

THE DAVID HUME INSTITUTE



**Hume on Liberty and the Market
- a Twenty-First Century
Perspective**

The Hume Lecture 2002

7 March 2002

Professor John Gray

Hume Occasional Paper No. 60

The David Hume Institute
25 Buccleuch Place
Edinburgh EH8 9LN

© The David Hume Institute 2002

ISBN 1 870482 61 1

Hume on Liberty and the Market - a Twenty-First Century Perspective

The Hume Lecture 2002

7 March 2002

THE DAVID HUME INSTITUTE

2002

The Institute gratefully acknowledges the sponsorship of this event by
Lloyds TSB Scotland.

Professor John Gray is Professor of European Thought at the London
School of Economics

Foreword

The opening of the 21st Century seems a good time at which to take stock of the implications of David Hume's writings for those with an interest in market based policy. While there exists an appropriately extensive literature on David Hume and his influence on the development of thought, much of this concentrates on his own time. The Institute has previously attempted to encourage a more contemporary appraisal of Hume when, in 1992, we published a *Hume Occasional Paper* by Robert Pringle entitled 'The Contemporary Relevance of David Hume'. In selecting the topic of the Hume Lecture for 2002, the Institute's Trustees decided that the time was again ripe for an examination of the relevance of Hume to the modern day and, given the Institute's interests, the relevance of Hume to the consideration of policy prescriptions which would make markets work more equitably and efficiently.

We were, therefore, particularly fortunate to be able to persuade Professor John Gray, Professor of European Thought at the London School of Economics, to present this year's Hume Lecture on the subject of "Hume, Liberty and the Market — a Twenty-First Century Perspective". Professor Gray, previously Professor of Politics at Oxford, has published widely in the area of European Thought, including numerous monographs, books and other publications on John Stuart Mill, F. A. Hayek, Isaiah Berlin, Liberalism, aspects of the New Right, and, of course, David Hume.

The lecture was delivered to an attentive audience which was treated to an extremely lucid analysis of the extent to which Hume and his view of the market retains immense importance for contemporary analysis of economic policy. After first establishing why Hume would have regarded as fatally flawed any utopian notions of re-engineering economic life on the basis of an abstract rational model, Professor Gray draws out Hume's fundamentally pragmatic view of the market. He emphasises that while Hume may be seen to hold an evolutionary view of the development of institutions, it is a view consistent more with making the best of a succession of "accidents punctuated by catastrophes" than with the outcome of the workings of some invisible hand. Furthermore, while there may be a discernible trend towards progress, the possibility of regression remains and nothing is inevitable.

The danger of adhering to one-size-fits-all ideologies is demonstrated by reference to two applications, namely, educational reform and

healthcare. These serve as a caution against reliance on any one blanket policy and underline the importance of adopting “a genuinely pragmatic, instrumental approach to market mechanisms”. The lecture ends with a quotation from Hume in which the dangers of relying on principles and paying insufficient attention to the “variety and extent of nature” are clearly spelled out. While offered in the context of philosophy, this observation applies equally well to the development of economic policy in the early twenty-first century.

The David Hume Institute is delighted to be able to publish this lecture as a *Hume Occasional Paper*. As always in our publications, it is necessary to make clear that the Institute holds no collective view or opinion upon the issues raised, the views expressed being those of the author alone.

The lecture was introduced by Professor Duncan Rice, Principal of Aberdeen University and a professional historian with a most distinguished academic career at both New York University and Yale. The David Hume Institute is grateful to Professor Rice for chairing the event so skilfully. We are also particularly grateful to Lloyds TSB Scotland for its support in this event.

Brian G M Main
Director
May 2002

Hume on Liberty and the Market — a Twenty-First Century Perspective

I Introduction

In his David Hume Lecture of 1995, my distinguished predecessor Lord Sutherland recalled Hume's famous observation:

Whereas mistakes in religion are dangerous, those in philosophy are merely ridiculous.

It was with these words in mind, and not a little humility, that I accepted the very great honour of delivering The David Hume Lecture. My subject is our own century, as seen from a Humean perspective; but I begin by looking back. The twentieth century was a time of radical political and economic experiments, most of them failures. The causes of these failures are undoubtedly very complicated; but central among them, I believe, are the errors of Enlightenment rationalism — the false rationalism that is the target of so much of Hume's sceptical scorn. At the start of the twenty-first century, the world is littered with the ruins of vast schemes of social and economic engineering — not only in the post-communist countries, which are still struggling to rid themselves of the inheritance of central planning, but in much of the rest of the world, where ambitious schemes to re-engineer economic life on a free market model have proved no more successful.

The errors of philosophers have proved to be extremely dangerous. Whereas in Hume's day religion was the chief enemy of liberty, in the twentieth century that role was played by militant secular ideologies - all of them dedicated to an idea of freedom. This is an irony Hume would surely have appreciated; and it is to Hume that we should turn for a remedy. David Hume is the supreme exponent of the sceptical and commonsensical philosophy of the Scottish Enlightenment. For that very reason, his thought seems to me the best antidote to the rationalistic strands of Enlightenment thinking that prevailed during much of the twentieth century, and which — despite their deep intellectual flaws and proven practical failings — exert a powerful influence still today.

Until only a dozen years ago, governments founded on the theories of a nineteenth century German Enlightenment thinker ruled large parts of the world. Happily, with the collapse of central planning, Marx's system of ideas is now an historical curiosity. Though his

analysis of the instability of capitalism may yet prove to have some validity, Marx's vision of communism has been rightly rejected as dangerously utopian. Yet the type of Enlightenment thinking expressed in his vision of the future lives on. The narrowly economic view of human action that informed Marxism has been transplanted into market liberalism. Marx's belief that communism would remove all the major sources of conflict in society has resurfaced in absurd theories of the end of history. A rationalistic vision of central economic planning has been replaced by a no less rationalistic vision of the free market. In each case, the utopian project of a re-engineering economic life on an abstract rational model has run aground on the realities of history and human nature. Hume would not have been surprised. As he wrote of the utopian schemes of his own day: "All plans of government, which suppose great reformation in the manners of mankind, are plainly imaginary."¹

Hume was not tempted by utopias of any kind. Human imperfection is the theme of his philosophy. Like his Enlightenment contemporaries, Hume believed that human knowledge was advancing rapidly; but, unlike them and many later Enlightenment thinkers, he did not expect the growth of knowledge to be accompanied by any comparable advance in human behaviour. He believed human institutions could be rationally improved; but he never imagined human beings would become rational.

Let me offer a thumbnail sketch of Hume's philosophy. The growth of human knowledge may be cumulative and open-ended, but progress in ethics and politics is limited and temporary. Contrary to Locke and Rousseau, humans are not born free, and society is not the product of a social contract. Liberty is not a natural right but a set of practices that has developed over time as a by-product of institutions that disperse power. Modern commercial societies possess some distinctive virtues, but they are not immune from decline. History is not the progressive emancipation of the species from poverty and ignorance but a succession of cycles and accidents, in which liberty and civilisation regularly succumb to barbarism. Humans are highly inventive animals whose nature is constant throughout history. In future, as in the past, they will be ruled not by reason but by their passions and illusions.

These are hardly fashionable beliefs; but I think they are true, or true enough to be a better guide to practice than the rationalist philosophies that dominated much of the twentieth century. These core beliefs of Hume's suggest a view of the role of reason in public affairs that is quite different from that which came to prevail on both the

political Left and Right over the past twenty years. In this Humean view, reforming society does not mean remaking it according to a rational model. It means revising our historical inheritance so our institutions better meet our present circumstances and enduring human needs. Unlike Burke and Hayek, Hume never viewed our inheritance of traditions with mystical reverence. He understood that government and the market are complex artefacts with long histories, which can and should be reformed when they no longer serve our ends.

Hume's view of the scope and limits of reason in ethics and politics suggests a view of the market which is considerably more modest than that projected during the doctrinal enthusiasms of the Eighties and Nineties. Not only more modest, but also — to my way of thinking — more durable. It seems likely that, in one of those recurring turns in history that are rarely foreseen but are eminently predictable, we are entering a time of economic dislocation, when market forces will once again retreat before the power of the state. In these circumstances, we must not lose sight of the humble but vital place of the market in civilised life. In the twenty-first century, as before, a well-functioning market economy is a precondition of individual liberty. Yet we must not fall into the trap of thinking that the market is a free-standing institution. It is not. It is an artefact of an effective modern state, and its political legitimacy depends on its workings being seen to be fair. Such a scaled-down conception of the role of the market will not satisfy libertarian ideologues; but I believe the pragmatic reforms of our existing institutions that it suggests are likely to prove more lasting than any of their eccentric constructions.

I will present my twenty-first century version of a Humean view in two parts. First I will set out Hume's subtle and still not widely understood critique and defence of reason. Hume was a critic of rationalism because he was a friend of reason. Unless we understand the ways in which these two aspects of his thought are linked we will not make the best use of it.

Next, I will illustrate what this Humean view might mean for us. In Britain we have cultivated a view of ourselves as open-minded empiricists, revising our institutions and policies as changing circumstances demand. In many areas of policy, however, the reality is an unedifying oscillation between doctrinal fads. Politicians may declare the only thing that matters is what works, but more often than not their supposedly pragmatic policies are inheritances from an earlier generation of doctrinaires. In theory, all parties accept a varying mix of market and non-market arrangements. In practice, politicians

and policy-makers still hark to the shouts and cries of irrelevant ideological disputes.

The political class is still very far from Hume's historically grounded and instrumental view of the state and the market. There are many ways in which markets and non-market arrangements can be combined, not all of them desirable. Pragmatism lies not in introducing market mechanisms wherever they are feasible but in asking what — given our history and current circumstances — best delivers what we need or want. Thinking of institutions in this way does not mean seeing them in purely utilitarian terms. Institutions do more than satisfy wants; they also shape them, and thereby us. They can contribute to a culture in which we see ourselves as free agents, or they can undermine our sense of being free. We never start with a *tabula rasa*, a blank page before us on which we can write what we please. We must begin with the institutions we have inherited.

Nevertheless, our inheritance does not embody wisdom beyond our understanding. In the forms in which we inherit them, our institutions are accidents of history, often embodying the modish fallacies of previous generations. For a follower of David Hume, institutions gain their legitimacy partly from the fact of being established; but there can be nothing sacrosanct about any of them. Neither the state nor the market is an end in itself. Both exist only to serve human needs.

Hume's thought is an indispensable resource for understanding our circumstances today; but it cannot be applied mechanically. Hume lived in a pre-revolutionary era, in which he could take stability in society for granted. Today, social institutions are more fluid and experimental, and the distribution of resources and opportunities is politically contested. Unlike Hume, we live an age of democratic government. In a democracy, the inevitable ups and downs of the market will be tolerated only to the extent that the majority of people can see themselves as its beneficiaries. If we are to use it to our advantage, Hume's thought needs to be enriched by a concern with fairness — not as it is theorised by rationalistic philosophers, but as it is understood by the majority of people.

II Hume's philosophy: sceptical naturalism

Hume is the greatest modern sceptic and a formidable critic of the rationalist philosophies of the European Enlightenment. At the same time, he aimed to apply reason to the study of human life, in the

hope that it could be in some measure improved. He was no enemy of reason, or of Enlightenment.

It is true that in some European countries Hume's thought was used to bolster irrationalist philosophies. As Isaiah Berlin has shown², the eighteenth century German theologian J.G. Hamann invoked Hume in an effort to dethrone reason and reinstate the revelations of religion; but nothing could have been further from Hume's intentions than this kind of fideism. He aimed not so much to dethrone reason as to subject it to the checks and balances of common life. As I shall put it, Hume is not so much a sceptic as a *sceptical naturalist*.

Hume's philosophy shows the limits of reason in three distinct but closely linked ways. In the first place, it is not reason that gives us our goals but our natural passions. Aristotle stands behind a long European tradition in which reason and passion are viewed as rival faculties, with reason having the superior role; but Hume's view is very different: "Reason is and ought only to be the slave of the passions" he wrote in a famous passage " and can never pretend to any other office than to serve and obey them".³ It is not reason that stirs us to act but our natural inclinations; our actions are reasonable or unreasonable only insofar as they satisfy or thwart them. As Hume put it pointedly in another celebrated dictum: "Tis not contrary to reason to prefer the destruction of the whole world to the scratching of my finger."⁴ Reason cannot determine the ends of life. Its role can only be to guide us how best to achieve them.

In the first place, then, Hume sought to whittle down the claims of reason by denying that it can ever motivate us to act. His second move is to deny that it is the ground of our moral judgements. Hume does not deny that we can reason about right and wrong; but we do so only because we already care about others. The basis of morality is utility - the tendency of actions to promote our well being; but utility is nothing to us unless it connects with our emotions. The basis of morality is therefore not reason but feeling: "Utility is only a tendency to a certain end; and were the end totally indifferent to us, we should feel the same indifference to the means. It is requisite that a sentiment should here display itself, in order to give a preference to the useful over the pernicious tendencies. The sentiment can be no other than a feeling for the happiness of mankind..."⁵

To ground morality in feeling may seem to make it a matter of subjective preference; but in Hume this is not so. The basis of morality is the species-wide sentiment of sympathy. Morality is the natural expression of a universal trait of the human animal. Hume lived before Darwin, and long before evolutionary psychologists traced ethical life

in humans back to the needs of their closer animal kin. But I am sure he would have found sympathetic the view of ethics that is emerging today from the scientific study of the behaviour of other animals. For Hume, morality expresses human emotions, but these emotions are rooted in a nature that is constant — our nature as inventive animals.

Hume may have exaggerated the uniformity of moral judgment. Though he was an incomparably great historian, he knew far less than we do about history and cultural anthropology. Even so, I believe he was right in insisting that morality serves needs that do not vary greatly with changing cultures. It is these needs, so deeply rooted in us that they are for all practical purposes unalterable, which give rise to what Hume termed the artificial virtues — the rule-governed conventions that exist in every human culture for the regulation of behaviour and the settlement of disputes.

Hume's third move is to apply this account of the origins of morality to government and the market. A long line of philosophers has sought to derive the authority of the state from first principles of justice. Harking back to an imaginary state of nature, or invoking a hypothetical original position in which we know nothing of our histories or moral beliefs, philosophers from John Locke to John Rawls have attempted to formulate political principles that no reasonable person can reject. In the twentieth century, economists and philosophers tried to derive the institutions of a market economy by a process of rational choice from first principles about efficiency or equality.

Hume, in the eighteenth century, was wiser. For him, what we today call the market is a development of the artificial virtue of justice, which is a response to the normal human condition of moderate scarcity. If we lived in a world in which all our wants could be satisfied, or one in which even the most basic human needs could not be met, the conventions of justice would never have emerged. As Hume put it:

Reverse, in any considerable circumstance, the condition of men: Implant in the human breast perfect moderation and humanity, or perfect rapaciousness and malice: By rendering justice totally *useless*, you thereby totally destroy its essence, and suspend its obligation on mankind.

The common situation of mankind is a medium amidst all these extremes. We are naturally partial to ourselves, and to our friends; but are capable of learning the advantages resulting from a more equitable conduct. Few enjoyments are given to us from the open and liberal hand of nature; but by art, labour, and industry, we can extract them in great

abundance. Hence the ideas of property become necessary in all civil society: Hence justice derives its usefulness to the public: And hence alone arises its merit and moral obligation.⁶

Hume acknowledges no *a priori* moral principles of the kind later claimed by Kant to be binding on all rational beings. For him the foundations of justice are contingent. The human circumstance could conceivably have been otherwise than we find it. Yet Hume is far from being a relativist. Justice is an artificial virtue because it consists in the application of conventions; but that does not mean it is *merely* a matter of convention, still less that it is unnatural. Justice is a remedial practice, developed to mitigate the disadvantages of normal scarcity — not just the scarcity of economic resources, but the no less insuperable scarcity of benevolence and intelligence. Justice is a response to the normal condition of the species. As such, our judgments of what is just and what unjust are not arbitrary. Though it is not grounded in reason, justice is a subject about which we can and do reason.

Hume is conventionally seen as a sceptic, and the conventional view of him is partly right. With regard to the pretensions of philosophers and dogmatists, Hume was certainly a sceptic; but the true value of his own philosophy is in pointing beyond scepticism. His view is that if we seek for a ground of everything we believe, we will end up believing in nothing. This may sound dispiriting, but it is not; for Hume's view is that it is a mistake to look for grounds of our most basic beliefs. Not reason but nature underpins our belief in an external world, in cause and effect, and even our very identity. The same is true of morality and justice. Their principles cannot be demonstrated; but they do not stand in need of demonstration. Knowledge and moral judgement are natural human activities, which no more need a rational ground than eating or sleeping.

In contemporary terms, Hume is a naturalist as much as a sceptic.⁷ Naturalism is the view that the human mind is part of the scheme of things. Our dispositions to reason and inquiry do not come from the heavens, but from our life as animals in the natural world. Traditionally, the theory of knowledge has been the search for unshakeable foundations for our beliefs; but in Hume's view, all such theories end in scepticism. Hume was surely a sceptic, but he had a sceptical solution to the problems of scepticism. In Hume's view, as in mine, knowledge and morality already have foundations. Their common ground is in human nature.

For a Humean naturalist, it is idle as well as dangerous to imagine that society can be reconstructed on any rational model. Any

such model can only be an abstraction, a massively simplified version of historical and human realities we can understand only in part. Hume's philosophy has sometimes been seen as a species of sceptical conservatism, and there is some truth in this interpretation. Even so, Humean naturalism has no natural or inevitable association with the Right. Indeed, insofar as it subverts all large projects for the rational reconstruction of social and political life, it contains a powerful antidote to the Right's more recent thinking. For in Humean terms the schemes for engineering free markets throughout society with which the Right has lately been associated are patently Utopian. Hume was scornful of the philosophers of antiquity because they erected "Schemes of Virtue and Happiness, without regarding Human Nature, upon which every Moral conclusion must depend."⁸ He was equally dismissive of the far-reaching claims made for reason by *philosophes* in his own time. For Hume, philosophy may enlighten practice; it cannot govern it. As he wrote in the *Enquiry on Human Understanding*: "Philosophical decisions are nothing but the reflections of common life, methodised and corrected."⁹ I do not doubt that Hume's attitude to the free-market *philosophes* of the late twentieth century would have been little different.

So far I have discussed the side of Hume in which he appears as a critic of rationalism. If that is where we leave our understanding of him, Hume will seem no different from Edmund Burke. That is the view that Hayek propagated, when he tried to assimilate Hume's philosophy to Burke's, on the ground that both hold to an evolutionary view of the development of institutions¹⁰. The truth is that, in contrast with Burke and with Hayek, Hume always remained a rationalist.

For Hume, the institutions of government and the market are human artefacts. As such, they are necessarily imperfect. There is no hidden hand, no cunning of reason in history, which ensures that they meet human needs. Hume was far too good an historian to imagine there was any mechanism that ensures that the institutions that survive the longest are the most useful. He wrote his marvellous *History of England* to demystify and refute the Whig view that English liberty was the work of providence. He viewed history not as a series of incremental changes tending to improvement, as Burke did, but as a succession of accidents, punctuated by catastrophes. In taking this view, Hume came closer to the neo-Darwinian view of natural selection as a series of punctuated equilibria than Hayek did nearly two hundred years later.¹¹

A couple of examples may help to bring out the differences between the Burke-Hayek view of institutions and Hume's rival view.

Consider law. Taking English common law as his paradigm, Hayek viewed law as an institution that develops by slow accretion. I am not sure how far this is really the case in England, but it is certainly not a universal truth about law. As I understand it, Scottish law in the form we know it today did not evolve in imperceptible stages from the customary law of the clans. It is a modern development, reflecting the country's complicated and sometimes conflicted relations with England, and incorporating elements from several legal traditions, including Roman law. Again, in Turkey, the legal system is not an evolutionary development of Ottoman law, but the creation of the *Attaturkist* state — one of the most successful twentieth century modernising regimes. As these examples show, law does not always grow in the interstices of custom. More commonly, it develops on a ground laid by large conflicts — political and sometimes military. If in England law developed by slow accretion, that is a fact about England, not a universal truth about law.

As another example, consider Hayek's view of religion. Hayek maintains that there is a kind of natural selection of religions, in which those that survive are the ones that promote the family and private property, and thereby maximise the numbers of their adherents.¹² Unfortunately for Hayek, there is nothing in society that is comparable to the natural selection of genetic mutations in biology. Not only is there no *unit* of selection in society, there is no *mechanism* of selection either. The success or failure of religions has always depended crucially on their relations with the power of the state. The Cathars did not die out because they suffered a Darwinian disadvantage in comparison with the Catholic Church; they were killed off. The same is true today wherever religious persecution is at its most intense. The history of religions is made by the contingencies of political power, not by natural selection.

The bearing of these examples on the role of the market should be clear. A disposition to truck and barter may be the primitive origin of market exchange, and in that sense markets are universal phenomena. But markets of the kind we deal with in modern states are artefacts of law and state power. To view the market economy as an upshot of evolutionary competition is a basic error. One of the reasons the Soviet system collapsed is that it could not keep up with technical innovation in western countries. Yet I do not believe it was the manifold economic failures of the Soviet state brought it down. It was much more its inability to cope with nationalism, together with the unintended consequences of Gorbachev's ill-conceived programme of market reform. Here again, it was historical accident that proved

decisive. As my LSE colleague Dominic Lieven has recently summarised his conclusions regarding the Soviet collapse: “...the role of contingency and personality was very important... Gorbachev and Yeltsin contributed mightily — for better or worse — to the collapse of the Soviet Empire.”¹³

The global triumph of the market is an historical accident, by no means inevitable and certainly not irreversible. It is not a result of evolutionary competition. Today, we live in a world containing only one type of economic system — market capitalism. Central planning is not going to come back; but that does not mean the world will become one big free market. There is no law that dictates that one type of market capitalism is bound to be more successful than all the rest. Different countries will continue to practise different sorts of capitalism; different hybrids of state and market will continue to develop.

Any market economy is a hugely complex legal and cultural institution, dependent for its survival and success partly on state power and partly on the legitimacy with which it is viewed by those who work and invest in it. The market economy we inherit is not the outcome of unplanned historical evolution. It is a makeshift of the failed and partly successful plans of earlier times.

III Applying Hume’s philosophy today

As we know them today, British institutions are to a very considerable extent the products of ideologically driven innovation. The self-image of British political culture as a haven of bluff pragmatism is a matchless example of false consciousness. At least as far as the period following the Second World War is concerned, no other European country has experimented so ambitiously, and at times so destructively, with its institutions.

Nowhere else in Europe was the educational system transformed so profoundly and irreversibly for the sake of egalitarian ideology. The abolition of the grammar schools was not undertaken because they were failing in educational terms. It was motivated by hostility to the alleged social costs of selection. The result of remodelling state schools in England and Wales as comprehensives has, I believe, been to reduce opportunity and social mobility for the worst off; but this is not a point I seek to labour. Rather, I want simply to note the fact that, whether or not the abolition of grammar schools achieved its egalitarian objectives, it was a radical experiment attempted on a scale matched nowhere else in Europe. All continental

European countries have educational systems containing something like gymnasia, selective secondary schools; none has a private sector that shapes education in the way the public schools do in Britain. None has made its schooling system a site of ideological conflict.

The abolition of the grammar schools was a project of the soft centre left. Privatisation began as a project of the New Right. It did not appear in the Tory election manifesto of 1979 and the first privatisation by a Tory administration — that of British Telecom in 1982 — was a pragmatic rather than a doctrinal policy. By the mid Eighties, however, privatisation had become a central part of the complex of strategies and ideas that came to be called — initially by the Marxist Left — Thatcherism. At that point it ceased to be a pragmatic expedient and became a touchstone of ideological correctness. State ownership was seen as inherently bad, private ownership inherently good. I do not want to comment on the merits of particular privatisations. Some have undoubtedly been reasonably successful. My point is rather that a policy of across-the-board privatisation can be defended only in ideological terms. Nuclear power, road haulage, railways, coal, gas, electricity, water, telecommunications — to take only a few of the industries that were privatised — are very different from one another. It is quite implausible that any one structure of ownership or management will fit them all, and still more unlikely that one will be best for all.

The New Right ideology that took root in Britain in the mid to late Eighties was committed not only to privatisation but also, and in some ways even more, to marketisation. Where privatisation was viewed as being too politically risky — as in the NHS — marketisation was pursued instead. Public services were seen as bastions of producer power, and market mechanisms as emblems of consumer choice. In practice, these policies often resulted in the creation of Soviet-style quasi-markets, highly bureaucratic constructions which lacked the allocative efficiencies and sensitivity to consumer preferences of genuine markets. Once again, my purpose is not to comment on the success or otherwise of particular policies of marketisation. It is merely to observe that a blanket policy of marketising public services is intelligible only in ideological terms. There are doubtless examples of marketisation working well in some public services. Even so, I think it would not be unreasonable to describe the project of injecting market mechanisms into every nook and cranny of British life as an illustration of the folly of attempting to frame public policy solely by reference to a single criterion — in this case, curbing the evils of producer power.

Whatever their political complexion, most European countries are institutionally conservative. By contrast, in their approach to institutional reform governments of both parties in Britain have been ideologically extremist. One of the dangers of ideological policy-making is blindness to unintended consequences. When quasi-markets were introduced into the NHS, no one seems to have considered what would be their effects on the ethos of NHS workers, or — more generally — what the transaction costs of the quasi-markets would be. When industry after industry was privatised, there were few who perceived that regulation would be more extensive and more expensive than in the bad old days of nationalisation. That state action has unintended consequences is a recurring refrain of Hayekian thought. It did not occur to the ideologues of the New Right that this is as true when the state shrinks as when it expands. As a result, they were unprepared for the unintended consequences of Hayekian policies.

The New Right is now a closed book¹⁴, but its effects and in some degree even its doctrinal way of thinking remain with us. A genuinely pragmatic, instrumental approach to market mechanisms is still a long way off. At present, government in Britain seems to see opening public services to private capital as a means of increasing their efficiency. I do not know if this is right. I suspect it may be true in some contexts and not in others. However that may be, I am sure opening public services to private capital is not the only, nor always the best way of using markets to deliver public goods. Different ways of introducing markets into public institutions have quite different effects. Rational policy-makers should distinguish these mixes and the different values they serve.

Let us take an example from education policy. It is perfectly possible to introduce market choice into state schools without allowing private firms to operate them. The mechanism that makes this possible is a voucher scheme, whereby every child is given a credit redeemable against the cost of schooling. Such schemes can come in many varieties. I am old enough to remember that in the mid-Seventies there were redistributive voucher schemes, aiming to enhance educational opportunity and resources for the worst off. There is nothing inherently rightwing or libertarian about school vouchers. They can just as well serve social-democratic values of equal opportunity. In redistributive schemes, vouchers are normally redeemable only in the state sector; but voucher schemes with some redistributive effects can be devised which have the effect of blurring the boundary between state and private school. Some people find a public subsidy for those

who can already afford private schooling objectionable on the ground that it could actually increase inequality in access to education. Against that, a voucher system that did not discriminate between state and private schools could have the highly beneficial result of ending Britain's two-nation schooling system. Moreover, it should not be beyond the wit of man and woman to devise a scheme that gives middle class people more choice while enhancing opportunities for those who are currently worst off.

I do not aim to endorse any particular scheme. My point is rather that there are many ways of incorporating markets into public institutions, which have quite different results in terms of efficiency, consumer choice and distribution. We need to be open about the collective choices we make when we adopt any one of them. No policy can achieve everything we want. Every combination of state and market is imperfect. There is nothing we can do about this fact aside from recognising it and making the best of it. Rational policy-making involves searching for a mix we can live with. Even in this modest enterprise we do not have the freedom of starting from scratch. As Hume well knew, we must start from where we are.

In healthcare, that means the NHS. We know that all modern healthcare systems face a widening disparity between demand and supply. We live longer and demand a better quality of life than we did in the past. At the same time, the growth of knowledge and technological innovation in medicine is continually expanding the scope of what can be done. These facts will remain whatever healthcare system we adopt. Even so, the NHS does have some distinct disadvantages in comparisons with continental-type systems. A system that is entirely tax-funded faces constraints that systems that use money from a variety of sources — the state, employers and patients themselves — do not. Voters may demand a level of resources from a service that is wholly publicly funded that they are not prepared to support as taxpayers. There is no way out of this conflict that does not involve bringing private money into the NHS.

Yet that is far from saying we should move over to a continental-type system, and it is quite separate from whatever arguments there may be in support of public/private partnership in the NHS. Starting from where we are, a move to a more pluralistic system would likely be inordinately costly, particularly for employers. As to bringing in private capital, it may have efficiency benefits, but it is difficult to see what it does for consumer choice. The built-in disadvantage of the NHS is a mirror image of the ideal of free treatment for all that originally inspired it: it decouples the use of medical resources from

their cost to the patient. That may well have been a workable arrangement in the Forties and for perhaps a generation after that. I do not think it will be workable for much longer. But the most straightforward remedy is not a move to an altogether different system, with all the transition costs that would entail, or the pursuit of efficiency gains through PPP. It is the introduction of charges within the NHS itself.

I can see no reason why the middle-class majority should not pay for a wide range of medical services that should continue to be delivered free to the poor minority. It is true that means testing for medical care has costs. It may be administratively cumbersome, and there may be incentive effects — though I doubt that there are many people who will opt to live in poverty in order to gain free access to medical care. Like any other system, a National Health Service that charged for many of its services would not be perfect. But it could help bridge the gap between what people are willing to pay as citizens through taxes and what they demand as patients.

In my introductory remarks, I noted that the market economy is accepted as fair only to the extent that it is perceived as being fair. The same is true of public services into which market mechanisms have been introduced. At this point, you may expect me to follow many contemporary philosophers and put before you a theory of justice in terms of which the economy and public services can be judged. If so, you will be disappointed. I view all the theories of justice that have been developed over the past generation with the deepest scepticism — as I believe Hume would have done. They may reflect the beliefs of a few egalitarian or libertarian academics, but they do not match the intuitions of the majority of people. Most people's intuitions about fairness are much more vague and more loosely connected than the theories propounded by philosophers. Where many philosophers might see this as evidence of a lack of intellectual rigour, I see it as a sign of intelligence. Most people are too sensible to imagine that a few principles strung together into a system can express their moral beliefs.

Fairness is too complex and elusive a thing to be captured in any formula. A part of fairness as understood by most people today is that the standard of living of the worst-off should rise as the wealth of society increases. But contrary to the egalitarian philosophies that have dominated the academy over the past few decades, raising the position of the worst-off is not the only test of social justice, nor is it always the first. Most people also believe that merit deserves to be rewarded. Yet again, they believe that they should be free to use whatever they earn for their own purposes. A policy that aims first to raise the minimum

will have a tendency to equality, whereas one that aims to reward merit will accept a widening of inequalities so long as they are linked with performance. Policies aiming at a more meritocratic society come up against the awkward fact that people have families and loved ones to whom they wish to transfer resources regardless of their merits. Liberty upsets not only equality but equal opportunity as well. No policy can fully satisfy our moral intuitions. Yet in the eyes of most people a tolerably decent society aims for rising minimum standards, wider equality of opportunity and a large realm of personal liberty — values that do not naturally work in harmony and are not in fact fully realisable together.

The values that come under the heading of fairness do not hang together in a harmonious system, nor is fairness or social justice always compatible with other social goods.¹⁵ A crucial test of reasonableness in policy-making is how far we face up to these inescapable conflicts. Here I believe Hume would concur with Isaiah Berlin — himself one of Hume's greatest admirers — in seeing the conflicts of goods in ethics and politics as part of the normal human condition. "Every thing is what it is: liberty is liberty, not equality or fairness or justice or culture, or human happiness or a quiet conscience."¹⁶

IV Conclusion

Hume was a critic of religion. If he were alive today I believe he would be a critic of the political religions that caused so much havoc in the twentieth century. One of the most curious features of recent history is the way in which religious enthusiasm has leaked out from the churches into large movements for the reconstruction of society. In both communism and the more recent creed of market liberalism, essentially religious emotions have become attached to questions that should be approached with what Hume called the calm passion of reason. If the mistakes of philosophers have proved to be dangerous, it is because philosophy has been subordinated to the needs of political religion.¹⁷

The proper role of the market in society is a very important question, but it is not one in which religious enthusiasm is useful. Liberty is a vital human good but its conditions are not simple. We cannot do without reason, but it is unreasonable to think that our theories will ever encompass the variety of human circumstances.

We stand at an intriguing juncture in history. Market liberalism

remains the orthodoxy, and yet I am confident that it will be casually thrown aside if world markets move further into recession and dislocation. At the same time, the secular ideologies of the past few centuries are being challenged by fundamentalist religion. Today, as in the past, religion and war are once again inextricably intertwined.

This turn of events must be surprising and dispiriting for those who follow the *philosophes* of the French Enlightenment in imagining that the growth of knowledge goes with an increase in human reasonableness. For the sceptical and commonsensical Enlightenment tradition of which Hume is the supreme exemplar, however, it is par for the course. The last decade of the twentieth century was ruled by the illusion that the world was set on a course of convergence in values and institutions. That was a mirage conjured up by a single event, itself an accident, the fall of communism. The Soviet collapse did not signal the end of history but rather its resumption. There are many signs that the era of global market liberalism that followed is now coming to a close. In these circumstances, we need to hold fast to Hume's insight that liberty is not the inevitable result of any historical process, but a rare achievement that only skill and wisdom can sustain.

There will be many who argue that in a time of uncertainty we need the security of a fixed creed. For my part, I think we need something scarcer and more difficult to acquire, a genuinely empirical habit of mind. In thinking through what this means, we cannot do better than study Hume. Above all, we should seek to emulate the scepticism that Hume exemplified when he wrote:

I have long entertained a suspicion with regard to the decisions of philosophers upon all subjects, and found in myself a greater inclination to dispute than assent to their conclusions. There is one mistake to which they seem liable almost without exception: they confine too much their principles and make no account of the vast variety which nature has so much affected in all her operations. When a philosopher has once laid hold of a favourite principle, which perhaps accounts for many natural effects, he extends the same principle over the whole creation and reduces it to every phenomenon, though by the most violent and absurd reasoning. Our own mind being narrow and contracted, we cannot extend our conception to the variety and extent of nature, but imagine that she is as much bounded in her operations as we are in our speculation.¹⁸

Endnotes

- ¹ "The Idea of a Perfect Commonwealth", in David Hume, *Essays, Moral Political and Literary*, Indianapolis, Liberty Fund, 1985, p. 514.
- ² Isaiah Berlin, *The Magus of the North: J.G. Hamann and the Origins of Modern Irrationalism*, ed. Henry Hardy, London, John Murray, 1993.
- ³ David Hume, *A Treatise of Human Nature*, ed. L.A. Selby-Bigge and P.H. Nidditch, Oxford, Clarendon Press, 1978, p. 415.
- ⁴ David Hume, *ibid.*, p. 416.
- ⁵ David Hume, *An Enquiry Concerning the Principles of Morals*, in *Enquiries Concerning Human Understanding and Concerning the Principles of Morals*, ed. L.A. Selby-Bigge and P.H. Nidditch, Oxford, Clarendon Press, 1975, p. 286.
- ⁶ David Hume, *An Enquiry Concerning the Principles of Morals*, in *Enquiries Concerning Human Understanding and Concerning the Principles of Morals*, ed. L.A. Selby-Bigge and P.H. Nidditch, Oxford, Clarendon Press, 1975, p. 188.
- ⁷ For a recent discussion of naturalism in Hume and Wittgenstein, see P.F. Strawson, *Scepticism and Naturalism: Some Varieties*, London, Methuen, 1985.
- ⁸ E.Mossner, *The Life of David Hume*, Oxford, Clarendon Press, 2nd Edition, 1980, p. 72.
- ⁹ David Hume, *An Enquiry Concerning Human Understanding*, in *Enquiries Concerning Human Understanding and Concerning the Principles of Morals*, *ibid.* p. 162.
- ¹⁰ See F.A. Hayek, "The Legal and Political Philosophy of David Hume", in *Studies in Philosophy, Politics and Economics*, London and Henley, Routledge and Kegan Paul, 1967, pp. 106-121.
- ¹¹ See my book, *Hayek on Liberty*, 3rd Edition, London and New York, Routledge, 1998, pp. 152 et seq.
- ¹² For Hayek's theory of the natural selection of religions, see F.A. Hayek, *The Fatal Conceit: The Errors of Socialism*, London, Routledge, 1988, Ch.9.
- ¹³ Dominic Lieven, "The Collapse of the Tsarist and Soviet Empires in Comparative Perspective", in *The Decline of Empires*, eds. E. Brix, K.

Koch, E. Vyslonzil, Munich and Vienna, Verlag fur Geschichte und Politik Wien, 2001, p. 107.

¹⁴ I presented a critique of New Right thinking in my book, *Beyond the New Right: Markets, Government and the Common Environment*, Routledge, London and New York, 1993.

¹⁵ I have discussed conflicts of value more systematically in my book, *Two Faces of Liberalism*, Cambridge, Polity Press, 2000, Chapter Two.

¹⁶ Isaiah Berlin, "Two Concepts of Liberty", in I. Berlin, *Liberty*, ed. Henry Hardy, Oxford, Oxford University Press, 2002, p. 172. Berlin's statement echoes one of Bishop Butler's, "Every thing is what it is, and not another thing." See Henry Hardy, Editor's Preface in I. Berlin, *The Roots of Romanticism*, London, Chatto and Windus, 1999, p. ix; and my book, *Isaiah Berlin*, London and Princeton N.J., Harper Collins and Princeton University Press, 1995, Chapter Two.

¹⁷ I have discussed the religious, and more particularly the Christian roots of Enlightenment thinking, in "Enlightenment humanism as a relic of Christian monotheism", in *Faith, Identity and the Common Era*, Gifford, Archard and Rapport eds., Routledge, London and New York, 2002, forthcoming. See also my book, *Enlightenment's Wake: Politics and Culture at the Close of the Modern Age*, Routledge, London and New York, 1995.

¹⁸ David Hume, "The Sceptic", *Essays Moral Political and Literary*, *ibid.*, pp. 159-160.

THE DAVID HUME INSTITUTE

HONORARY PRESIDENT (1999-)

The Rt. Hon the Lord Mackay of Clashfern KT, PC

HONORARY VICE-PRESIDENTS

Professor James Buchanan, Nobel laureate in Economics

Professor Francesco Forte

Professor Neil MacCormick, FBA, FRSE

Mr Allan Massie

BOARD OF TRUSTEES

Mr Robert Bertram WS

Mr Andrew Ferguson

Mr Fred Johnston CBE

Mr Nick Kuenssberg

Miss Eileen Mackay CB (Chairman)

Professor Duncan MacLennan CBE

Professor Hector MacQueen, FRSE

Professor John Murray QC

Mrs Susan Rice

Sir John Shaw CBE, FRSE

Professor David Simpson

HONORARY TRUSTEES

Mrs Catherine Blight

Sir Gerald Elliot, FRSE

Lady Mackenzie-Stuart

Professor Sir Alan Peacock DSC, FBA, FRSE

DIRECTOR

Professor Brian Main, FRSE

REGISTERED OFFICE

25 Buccleuch Place, Edinburgh EH8 9LN

(Registered in Scotland No. 91239)

Tel/Fax (0131) 667 9609

Enquiries should be addressed to the Secretary

The David Hume Institute

The David Hume Institute was registered in January 1985 as a company limited by guarantee: its registration number in Scotland is 91239. It is recognised as a Charity by the Inland Revenue.

The objects of the Institute are to promote discourse and research on economic and legal aspects of public policy. The Institute has no political affiliations.

The Hume Occasional Paper series presents papers by members of the Institute, by those who have lectured to it and by those who have contributed to “in-house” projects. A selected list of Occasional Papers follows:

- 55 The Start of a New Song *Vernon Bogdanor*
- 56 Report on the Economic Aspects of Political Independence *David Simpson, Brian G Main, Alan Peacock, and Fabian Zuleeg*
- 57 Agenda for the Scottish Parliament *Roy Goode, Russel Griggs, Hector MacQueen, Brian G M Main, Hugh Morison, Lindsay Paterson, Jeremy Rowan Robertson*
- 58 The European Union and the Nation State (The Hume Lecture 2000) *Professor Tommaso Padoa-Schioppa*
- 59 Are Lawyers Parasites? (The Hume Lecture 2001) *The Rt. Hon. The Lord Mackay of Clashfern KT, PC*

