



English, Economics, Politics, and Philosophy

Unit 1 ~~Evolution of Economics~~

Lesson 1.6: Should We Plan? (Part III)

I. Friedrich Hayek

Brief Recap: We have learnt the Macro-economic concepts developed by John Maynard Keynes. Today, we will be looking at the ‘oppositions’ of his ideas, developed by the student of

Joseph Schumpeter, Austrian economist Friedrich Hayek.

polymath: a person who professes in more than one area

Hayek was also a psychologist (behaviour psychologist)

Hayek (1899—1992) was born in a biologist family. His father animals/plants

was a famous botanist and many of his family members were

a person who plants intellectuals at the time. Inspired by his background, Hayek

views the studies of economics differently than others—yet

similar to Adam Smith. He thinks the economics is a organism

rather than a machine; hence spontaneously complex and living entity
engineered product

unpredictable. It evolves rather than revolutionizes; it is thus

limited for understandings but not knowledge.

empirical (observation) e.g., Eric likes to drink coffee

vs analytical (true and always true, e.g., $1+1=2$)

物理: study of things

Hayek distinguish **physics and economics**, for us to understand this underlying rationale of his, lets watch a video.

Q: What are some **key** ideas seen in the video?

assignment:

II. Price Signals & Spontaneous Orders

For Hayek, the phenomena of economic activities are observed through **prices**. He called these **‘price signals’** through which we **real price** unpack the movements of the economics. These movements,

when the government does not intervene, were to Hayek

“**spontaneous orders**.” Similar to Adam Smith’s **Invisible hand**,

Hayek contrast spontaneous orders with **constructive orders**, to

address the dangers of plannings and the **ought or ought not** **normative objection** to

big government ideologies—that of **Keynes and Marx**.

Cosmos within chaos

Orders within disorders

III. The problem of knowledge

In Hayek's *Constitution of Liberty* and *The Road to Serfdom*, he justified his spontaneous orders by demonstrating the limit of the government, what he called the **problem of knowledge**. For him, the reasons for **laissez-fair attitude** are not out of the laziness; rather, the **toward the market** humble attitude acknowledging the feasibility of economic planning. For him, the knowledge of **real prices is dispersed**. Only the individual knows what their **spread** **Friedrich Wieser; opportunity cost** **opportunity costs are**, by which they trade-offs and make decisions. If the government involve based on **incomplete knowledge**, which for him seems to be inevitable, the **real price** signals will be distorted rather than set in stone. This will ultimately lead to the **oppression of economic liberties**.

Besides, accountability takes place in the reasonings. For him, if the individual business **plans wrong**, they can take responsibility and then declare **bankruptcy**; whereas, if the government does wrong, they **cannot dismiss themselves**, in which case the **individuals suffer from the mistakes their government make**.

e.g., Soviet Union/ Mao's China