challenges. As Vanberg (1991) points out, in Hayek's view of cultural evolution the individual drives social change

by deviating from traditional rules and by experimenting with new practices act as innovators and generate 'new variants' which may become new behavioral regularities in a social community if, in competition with traditional as well as alternative new ways of behavior, they prevail in the sense of being imitated by more and more individuals in the group. (pp. 192–183)

This appears an "individualistic, invisible hand" explanation. However, Hayek then moves to a group/functional level, the adaptation of the change by a group, without offering an explanation of the process. This leads to the conclusion that an invisible hand explanation of cultural evolution is inadequate.

Economic change is the result of similar processes. Hayek as a member of the Austrian School was not satisfied with the neoclassical economic model characterized by the absence of rivalry and perfect competition (Kirzner, 1997, p. 68). For Hayek imperfect knowledge is the critical ingredient in economic change driven by a "discovery procedure."

(T)his approach postulates a tendency for profit opportunities to be *discovered* and *grasped* by routine-resisting entrepreneurial market participants.

In the neoclassical context a decision can never be *corrected* ... But in the Austrian context a decision can be *corrected* as a result of the decision-maker's discovery of an earlier *error* in his view of the world (Kirzner, 1997, pp. 69, 71, italics in the original).

For Hayek, economic change is the result of dynamic markets driven by entrepreneurial discovery and fierce competitive rivalry – what Hayek called "the game of catallaxy" (1976, p. 115).⁹ Through the process of discovery and creativity, entrepreneurs uncover new knowledge and processes and become the dynamic force in economic change. Hayek, and the Austrian School, tells us this dynamic process takes place but not what motivates the entrepreneur, other than a profit opportunity, to assume the risk in the game.

To what extent Hayek was influenced by Nietzsche we will never know. Nor can we be sure that Nietzsche would be particularly pleased with the application of his philosophy to economics, markets and business.¹⁰ Clearly, Nietzsche, as a philosopher, viewed philosophy as the highest

calling and the central role of the philosopher is the acquisition of knowledge (Berkowitz, 1995, p. 248). Hayek, as an economist, viewed market-based economics as the most important area and the role of the entrepreneur as the driving force in markets and business. Yet there is much in Hayek's writing that remains unexplained. We suggested above that the transition from the individual behavior to social acceptance is not explained by Hayek nor is the process of entrepreneurial discovery by him or the Austrian School. Perhaps the explanation lies elsewhere. The entrepreneur in his "routine-resisting" activity in "the game of catallaxy" must overcome the conventional. In contemporary jargon, the entrepreneur is transformational, a change agent. He creates new information, knowledge and values through the process of discovery.

Nietzsche's overman/noble is in many ways this person. He is the opposite of conformity, the conventional and mediocrity. He is creative and seeks domination over himself and others by the acquisition of knowledge. His ambition is to lead humanity onto new plateaus. The overman/noble is both revolutionary and evolutionary.¹¹ Similarly, the entrepreneur leads markets and business to new processes, economic organizations and products, the "creative destruction," to use Schumpeter's phrase. What takes place for Nietzsche in the realm of philosophy and art for Hayek takes place in markets.

The question remains, though, what ethics might operate in Hayek's vision of free market capitalism based upon maximum freedom and minimal coercion? He rejects conservatism and utilitarianism, which he calls modern liberalism, in favor of an Old Whig philosophy of the flavor of Edmund Burke, which he contends will allow individuals the maximum freedom and provide the basic rules of society which will support the operation of markets (Hayek, 1960, p. 409). In the absence of any clear statement regarding the ethics that should govern individual action, we suggest that what Hayek may have had in mind was the master/slave ethics of Friedrich Nietzsche. Both Nietzsche and Hayek argued passionately for individual freedom that allowed individuals to achieve their full potential and where human progress could thrive and both were opposed to conditions where freedom was circumscribed.

For Nietzsche, human history is a dialectic driven by the clash of master and slave behaviors, what Kaufmann, using Jasper's phrase, called a *Psychologie der Weltanschauungen* (psychology of world views) (Kaufman, 2000, p. xx). Individual behaviors are based upon these respective psychological foundations and shape the principles which govern those behaviors.¹² In short, "there are master ethic and slave morality" (Kaufman, 1966, p. 204).¹³

Those who follow the master ethic are creative, and seek to dominate and create new values.

The noble type of man experiences *itself* as determining values; it does not seek approval; it judges, 'what is harmful to me is harmful in itself; it knows itself to be that which first accords honor to things; it is *value-creating*. Everything it knows as part of itself it honors: such a morality is self-glorification. In the foreground there is a feeling of fullness, of power that seeks to overflow, the happiness of high tension, the consciousness of wealth that would give and bestow: the noble human being, too, helps the unfortunate, not, or almost not, from pity, but prompted more by an urge begotten by excess of power... (F)aith in oneself, pride in oneself, a fundamental hostility and irony against 'selflessness' belong just as definitely to noble morality as does a slight disdain and caution regarding compassionate feelings and a 'warm heart' (Nietzsche, 1966, p. 205, italics in the original).¹⁴

Slave morality is the very opposite. It is the morality of those afraid to lead but content to follow, comfortable in subordinating themselves, shallow, and incapable of creativity.

It is different with the second type of morality, *slave morality*. Suppose the violated, oppressed, suffering, unfree, who are uncertain of themselves and weary, moralize: what will their moral valuations have in common? Probably a pessimistic suspicion about the whole condition of man will find expression, perhaps a condemnation of man along with his condition. The slave's eye is not favorable to the virtues of the powerful: he is skeptical and suspicious, *subtly* suspicious, of all the good that is honored there—he would like to persuade himself that even their happiness is not genuine. Conversely, those qualities are brought out and flooded with light which serve to ease existence for those who suffer: here pity, the complaisant and obliging hand, the warm heart, patience, industry, humility, and friendliness are honored—for here these are the most useful qualities and almost the only means

for enduring the pressures of existence. Slave morality is essentially a morality of utility (Nietzsche, 1989a, p. 207, italics in the original).¹⁵

Nietzsche adds an additional element in slave morality with the idea of resentment.

The slave revolt in morality begins when *resentment* itself becomes creative and gives birth to values: the *resentment* of natures that are denied the true reaction, that of deeds, and compensate themselves with an imaginary revenge. While every noble morality develops from the triumphant affirmation of itself, slave morality from the outset says No to what is 'outside,' what is 'different,' what is 'not itself'; and *this* No is its creative deed. This inversion of the value-posting eye—this *need* to direct one's view outward instead of back to oneself—is of the essence of *resentment*: in order to exist, slave morality always first needs a hostile external world; it needs, physiologically speaking, external stimuli to act at all—its action is fundamentally reaction (Nietzsche, 1989b, pp. 36–37, italics in the original.)

What connects the master/slave moralities is the “will to power.” Nietzsche considered this the primary psychological driving force of human behavior (Kaufman, 1974, p. 183). There are several references to the “will to power” in *Beyond Good and Evil* (Kaufman, 1989a, p. 203), *On the Genealogy of Morals*, where he likens the “will to power” to “*an instinct for freedom*” (Kaufman, 1989b, p. 87, italics in the original), in Zarathustra where, according to Kaufmann, Nietzsche introduces the “will to power for the first time” (Kaufman, 1954, p. 7) and in *The Will to Power*, where it is discussed in depth. The “will to power” is found in both slave and master moralities.

Nietzsche uses the term power in several ways. The term is used to describe the moral right of the masters to liberation and the creation of new values. The term is used to illustrate how slave morality weakens the noble and, by forcing society to accept slave morality, it leads society into decay, dependency and despair (Kaufman, 1968, p. 37). Finally, the “will to power” is used as a description of the noble as an individual who seeks excellence and self overcoming (Kaufman, 1974, pp. 201, 203). Power is not simply for the control of the herd, though it must play that role. The fundamental use of power is

the freedom that allows individuals to be creative, to fulfill their potentiality and be their own master.

In *The Road to Serfdom*, Hayek analyzes the major reasons why some societies descended into the tragedy of totalitarianism. He argues that these societies, in a false quest for utopia, were seduced by the promise of central planning to abandoned freedom in favor of distributive justice. Hayek analyzes the practice of central planning and argues that any implementation of planning, even the most innocuous, will lead inevitably to totalitarianism.

To the economist perhaps, what planning does to the economy and the production of wealth is of central importance. While this is important to the ethicist, too, what drives this choice is of equal importance. For Hayek, however, the driving force for planning and central control of the economy is the “demand for an equal distribution of wealth” (Hayek, 1994, p. 30). Distributive justice is offered as the road to freedom. By destroying private property it becomes the road to subservience where individual freedom is exchanged for some unachievable absolute security. Socialism is the doctrine of the slave and herd:

all the docile, and gullible, who have no strong convictions of their own but are prepared to accept a ready-made system of values if it is only drummed into their ears sufficiently loudly and frequently. It will be those whose vague and imperfectly formed ideas are easily swayed and whose passions and emotions are readily aroused who will thus swell the ranks of the totalitarian party... It seems to be almost a law of human nature that it is easier for people to agree on a negative program—on the hatred of an enemy, on the envy of those better off—than on any positive task. (Hayek, 1994, p. 153)

Over time this need for subservience will create a psychological dependency which will erode further freedom and independence.

(T)he most important change which extensive governmental control produces is a psychological change, an alteration in the character of the people. This is necessarily a slow affair, a process which extends not over a few years but perhaps over one or two generations. The important point is that the political ideals of a people and its attitude toward authority are much the effect as the cause of the political institutions under which it lives. (Hayek, 1994, p. xxxix)

For Hayek, socialism is not the only slave morality. He has equal contempt for conservatism and what he calls modern liberalism as solutions to the problem of political organization. Conservatism is found wanting because it offers only resistance to change but no alternative vision. It is fearful of change, “appeals to the timid mind” (Hayek, 1960, p. 400), and has a “fondness for authority” (Hayek, 1960, p. 400). Similarly, modern liberalism, the liberalism of Continental Europe and the English utilitarians, is found wanting because “socialist influences ... have intruded into it” (Hayek, 1960, p. 409).

If socialism, conservatism, and modern liberalism are false, Hayek is left to offer a positive moral foundation for his “Old Whig” society. He must offer a way to move forward toward his ideal society. For Hayek, the solution is free market capitalism as the foundation for conditions of individual freedom. For free markets to function effectively minimum regulation is required to allow for the maximum freedom. Therefore, what is needed is general agreement by all members of society to accept a minimum set of rules, which allow for maximum freedom. These rules protecting private property, individual choice and so forth, allow the greatest area for individual action. It requires individuals to be responsible for their own actions and to develop their own moral foundation. If socialism leads to a psychology of dependency, free market capitalism requires a psychology of independence. It demands that individuals take responsibility for themselves and achieve their potential. Progress and human fulfillment must be found in the crucible of market competition. Whether one succeeds or fails is immaterial; one must rejoice in the freedom to achieve one’s capabilities. The risk of success and failure are the essence of free market competition; one must take the risk and not wallow in self-pity.

The ethics of the marketplace is, in Nietzsche’s terms, the ethic of the master and the slave, though Hayek calls them independents and dependents. The master class has migrated from philosophy and art to markets and business. The basic rules protect the ambitious from the envy of those less successful and permit them to achieve their potential. Yet the slave ethic is not absent because the herd is ever present. The desire to change the rules drives economic progress. This is the world of the entrepreneur, the upstart, those who wish to replace the current economic

leadership. It is the arena of the current economic leadership seeking to maintain their position. In a Nietzschean sense it is the clash of nobles seeking to create values. There are no moral rules to say which is proper or improper; there is overcoming and a “will to power,” as long as all respect the basic code.

The ever present problem is the herd must be managed.

They regard as unnecessary many exercises of freedom which are essential to the independent if he is to perform his functions, and they hold views of deserts and appropriate remuneration entirely different from his. Freedom is thus seriously threatened by the tendency for the employed majority to impose upon the rest their standards and views of life. It may be indeed the most difficult task of all to persuade the employed masses that in the general interest of their society, and therefore, in their own long-term interest, they should preserve such conditions as to enable a few to reach positions which to them appear unattainable or not worth the effort or risk ...

It is one of the greatest tragedies of our time that the masses have come to believe that they have reached their high standards of material welfare as a result of having pulled down the wealthy, and to fear that the preservation or emergence of such a class would deprive them of something they would otherwise get and which they regard as their due. We have seen why in a progressive society there is little reason to believe that the wealth which the few enjoy would exist at all if they were not allowed to enjoy it. It is neither taken from the rest nor withheld from them. It is the first sign of a new way of living begun by the advance guard. (Hayek, 1960, pp. 120, 130)

Thus, the economic leadership group has a moral obligation to drive change in all spheres of life and the remainder of society must, not only provide them the freedom to do so, but support that right as well, to allow their “will to power.”

The consequences of the independent/dependent relationship are far reaching. To accept the fundamental principles of free market capitalism, several property, and contracts opens what appears to be a wide area of human behavior. For the independents this is very true; for the dependents, less so. On the surface, it appears that their ability to act independently increases too. They are free to choose occupations, apply for employment, and dispose of their

property but they remain dependent on others for employment, education, and advancement. In reality, their “will to power” and resentment will be reduced greatly. Since all agree on the importance of property and freedom, this reduces dependents claim on the independents. Any attempt to obtain some redistribution of wealth or power through collective behavior would be immoral. Independents, on the other hand, would see their freedom of action, their “will to power,” increase significantly. Unfettered by any fear of collective behavior on the part of the dependents, they would be free to do as they wished in the competitive world of free markets, so long as they, too, respected the fundamental rights of others.¹⁶

The implications of free market capitalism presented by Hayek are striking. As long as the basic rules are respected market participants are left to their own devices. Those with superior knowledge and risk tolerance will seek advantage in the crucible of market competition. Those less knowledgeable, risk averse or vulnerable will be at a disadvantage. Those at the apex or organizations are free to allocate resources as they see fit and those below will be allowed acceptance. With knowledge as the crucial variable, those with more and better knowledge have the advantage and those with less a disadvantage. So be it! To seek to rectify the imbalance will result in failure and reduce the resiliency of markets and their ability to function effectively.

Many of the business behaviors witnessed today are not moral lapses at all. Indeed, the current financial situation in the United States may be a prime example. Apart from examples of deception and dishonesty, the introduction of the new and creative investment vehicles, such as Special Investment Vehicles (SIVs), demonstrated market creativity at its best. According to Hayek’s vision of free market capitalism, these behaviors are not ethical violations; they are the result of superior knowledge and better character, for the creator of values has both. They represent market creativity driven by entrepreneurial discovery. Any effort to curb those with superior knowledge and character would be immoral.

Notes

¹ Kaufman (1974) argues persuasively that Nietzsche did not have anything in mind like the Nazi master race.

² According to Kaufmann, Nietzsche had a great influence on twentieth century philosophic thought. (Nietzsche, 2000, p. xx).

³ Like Nietzsche in *The Genealogy*, Hayek seeks an understanding of the origins and errors of traditional ethical systems. (Allison, 2001, p. 191).

⁴ According to Caldwell (2004,) as a member of the Austrian School, Hayek was against any form of historicism.

⁵ “... no human mind can comprehend all the knowledge which guides the actions of society ...” (1960: 4). “... (t)he orderliness of society which greatly increased the effectiveness of individual action was not due solely to institutions and practices which had been designed for that purpose, but was largely due to a process described at first as “growth” and later as evolution, a process in which practices which had first been adopted for other reasons or even purely accidentally, were preserved because they enabled the group in which they had arisen to prevail over others (Hayek, 1973, p. 9). CF, Nietzsche: “... there is for historiography of any kind no more important proposition than the one it took such effort to establish but which *ought to be* established now: the cause of the origin of a thing and its eventual utility, its actual employment and place in a system of purposes, lie worlds apart” (Nietzsche, 1967b, p. 77, italics in the original). “That the apparent ‘purposiveness’ is merely a consequence of the will to power manifest in all events; that becoming stronger involves an ordering process which looks like a sketchy purposiveness; that apparent ends are not intentional but as soon as dominion is established over lesser power and the latter operates as a function of greater power, as an order of rank, of organization is bound to produce the appearance of an order of means and ends” (Nietzsche, 1968, pp. 299–300).

⁶ “By ‘coercion’ we mean such control of the environment or circumstances of a person by another that ... he is forced to act not according to a coherent plan of his own but to serve the ends of others (Hayek, 1960, pp. 20–21).

⁷ “In this wide sense every one who does not regard all existing values as unquestionable but is prepared to ask why they should be held would have to be described as a utilitarian. Thus Aristotle, Thomas Aquinas and David Hume, would have to be described as utilitarians ... “(R)ules of conduct have thus not developed as the recognized conditions for the achievement of a known purpose, but have evolved because the groups who practiced them were more successful and displaced others” (Hayek, 1976, p. 17, 1973, p. 18).

⁸ “Most rules of conduct are thus not derived by an intellectual process from the knowledge of the facts of the environment, but constitute the only adaptation of man to these facts which we have achieved, a ‘knowledge’ of them of which we are not aware and which does not appear in our conceptual thought, but which manifests itself in the rules with which we obey in our actions. Neither the groups which first practiced these rules, nor those who imitated them, need ever have known why their conduct was more successful than that of others, or helped the group persist (Hayek, 1976, p. 21).¹ “This is the constitutional limitation of man’s knowledge and interests, the fact that he *cannot* know more than a tiny part of the whole society and that therefore all that can enter into his motives are the immediate effects which his actions will have in the sphere he knows” (Hayek, 1948, p. 14, italics in the original). CF Nietzsche: “What I have just said of the ‘basic will of the spirit’ may not be readily understood: Permit me an explanation ... Its needs and capacities are so far the same as those which philologists posit for every thing that lives, grows, and multiplies. The spirit’s power to appropriate the foreign stands revealed in its inclination to assimilate the new to the old, to simplify the manifold and to overlook or repulse whatever is totally contradictory—just as it involuntarily emphasizes certain features and lines in what is foreign, in every piece of the ‘external world,’ retouching and falsifying the whole to suit itself. Its intent in all this is to incorporate the new ‘experiences,’ to file new things in old files—growth, in a word—or, more precisely, the *feeling* of growth, the feeling of increased power. An apparent opposite drive serves this same will: a suddenly erupting desire in favor of ignorance, of deliberate exclusion, a shutting of one’s windows, an internal No to this or that thing, a refusal to let things approach, a kind of state of defense against much that is knowable, a satisfaction with the limiting horizon, a Yea and Amen to ignorance ...” (Nietzsche, 1989a, pp. 159–160).

⁹ “A catallaxy is a special kind of spontaneous order produced by the market through people acting within the rules of the law of property, tort and contract” (1976, p. 109).

¹⁰ “The need to show that as the consumption of man and mankind becomes more and more economical and the ‘machinery’ of interests and services integrated ever more intricately, a countermovement is inevitable. I designate this as the secretion of a luxury surplus of mankind: it aims to bring to light a stronger species, a higher type that arises and preserves itself under different conditions from those of the average man. My concept, my metaphor for this type is, as everyone knows,

the word ‘overman.’ ... It is clear, what I combat is economic optimism: as if increasing expenditure of everybody must necessarily involve increasing the welfare of everybody. The opposite seems to me to be the case: *expenditure of everybody amounts to a collective loss*: man is *diminished*—so one no longer knows what aim this tremendous process has served. An aim? a new aim?—that is what humanity needs (1968, pp. 463–464, italics in the original).

¹¹ In the Prologue to Zarathustra, Nietzsche introduces the overman and overcoming. The overman is “one of the few human beings who raise themselves above the all-to-human masses.” “(T)he chapter *On the Thousand and One Goals* contains the first mention of the will to power” (Kaufmann’s introduction to Zarathustra, pp. 3–4, 7).

¹² In no sense did Nietzsche or Hayek use the term slave literally in the sense of the ownership of one individual by another.

¹³ Nietzsche at times labels the slave ethic as the herd.

¹⁴ CF “Now it is plain to me, first of all, that in this theory the source of the concept ‘good’ has been sought and established in the wrong place: the judgment ‘good’ did not originate with those to whom ‘goodness’ was shown! Rather it was ‘the good’ themselves, that is to say, the noble, powerful, high stationed and high minded, who felt and established themselves and their actions as good, that is, of the first rank, in contradistinction, to all the low, low-minded, common, plebeian. It was out of this pathos of distance that they first seized the right to create values and to coin names for values ... The pathos of nobility and distance ... the protracted and domineering fundamental total feeling on the part of a higher ruling order in relation to a lower order, to a ‘below’—that is the origin of the antithesis ‘good’ and ‘bad’.” (Nietzsche, 1989b, pp. 25–26).

Behold the good and the just! Whom do they hate most? The man who breaks their tablets of values, the breaker, the lawbreaker; yet he is the creator ...

Companions, the creator seeks not corpses, not herds and believers. Fellow creators, the creator seeks—those who write new values on new tablets ... Destroyers they will be called, and despisers of good and evil ...

I shall join the creators, the harvesters, the celebrants: I shall show them the rainbow and all the steps to the overman (Nietzsche, 1954, pp. 23–24.)

¹⁵ Seung finds these themes in the chapter “On the Thousand and One Goals” in Zarathustra also.

Nietzsche “now makes the distinction between the wisest and the unwise. The unwise are the people who follow the values created by the wisest. The wisest can create truth because their will is dominant and assertive. The unwise are the people who follow the values thus created because their will is weak and submissive (p. 77).”

¹⁶ According to this view corporate fraud would be clearly immoral (WorldCom, Enron, etc.). It is less clear that other behavior would be. As long as the basic code is respected “competitiveness” or “market needs” could be used to justify most any business behavior such as downsizing, off shoring, mergers and acquisitions regardless of its impact on individuals, communities, suppliers and other stakeholders. However, unions, collective bargaining, and employee benefits would be immoral. Unions and collective bargaining restrict market forces and benefits take money from others without consent. The issue for Hayek is how is it possible to prevent the slaves from making claims on the nobles based upon “distributive justice.” This is accomplished by removing these claims from ethics, politics and public policy. The fundamental principles of freedom, property, contracts etc. effectively reduce the political and public policy arena in favor of free markets and economics, which play by the rules of efficiency, competitiveness, etc. Noble ethics and nobles, entrepreneurs, business leaders, are given free reign to work their magic and drive the market to greater wealth production.

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