

# A PRIMARY COMPARATIVE ANALYSIS AND INTEGRATION OF THE HAYEKIAN-LAOZIAN THEORIES OF KNOWLEDGE, MARKET PROCESS AND LAW

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*Abstract:* The thought of Hayek has been a topic of considerable interest for a while now and the studies of Laozi's philosophy have also been drawing increasing attention worldwide. In particular, increasingly people seek answers to current political, economic and social questions within Laozi's wisdom of more than 2000 years ago. By comparing and integrating the theories of Hayek and Laozi, this paper uncovers new insights into the ideas of Laozi and how they align with some of Hayek's central ideas. Firstly, this article makes a comparative analysis of the theories of Hayek and Laozi based on their original works, particularly through the authors' new translation of the original Chinese texts of Laozi. Further, this paper shows how the ideas of

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both authors overlap and are complimentary and therefore proposes a Hayekian-Laozian perspective that informs the idea of entrepreneurship. Therefore, this paper not only seeks to show that Laozi anticipated modern economic insights but that these modern insights can also be integrated into a more detailed theory.

*Keywords:* Hayek, Laozi, market competition, Daodejing.

*JEL classification:* A12, D4, B11, B22, B53, D83, K2, L26.

*Resumen:* El pensamiento de Hayek ha sido un tema de considerable interés desde hace tiempo y los estudios de la filosofía de Laozi también están llamando una creciente atención a nivel global. En particular, las personas cada vez buscan más respuestas a cuestiones políticas, económicas y sociales actuales dentro de la sabiduría de Laozi de hace más de 2000 años. Comparando e integrando las teorías de Hayek y Laozi, este trabajo descubre nuevas perspectivas en las ideas de Laozi y cómo se alinean con algunas de las ideas centrales de Hayek. En primer lugar, este artículo hace un análisis comparativo de las teorías de Hayek y Laozi basado en sus trabajos originales, en particular a partir de la nueva traducción de los textos originales en chino de Laozi llevada a cabo por los autores de este trabajo. Además, este trabajo muestra cómo las ideas de ambos autores se solapan y son complementarias y por tanto propone una perspectiva hayekio-laoziana sobre la idea de empresarialidad. Así, este trabajo no sólo busca poner de manifiesto que Laozi anticipó conocimientos económicos modernos, sino también que estos conocimientos modernos pueden integrarse en una teoría más detallada.

*Palabras clave:* Hayek, Laozi, competencia de mercado, Daodejing.

*Clasificación JEL:* A12, D4, B11, B22, B53, D83, K2, L26.

## I INTRODUCTION

Research into Hayek's ideas has been a topic of great interest in the world for many years. At the same time, the studies of Laozi's

philosophical thoughts have received considerable attention from many quarters. In particular, more and more people want to know whether they can find solutions from Laozi's wisdom of more than 2000 years ago as it may relate to the political, economic and social challenges of today. By comparing and integrating the theories of Hayek and Laozi, this paper not only attempts to show how Laozi anticipated modern economic ideas but also how he adds to these modern ideas.

The research of this thesis has not been undertaken before. This article makes a comparative analysis of the ideas of Hayek and Laozi. The analysis is based on an understanding of their original texts, especially from the authors' own translations of the original Chinese texts of Laozi's words. Thirdly, this paper integrates a Hayekian-Laozian perspective, proposing new theoretical thoughts to benefit entrepreneurial thinking in the market context.

The structure of this paper is as follows. The first section contains an analysis of Hayek's theory of the use of knowledge and Laozi's concept of *zhi*. The second section presents an analysis of Hayek's theories of the market process and Laozi's concept of *zihua*. The third section contains an analysis of Hayek's theory of law and Laozi's concept of the rules of *ziran* and *faling*. At the start of each section, from the second to the fourth parts of the paper, we conduct a comparative analysis of the theories of Hayek and Laozi. In the second part of the abovementioned sections, we further integrate both their theories.

Our research background consists of four parts. The first part addresses Hayek's theories of philosophy, law, and economics (Hayek, 1945, 1960, 1973, 1979, 1944/2001, 2014). The second segment comprises the study of related economic research (Ebner, 2005; Feng, 2014; Huerta de Soto, 2009, 2010; Klein, 2010; Mises, 1949/1998; Olson, 2000). The third part considers the studies of Laozi's philosophy in *Daodejing* (Laozi, 1980, 1993) and related interpretations (Graham, 1989; Heshanggong, 1993; Lou, 1980; McIntosh, 2013; Qian, 1988; Slingerland, 2007; B. Wang, 1980; K. Wang, 1993; Zong, 2003; Zyporin, 2009; Schwartz, 1985). The fourth part considers a libertarian interpretation of Laozi's thoughts (Feng, 2014; Hayek, 1966; Rothbard, 1995; Long, 2003).

It is worth mentioning that, among the above literature we have read, Hayek himself also quotes Laozi's words on non-action (*wuwei*, 無為) (Hayek, 1966), arguing that there is a connection between his theory of spontaneous order and Laozi's concept of *wuwei*.<sup>1</sup> Hayek's translation of Laozi's words on non-reaction follows:

“Is this all so very different  
From what Lao-Tzu says  
In his fifty-seventh poem:  
If I keep from meddling with people  
They take care of themselves,  
If I keep from commanding people,  
They behave themselves,  
If I keep from imposing on people,  
They become themselves.” (Hayek, 1966)

In the following three parts of the paper, we will discuss in depth our research topics.

## II

### HAYEK'S THEORY OF THE USE OF KNOWLEDGE AND LAOZI'S CONCEPT OF *ZHI*

#### 1. A Comparative Analysis of the Theory of the Use of Knowledge and Laozi's Concept of *Zhi*

As we have demonstrated, Hayek has studied Laozi's thought and believes that Laozi's theory of *wu-wei* is closely related to his theory of spontaneous order. Therefore, in order to make a comparative analysis of Laozi and Hayek's thoughts, we must first analyze Hayek's theory of spontaneous order, which is closely related to his theory of knowledge (Hayek, 1937, 1945). Hence, we will start our discussion from Hayek's theory of knowledge.

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<sup>1</sup> The original texts of the above words by Laozi in traditional Chinese are: “我無為而民自化, 我好靜而民自正, ..., 我無欲而民自樸”. See Laozi (1980, p. 150).

### Hayek's Theory of the Use of Knowledge

Hayek makes a connection between his theory of spontaneous order and theory of the use of knowledge (Hayek, 1945).<sup>2</sup> For Hayek, knowledge is vital for the formulation of prices and markets (Hayek, 1988), and spontaneous order<sup>3</sup> (with the moral traditions generated by it) is a better way than central planning to generate more knowledge and wealth in human society. Hayek writes:

“[B]y following the spontaneously generated moral traditions underlying the competitive market order . . . we generate and garner greater knowledge and wealth than could ever be obtained or utilized in a centrally-directed economy whose adherents claim to proceed strictly in accordance with ‘reason’.” (Hayek, 1988, p. 7)

### The Concept of *Zhi*

In the course of our research we discover that Laozi's concept of *zhi* (knowledge, 智) and Hayek's concept of knowledge have an analogous aspect. *Zhi* in Literary Chinese means “understanding” or “understanding things independently” (Zong, 2003, p. 1032). In

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<sup>2</sup> Huerta de Soto (2010, p. 40) has made an excellent summary of the Hayekian concept of knowledge, arguing that knowledge is subjective, creative, tacit, practical, and dispersed. More about Hayek's description of the characters of knowledge, can be found in his *Economics and knowledge* (Hayek, 1937) and *The use of knowledge in society* (Hayek, 1945). Huerta de Soto (2010, p. 40, fn. 23) also argues that these two articles are “among the most important in economics.”

<sup>3</sup> Here, we identify spontaneous order as any kind of order without systematic coercion (socialism). From the perspective of praxeology, without systematic coercion, the acting man will choose and act according to his own subjective value preference scale. If the choice of the acting man involves interpersonal exchange, social order will be formed, as interpersonal exchange itself is a part of the social order. In the real world, such order of course includes both monetary exchange and non-monetary interpersonal exchange. Therefore, we argue that Hayek's theory of spontaneous order and the analytical framework of praxeology are compatible. For more about the praxeological deductions of the monetary and non-monetary exchanges see Rothbard (1962/2009). For more about socialism as a systematic coercion, see Mises (1949/1998) and Huerta de Soto (2010).

modern English, the word *knowledge* is defined as “understanding of or information about a subject that you get by experience or study, either known by one person or by people generally” or “the state of knowing about or being familiar with something” (McIntosh, 2013). We consider *zhi* and *knowledge* to be similar conceptually. We find that in Hayek’s theories on knowledge (1937, 1945, 1988), his use of the word “knowledge” is consistent with this definition in the modern English dictionary.

However, interestingly, although Laozi’s concept of *zhi* seems to have a similar positive meaning as the word “knowledge,” it seems that *zhi* also has negative connotations. In *Daodejing*, Laozi states that “if people reject knowledge, then they will benefit a hundred times [more than if they do not reject knowledge]” (1980, p. 45).<sup>4</sup> Following an authoritative interpretation (Heshanggong, 1991, p. 75),<sup>5</sup> we argue that here Laozi means that people should not take action based on *zhi*, as “the more *zhi* emerges, the more deception it would create for people” (Laozi, 1980, p. 43).<sup>6</sup> In our interpretation, the reason Laozi thinks that *zhi* or “knowledge” becomes deception (its opposite) is that the rulers can indoctrinate its citizens, converting the real concept of knowledge into a false one and imposing a false concept of knowledge onto people.

Nevertheless, Laozi still has a positive perspective on *zhi*, distinguishing two different conceptualizations of the term. He argues that real knowledge is *the virtue (de, 德)*<sup>7</sup> that *emerged in nature guiding people to become moral*, and false knowledge are *the values which the ruler defines and imposes on people to execute*.<sup>8</sup>

<sup>4</sup> The original texts of this sentence in traditional Chinese are: “絕聖棄智，民利百倍”.

<sup>5</sup> The original texts of Heshanggong’s commentary in traditional Chinese are: “棄智慧，反無為”.

<sup>6</sup> The original texts of this sentence in traditional Chinese are: “智慧出，有大偽”. The English word “deception” is similar to the Chinese word *dawei* (大偽).

<sup>7</sup> In Chinese, *de* (virtue, 德) means the ability of an individual to become an example for other people. For more about the explanation of *de* in traditional Literary Chinese, see Graham (1989, p. 13) and Qian (1988, p.25, p. 27).

<sup>8</sup> Heshanggong (1993, p. 73) argues that “[t]he ruler who has knowledge despises virtue and valuable words and despises essence and valuable refinement. The people from the lower classes then reply to the rulers by creating great deception, betrayal, and lies.” The original texts of his commentary in traditional Chinese are: “智慧之君賤德而貴言，賤質而貴文，下則應之以為大偽姦詐”.

Additionally, in the perspective of Laozi, if people do not have real knowledge of virtue, they will not become competitors or threats to the rulers; thus, the rulers try to keep common people ignorant of the real knowledge of virtue (B. Wang, 1980, p. 23).<sup>9</sup> No wonder Laozi observes, “Can you love the people and govern the state without any knowledge?” (1980, p. 23).<sup>10</sup>

Thus, Laozi does not reject the Hayekian concept of knowledge. What Laozi criticizes is not the same class of knowledge to which Hayek refers, but precisely the kind of (false) knowledge used as a tool to fool people in order to strengthen central power. Laozi’s criticism of false knowledge is different from Hayek’s criticism of central planning, but in a way it is similar in spirit.

## 2. How the Integrated Hayekian-Laozian Theories of Knowledge Inform Entrepreneurship

Firstly, the integrated Hayekian-Laozian theories of knowledge ethically legitimate the entrepreneurial activities of discovery, creation, and transmission of market knowledge. Laozi’s concept of *de* (the knowledge of virtue) is compatible with Hayek’s theory of knowledge. Laozi argues that the real *zhi*, or knowledge, is virtue (*de*, 德) a quality that, expressed in nature, guides people to become moral, while Hayek argues that knowledge is essential for the formulation of price and market. The knowledge of *de* formed in nature precisely refers to the knowledge spontaneously formed in

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<sup>9</sup> B. Wang’s original comment in Traditional Chinese are: “能無以智乎, 則民不辟而國治之”. It can be translated as “To be able to not use knowledge means to govern a state without the people rivaling to obtain administrative positions”.

<sup>10</sup> The original texts of this sentence in traditional Chinese are: “愛民治國, 能無知乎?”. Similar to Laozi’s own argument here, Long argues that the Taoists not only distrusted statism, but also civilization or commerce, which are not necessarily related to state intervention:

The Taoists were deeply suspicious of statism, yes, and God love ‘em for it, but *why* were they so? To a significant degree, it was because they associated statism with other things that *also* aroused their suspicion: reason, language, commerce, civilization. The notion that those items could exist and flourish *without* centralized government control was as foreign to the Taoists as to any statist; they accepted the connection, but reversed the evaluation. (Long, 2003, p. 36, emphasis in original)

market competition. Thus, Laozi's concept of *zhi* strengthens the legitimacy of Hayek's theory of the use of knowledge, ethically supporting the entrepreneurial activities of discovery, creation, and transmission of market knowledge. The integrated Hayekian-Laozian theories of knowledge tell entrepreneurs that their market activities that deal with knowledge are not only legitimate in economic science but also moral from an ethical perspective.<sup>11</sup> Thus, entrepreneurs would realize that their use of knowledge not only creates profits, but is also moral. This recognition can ethically inspire entrepreneurs to improve the quality of their productions to serve their customers better.

Secondly, the integrated Hayekian-Laozian theories of knowledge can alert entrepreneurs that government may create false knowledge and thus help entrepreneurs to be more innovative around government regulation. Laozi's criticism of false knowledge is an excellent complement to Hayekian theory of the use of knowledge in economics. Hayek's theory emphasizes the use of knowledge under natural and market conditions, while Laozi's theory of *zhi* points out that the false knowledge created by rulers can distort the real knowledge of virtue. According to Hayek's theory of opposing central planning, the false knowledge (in the perspective of Laozi), artificially created by the rulers, could also distort the use of knowledge in market activities. Therefore, the integrated Hayekian-Laozian theory of knowledge can warn entrepreneurs that the ruler or the government may create false knowledge (e.g., economic bubble caused by central banking credit expansion, government subsidies for industries that are not actually needed by consumers, making entrepreneurs mistakenly think that an industry is profitable, etc.), negatively distorting real market information and influencing entrepreneurs' judgment of the use of that knowledge. The integrated theory tells entrepreneurs that the knowledge created by the government is sometimes needed to consolidate the status of the rulers, which might not be conducive or constructive to entrepreneurs' use of knowledge.

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<sup>11</sup> Huerta de Soto (2009, pp. 19-22) argues that the ethics of private property rights are a necessary and sufficient condition for dynamic efficiency in the perspective of entrepreneurial activities.

Hence, if entrepreneurs want to know how they can innovate around government regulation, they must first distinguish the knowledge created by the government, judging which knowledge is beneficial to the entrepreneurial market activities, and which can distort real market knowledge and market activity.

Thirdly, the integrated Hayekian-Laozian theory of knowledge can encourage entrepreneurs to understand and use more of market knowledge from both psychological and historical perspectives, enhancing their creativity in receiving and creating such content. By reviewing Laozi's exposition of *de*, we can state that his writing 2000 years ago already had addressed the concept of spontaneous order and already understood that this could generate morality.

### III

#### HAYEK'S THEORIES OF MARKET PROCESS AND LAOZI'S CONCEPT OF *ZIHUA*

##### 1. A Comparative Analysis of Hayek's Theories of Market Process and Laozi's Concept of *Zihua*

Hayek's opposition to coercive central planning does not mean that he is against any planning. In fact, he is in favor of individual planning which makes social coordination possible (Hayek, 1944/2001). He argues that "the coercive power should confine himself ... to [create] conditions under which the knowledge and initiative of individuals is given the best scope so that they can plan most successfully" (1944/2001, pp. 36-37). Moreover, "[t]he more the state ['plans'] the more difficult planning becomes for the individual" (1944/2001, p. 39).

##### Spontaneous Order, Individual Planning, Market Competition and Entrepreneurship

Going further, Hayek also illustrates the relationship between individual planning and market competition, arguing that

competition “is a better way of guiding individual efforts than any other [methods]” (Hayek, 1944/2001, p. 37). Also, human society needs to make “the best possible use of the forces of competition as a means of co-ordinating human efforts” (Hayek, 1944/2001, p. 37). Moreover, Hayek also argues that competition is not only superior to other methods for social coordination but “it is the only method . . . [to adjust] each other without coercive or arbitrary intervention of authority” (Hayek, 1944/2001, pp. 37-38), dispensing the social control of government and providing individuals the chance to determine their own lives.

Hence, by integrating his theory of the use of knowledge, the theory of individual planning, and the theory of market competition, Hayek indicates that market competition is a dynamic process of discovery:

“Competition is thus, like experimentation in science, first and foremost a discovery procedure. [...] Competition as a discovery procedure must rely on the self-interest of the producers, that is it must allow them to use their knowledge for their purposes, because nobody else possesses the information on which they must base their decision.” (Hayek, 1979, p. 80)

Based on the above theoretical integration, Hayek goes even further, making a connection between market competition and entrepreneurship, suggesting that the better use of entrepreneurship (entrepreneurial capacity) in the market process is providing and discovering the maximum number of opportunities for the well-being of other individuals (Hayek 1960, p. 81). Thus, the Hayekian knowledge-based notion of entrepreneurship is formalized (Ebner, 2005, pp. 139-140).

### **Self-care, Self-education, Self-education and the Concept of *Zihua***

With regard to Laozi, we discover that his concept of *zihua* is analogous to Hayek’s description of individual planning. Interestingly, as we have shown in the previous section in the discussion of spontaneous order, Hayek himself quotes Laozi’s words on *zihua*.

He translates *zihua* as the notion that people can “take care of themselves.” We assume that Hayek’s translation on *zihua* is compatible with the concept of it in Chinese literature. *Zi* (自) could be explained as “oneself” (*ziji*, 自己) and *hua* (化) as “educate” (*jiaohua*, 教化) (Zong, 2003, p. 262). Thus, we can translate *zihua* into English as “self-education.” Our logical deduction of the above theory of Laozi is that if one can educate oneself to understand things, he/she can take care of him/herself without government intervention.

The other explanations of *hua* (Zong, 2003, p. 262) are also compatible with the Hayekian concept of individual planning. *Hua* can also be interpreted as “change” (*bianhua*, 變化) and “make and create” (*zuoza*, 作造). Hence, *zihua* could be explained as not only the ability to educate and take care of oneself but also to make some changes and create some new plans or events for oneself. Thus, Laozi’s concept of *zihua* is analogous to Hayek’s description of individual planning.

We find that some of the statements of Laozi can be compared to the economic theories of entrepreneurship. Take, for example, the following sentence from Laozi:

“The reason why ordinary people are hungry is the oppressive taxation from the ruling upper classes. The reason why people misbehave when governed is that people imitate the immoral behaviors of the rulers. And the reason people so easily die is because the rulers are so greedy that they want to expand their power and let the people die as soldiers on the battlefield.” (1980, p. 184)<sup>12</sup>

Although the above expression of Laozi does not directly mention entrepreneurship, these words are closely related to the theory of entrepreneurship. The government’s oppression of the people has made it impossible for them to survive and get necessary food, let alone has it given people enough freedom to let their full capacity of entrepreneurship unfold. Thus, for Laozi, the more government oppression, the less it is possible for society to increase

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<sup>12</sup> The original texts of this sentence in traditional Chinese are: “民之飢，以其上食稅之多，是以飢。民之難治，以其上之有為，是以難治。民之輕死，以其求生之厚，是以輕死”。 Our translation also adopts that made by B. Wang (1980, p. 183).

its economic prosperity, as entrepreneurship is the driving force of the market economy (Mises, 1949/1998). In related economic theories (e.g., Olson, 2000), violent plundering by the oppressive rulers will weaken the rules of the market, and the people who plunder others or bribe politicians in imitation of the immoral behavior of the rulers — this kind of behavior of the people can be referred to as destructive entrepreneurship (Klein, 2010).

To understand more deeply why Laozi holds the above theories, it is necessary to consider the relationship between his theory and the historical background of the era in which he lived. Laozi was writing in the epoch of the Warring States (戰國時代), when wars among the separated Chinese states broke out frequently, with fast growth of the state bureaucracies. Thus, both Hayek and Laozi detect the same problem: the negative consequences of government oppression distort the market process.

## 2. How the Integrated Hayekian-Laozian Theories of Market Process Inform Entrepreneurship

First, the integrated Hayek-Laozian theories of market process argue that the self-care, self-education, and self-introspection of entrepreneurs are prerequisites for them to carry out better market planning. Laozi's concept of *zihua* (in the perspective of its definition on "self-care" and "self-education") is an excellent complement to the Hayekian theory of individual planning, guiding entrepreneurs on how to make better market planning decisions. For making better market plans for consumers, and due to the concept of *zihua* (emphasizing self-care and self-education), entrepreneurs should first have sufficient *self-introspection* in order to understand what the ethics of the market are, who they are, what their specialties are, and which services they can provide to the market. Only the entrepreneur who has done the sufficient self-introspection and self-education can understand who he/she is, what he/she can do and what he/she wants to do and can then create a good plan for the market and customers.

Secondly, the integrated Hayek-Laozian theories of market process show the importance of the entrepreneur's own market

creativity or entrepreneurship in providing better services to improve the living conditions of other individuals. Laozi's concept of *zihua* (in the perspective of its definition on "make, create and change") strengthens the Hayekian theory of market competition, emphasizing the entrepreneur's role within market competition process.<sup>13</sup> Based on the first conclusion of this section, before making market plans, when entrepreneurs are in the process of self-introspection, they should understand that the process of entrepreneur's creation of value and products are not from the instructions of the government but from the entrepreneurs' subjective initiative and their own understanding of consumer and market necessities. It is the entrepreneurs, not governments, that make, create and update products for their consumers to improve the living conditions of humans. Therefore, entrepreneurs would understand that if they really want to create value for consumers and the market, they should not be lost in the pursuits of subsidies, privileges and monopolies that are provided by governments. They thus should innovatively circumvent government regulation.

Thirdly, the integrated Hayek-Laozian theories of market process provide further support for the entrepreneur's activities of market discovery. Laozi's concept of *zihua* provides *the necessary conditions* for Hayekian theory of market discovery. Based on the above two conclusions of this section, the integrated Hayek-Laozian theory of market discovery argues that the entrepreneur's self-introspection (knowing the entrepreneur him/herself, understanding his/her own capacity, recognizing the economic, ethical and historical significance of knowledge) creates better conditions for market planning, emphasizing that it is the entrepreneur's own entrepreneurial creativity that creates value for consumers and the

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<sup>13</sup> Zyporin holds a contrary view arguing that the distrust of the Taoists towards any intentional action makes it difficult for their ideas on the spontaneous order to be compatible with the theories of the Austrian economics on entrepreneurship:

To consciously weigh alternatives, apply your understanding to make a decision about what is best, and then deliberately follow the course you have decided on—this is the fundamental structure of all purposive activity and conscious knowledge, the basis of all ethics, all philosophy, all human endeavours at improvement, and this is precisely what Zhuangzi seems to consider ridiculous and impossible. (Zyporin, 2009, pp. xvi-xvii.)

market and makes better market discoveries. These entrepreneurial actions before the market discovery process is precisely what Hayek refers to as the “the experimentation in science” (Haye, 1979, p. 68) and, as well, the concept of market competition.

#### IV HAYEK’S THEORY OF LAW, AND THE RULE OF *ZIRAN* AND *FALING*

##### 1. A Comparative Analysis of Hayek’s Theory of Law and Laozi’s Concept of *Ziran* and *Faling*

Hayek’s (1973, 1944/2001) strong favor of private market competition does not mean that he excludes all government legal frameworks for improving the working and quality of market competition. He argues that there are two types of laws (Hayek, 1973). The first comprises “the rules of just conduct which emerge from the judicial process, the *nomos* or law of liberty” (Hayek, 1973, pp. 122-123) (*the laws of spontaneous order*). The second are “the rules of organization laid down by authority” (Hayek, 1973, pp. 122-123) (*the laws made by governmental legislation*). In this section, we will make a comparative analysis of Hayek’s theory of law and Laozi’s concept of *ziran* and *faling*.

##### Hayekian Theory of Laws of Spontaneous Order and Laozi’s Concept of *Ziran*

For the first type of laws, Hayek argues that they are “derived from the conditions of a spontaneous order which man has not made” (Hayek, 1973, p. 123) to serve human society<sup>14</sup>. Hayek

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<sup>14</sup> If we follow the logic of Hayek’s theory, and if this type of law is evolved from spontaneous order, and the law itself is a part of the spontaneous order, then we can make a reasonable deduction from a Hayekian theory of anarchism. Although Hayek himself criticizes anarchism (Stringham & Zywicki, 2011), we argue that Hayek’s critique of anarchism contradicts his theory of spontaneous order. Stringham and

also argues that there are two means which are used to discover laws of spontaneous order (Hayek, 1973). The first mean is the judges themselves that set out to discover the laws. The second mean is the idea that laws are independent of a specific human will.

Laozi's concept of *ziran* is very similar to the first type of Hayekian law. He argues that "the people follow the rules of earth, the earth follows the rules of heaven, the heaven follows the rules of the Way, and the Way follows the rules of nature" (Laozi, 1980, p. 65).<sup>15</sup> The source of the rules followed by the Way (*dao*, 道) relies on nature (*ziran*, 自然) or spontaneous order.<sup>16</sup> Thus, Laozi argues that people could not only follow the rules of society in a natural way (which implies that people have the ability to *discover* the rules),<sup>17</sup> but also have the ability to govern themselves,<sup>18</sup> saying that "in the same way as heaven and the earth fit together and the sweet fog descends, people are pacified by themselves without any

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Zywicki's research (2011) of the Hayekian laws supports our argument that scholars can extract some anarcho-capitalism elements from Hayek's views of law. For other expositions of Hayekian anarchism, see Boettke's article *Anarchism as a progressive research program in political economy* (Boettke, 2005). Although Hayekian anarchism is not the main subject of our paper, the mention of this research may help us expand the future research of the Austrian school. On one hand, we can re-examine Hayek's thoughts, correcting the contradictory parts of his theory from the perspective of praxeology and anarcho-capitalism, thus enhancing the reasonability of the Hayekian theory. On the other hand, the new research of the Hayekian anarchism will also benefit the further in-depth study of libertarian and anarchism thoughts of ancient China.

<sup>15</sup> The original texts of this sentence in traditional Chinese are: "人法地, 地法天, 天法道, 道法自然".

<sup>16</sup> In this sense, according to Schwartz, Laozi defends a return to a situation of primitive happiness from which the market and commerce are absent. Schwartz argues that this return would not be achieved spontaneously:

What the language suggests is not a spontaneously, emerging, anarchist state of affairs but a state of affairs brought about by a sage ruler." (Schwartz, 1985, p. 213)

<sup>17</sup> We agree with the commentaries of Heshanggong (1993, p. 131) that Laozi believes that "[e]verything that exists is regulated by itself without the [mandatory] instructions or orders". Heshanggong's original texts of this sentence in traditional Chinese are: "萬物莫有教令之者, 皆自均調若一".

<sup>18</sup> B. Wang (1980, p. 81) specifically makes an explanatory note regarding Laozi's writing. Wang argues that the texts or Laozi can be translated as "people are pacified by himself without any [mandatory] command if the true essence of non-action (*wuwei*, 無為) is preserved". The original texts of Wang's commentary in traditional Chinese are: "言天地相合, 則甘露不求而自降。我守其真性無為, 則民不令而自均也".

command" (Laozi, 1980, p. 81).<sup>19</sup> Therefore, like Hayek, Laozi does not oppose the idea that the society needs a ruler but states that a society needs a ruler that follows the rule of *ziran*.

### Hayekian Theory of Laws Made by Legislation and Laozi's Concept of *faling*

Though Hayek (1973, 1944/2001) argues that the laws made by legislation (the second type of laws) could accomplish justice in many situations and protect private property rights, he also suggests that there still could be some harmful elements in the legislation process. First, the legislation could always end up creating dissatisfaction, as the creators of the legislation might have "mental bias" (Hayek, 1973, p. 143), even though the institution is generally aimed at removing people's dissatisfaction. Second, to satisfy the desires of the people, some politicians might present the idea of "legislatures" as a means of restraining unlimited power, even though they may in fact create more government plans, and further impose the values of a few politicians upon the people (Hayek, 1944/2001, p. 80), making "deliberate discrimination between particular needs of different people" (Hayek, 1944/2001, p. 80), and "[allowing] one man to do what another must be prevented from doing" (Hayek, 1944/2001, p. 80), thus making individual's plans more difficult and causing social discoordination. To solve the above problems caused by legislation, Hayek (1944/2001) argues that laws should be limited in scope in order to avoid this discrimination that may arise from government.

In a fashion similar to Hayek, Laozi also criticizes the negative consequences caused by poor government laws (*failing*, 法令) (Laozi, 1980). He argues that "the more specific the laws are, the more thieves there are" (Laozi, 1980).<sup>20</sup> To solve the problems caused by *faling*, Laozi suggests that the rulers should humbly

<sup>19</sup> The original texts of this sentence in traditional Chinese are: "天地相合, 以降甘露, 民莫之令而自均".

<sup>20</sup> The original texts of this sentence in traditional Chinese are: "法令滋彰, 盜賊多有".

serve the common people, as they are also from lower classes originally.<sup>21</sup>

## 2. How the Integrated Hayekian-Laozian Theories of Laws Inform Entrepreneurship

First, the integrated Hayekian-Laozian theories of laws emphasize the importance of legitimate laws and regulations that are compliant with the spontaneous order and *ziran* and, combined with the Laozian concept of *zihua* and self-introspection considered in the previous sections of this paper, that they aid market discoveries. In the process of self-introspection, entrepreneurs also need to judge which government laws are legitimate. If the government laws are in line with spontaneous order and the morality based on *ziran*, entrepreneurs should abide by these laws. For example, if the law stipulates that products cannot infringe on the lives of consumers (e.g., foods sold to consumers must not contain poisonous things), and if the law provides that entrepreneurs cannot defraud customers (e.g., after the consumer pays in advance, the entrepreneur should deliver the products needed by the consumer according to the contract's requirements), the entrepreneurs should comply with these laws. When entrepreneurs do so, they can better serve consumers and conduct market discovery.

Secondly, the integrated Hayekian-Laozian theories of laws point out the importance of entrepreneurs recognizing bad laws and regulations that are incompatible with spontaneous order and *ziran*; to help them deal with the negative consequences caused by adverse government regulations (as we have demonstrated in the above section about the Hayekian theory of laws made by legislation), how to compete with government, thereby improving the quality of entrepreneurial market discovery. In the process of self-introspection, if entrepreneurs have discovered that some government regulations are not in line with spontaneous order and *ziran*, they need to make judgments on whether to develop

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<sup>21</sup> The original text in Chinese are: “貴以賤為本, 高以下為基。是以侯王自稱孤、寡、不穀”.

new technologies to circumvent adverse government regulations (e.g., some entrepreneurs have created different digital currencies to circumvent the government monopoly on money) or to try to abolish bad regulations (e.g., eliminating bad laws through the judicial process, media exposure, political lobbying and/or mobilization of demonstrations). This process of thinking and self-introspection of entrepreneurs will determine how they deal with government regulations and how they will be able to compete with the government, thereby improving the quality of the entrepreneurial market discovery process.

Thirdly, the integrated Hayekian-Laozian theories of laws imply that entrepreneurs should courageously make entrepreneurial creations, passionately make market discoveries and dynamically solve the market discoordination caused by bad government regulations. As discussed in the previous section, Laozi pointed out more than 2000 years ago that government officials and their laws should humbly serve ordinary people. From a modern point of view, the government should not only cater to “ordinary people” but also (or especially) to entrepreneurs. Entrepreneurs should find the courage to challenge harmful regulations that weaken the market and harm consumers/ordinary people.<sup>22</sup> Moreover, the Laozian theory shows that poor government laws and regulations are not only problems of today but are issues that have existed throughout history. Early in the Warring States period 2000 years ago when Laozi was living, the frequent wars between the Chinese states and the resulting expansion of bureaucracies caused considerable losses in the lives of ordinary people. As it is impossible for any entrepreneur to live for thousands of years in order to wait for a resolution (of the problems caused by bad regulations) at some point in the thousand-year-run future, if entrepreneurs want to continue to produce, get benefits and serve consumers, they must adhere to their ideas and beliefs, persist in innovating and

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<sup>22</sup> Here, we only discuss how the government regulation should not damage entrepreneurship under the *de facto* state of the existence of government. We argue that from the perspective of the theory of the impossibility of socialist economic calculation (Mises 1949/1998; Huerta de Soto, 2010), an anarcho-capitalist society without the coercive central planning can be more conducive to the development of entrepreneurship.

making market discoveries. At the same time, they must actively and dynamically think of ways to solve problems caused by government laws.

## V CONCLUSION

Our research finds that there are some similarities between the theories of Hayek and the thoughts of Laozi in the following three aspects. The first aspect is Hayek's theory of the use of knowledge and Laozi's concept of *Zhi*. The second aspect is Hayek's theories of market process and Laozi's concept of *Zihua*. The third aspect is Hayek's Theory of Law and Laozi's Concept of *Ziran* and *Faling*. Besides, from the above three perspectives, we have shown how the integrated Hayekian-Laozian theories of knowledge, market process and law can inform the role and nature of entrepreneurship. Overall, we want to emphasize that the analysis of this paper is only a preliminary analysis of the economic/libertarian thought of Laozi. More studies will be undertaken in future papers in order to further explore the economic ideas of Laozi and ancient China.

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