

Hayek for the 21st Century

Hayek biographer **Bruce Caldwell** on the *Road to Serfdom* author's enduring lessons about planning, distributed information, and the power of choice.

Interviewed by **Nick Gillespie**

In 1944, with World War II raging and the fate of the Free World far from clear, Friedrich A. Hayek (1889–1992) published his best-known work. *The Road to Serfdom* became a bestseller even as it challenged the conventional wisdom that extensive, top-down economic planning would result in a more just and more efficient distribution of goods and services. Hayek, an Austrian who had immigrated to England, argued that such planning ultimately would lead to a stultifying society in which fewer and fewer people were satisfied as planners asserted more control. What's more, he drew disturbing connections between developments in relatively free societies such as Great Britain and the United States and totalitarian regimes such as Nazi Germany and the Soviet Union.

The Road to Serfdom was a publishing sensation but, as we noted in the *Reason* December 2003 article '35 Heroes of Freedom', Hayek 'paid a steep price—decades-long professional isolation—for daring to suggest that social democracy had something in common with collectivist tyrannies of the right and left.' In the sort of happy ending history rarely delivers, Hayek, who was awarded a Nobel Memorial Prize in Economics in 1974, lived long enough to see his reputation restored and his ideas vindicated by world events, a tale told well in Daniel Yergin and Joseph Stanislaw's magisterial 1998 economic history, *The Commanding Heights: The Battle for the World Economy*.

To mark the 60th anniversary of the publication of *The Road to Serfdom*, *Reason* interviewed Hayek's most recent explicator, Bruce Caldwell, author of *Hayek's Challenge: An Intellectual Biography of F.A. Hayek*, published in 2003 by the University of Chicago Press. Caldwell is a Professor of Economics at the University of North Carolina, Greensboro, and the General Editor of *The Collected Works of F.A. Hayek*. In early October 2004, he spoke with *Reason* Editor-in-Chief Nick Gillespie about the origins of *The Road to Serfdom*, its continuing relevance, and Hayek's legacy in the 20th century—and in the 21st.

Nick Gillespie is Editor-in-Chief of *Reason* magazine, www.reason.com. This interview first appeared in the January 2005 edition of *Reason*. **Bruce Caldwell** will be visiting Australia in July to attend the conference of the History of Economic Thought Society of Australia.

Reason: *The Road to Serfdom* was published in 1944. How did the book come into being?

Bruce Caldwell: In the 1930s, Hayek was writing articles criticising the economics of socialism. Most people then saw socialism as the middle way between failed capitalism and totalitarianism of the Soviet and fascist varieties. By the late 1930s, Hayek felt that he needed to write a broad-based attack on socialism. In *Hayek's Challenge*, I mention [sociologist] Karl Mannheim in particular as a figure who argued that planning was the only way to avoid totalitarianism, but everyone was making a similar sort of argument. Hayek turned that on its head and said that extensive planning of the economy was in fact the road to serfdom, to less and less freedom.

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He was engaging a widespread belief that socialism was not only more just but more efficient than capitalism, that it was the way to make the world work better. Not just economics should be planned. Science should be planned. *Everything* should be planned. There was an influential magazine around at the time called *Science*. Virtually every third or fourth week, they'd run an editorial that said we need to have scientists helping plan all sorts of things. Not just the war effort, but everything about the economy to make it work better. This is what everyone who was 'intelligent' thought.

If you look at the early 1930s, there was this sense that the Soviet Union had a huge commitment to science and scientific progress. Beatrice and Sidney Webb's two-volume, 1,000-page *Soviet Communism: A New Civilization* (1935) was filled with praise for the way the Russians were supposedly letting science work to make society much better. By the late 1930s, once the purges and

other things came to light, many people realised the Soviet Union was a monstrosity, but if you look a bit earlier, that wasn't the case. Hayek was reacting to books such as the Webbs'. Living in the current world, you have a hard time believing what sorts of things were being said back then that Hayek was reacting to.

Reason: What was the response when *Serfdom* first hit the bookstores?

Caldwell: The book appeared in England in March of 1944 and in the US in September. He had a hard time getting an American publisher, but the University of Chicago agreed to bring it out. It was not expected to be a big seller in the US. They were figuring that it would maybe sell a couple of thousand copies, but it got very strong write-ups in a couple of the New York newspapers and demand was high for it. They did second and third printings, and in the spring of 1945 the *Reader's Digest* condensed version came out. That was done by [high-profile former communist] Max Eastman. That certainly made it [much] more popular and it got even more attention.

Hayek came over to the States on a ship in 1945 to do a publicity tour. He thought he was going to be mostly speaking at academic departments, but he ended up having big audiences.

Reason: Give us the stripped-down version of *The Road to Serfdom's* thesis.

Caldwell: Let's say you agree that the definition of socialism is the ownership of the means of production by the state. That means the state is making decisions about production. Under a wartime scenario this can work and even be productive, because everyone has shared values. Everyone believes that production should be aimed toward anything that is necessary to defeat the enemy.

Hayek's point is that when people are not under war conditions, they have many different values. So the question then becomes, if you have socialism, who makes the decision of what gets produced? If people have different values, they are going to disagree with the planners. The planners end up being frustrated because they are unable to decide

what to produce and gain full consensus. So they completely take over the production process. Hayek argues that you can't make that neat separation between economics and politics that implicitly fills in the claims of the socialists.

In terms of the kind of full-blown socialism that Hayek was describing, I think his argument was shown to be absolutely correct. States that went to full socialisation of production also placed considerable restrictions on personal liberty and decision making. You don't get the kind of choice that you get under a more liberal system...

Reason: ...choice very broadly defined, meaning lifestyle choice...

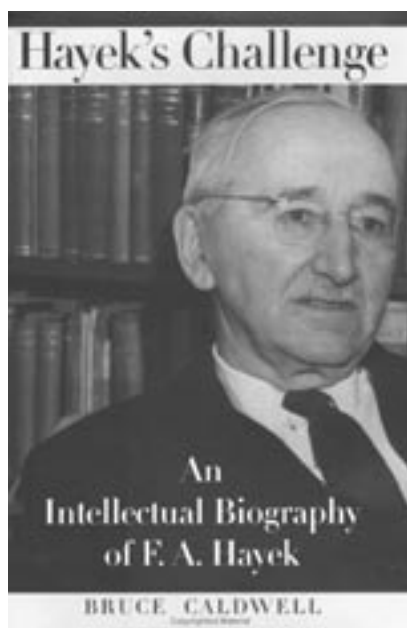
Caldwell: ...job choice...

Reason: ...being able to exit or enter a country...

Caldwell: Yes, all the dimensions of things such as that.

Reason: Sometimes the moral of *Serfdom* is boiled down to what's called 'the inevitability thesis': If you get a little planning, you'll get more planning, and then eventually you'll have full-blown socialist planning.

Caldwell: If you look at Hayek's preface to the 1976 version of the book, he says that *can* happen. But



that's not the argument of the book. He did not say that as soon as you get some combination of markets and planning, you are immediately going to go down the slippery slope to socialism and all the restrictions it entails.

In a historical context, he was worried about Britain primarily. One reason that he was so keen to get the book published during the war was that people were already making the same argument that had been made in various German-language countries during the 1920s: that wartime production produces what people need and that state planning is an efficient way to do it. People were calling for the same sorts of controls that were in place in the war to continue in peacetime.

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In England nationalisation went forward after the war, and a number of different industries were nationalised. At its peak, about 20% of British industry was nationalised, so it was nothing even close to full nationalisation. But that was the direction in which Britain seemed to be headed, and that was one of the reasons that Hayek wrote the book.

Reason: We live in a time when even socialists grant that capitalism is better at producing things. What about *The Road to Serfdom* and Hayek remains especially relevant in the 21st century?

Caldwell: His critique of the way 'science' gets used in social settings. Science is a very powerful tool that has brought a lot of technological and material progress. But the mistaken notion that we can plan social structures and social realities and social institutions in the same way that we can accomplish goals like putting people in space is very, very seductive. That belief is something that never goes away. Hayek's critique of that mind-set is part and parcel of *The Road to Serfdom* and many of his

other writings. *Road* is part of a larger effort called 'The Abuse of Reason Project', which attacked what he eventually called 'rationalist constructivism', the idea that we are able to reconstruct or correct society along rational lines.

He argued that you can't easily improve on what he called 'spontaneous orders'. There are many situations in which an order has arisen by individuals following rules. They often can't articulate why they follow the rules, some of them are moral rules, whatever, and this has led to a certain amount of coordination of people's activity. To the extent that it's done, that it's allowed, groups that have followed those rules tend to prosper. That's what he defined as 'a spontaneous order'. This can occur among animals that are noncommunicating, and it can occur among humans and various social institutions. Language, the market, money, and more reflect this.

He said that in the real world, we have millions of individuals who have little bits of knowledge. No one has full knowledge, and yet we see a great deal of social coordination. As Frederic Bastiat said, 'Paris gets fed.'

To simply come in and say, 'OK, this stuff all needs changing', ignores that social evolution has taken place through time. We can all see the problems that exist in various institutions, but it's particularly dangerous when you try to make wholesale changes, rather than piecemeal ones, within social institutions to try to achieve better ends.

The way socialism was implemented in the 20th century is one of the pre-eminent examples of what goes wrong when you try to reconstruct society along more 'rational' lines.

Reason: Is it inevitable that top-down, central planning fails?

Caldwell: I don't think Hayek would say *inevitably*. It would depend on the specific question at hand. Hayek always wrote at a very high level of generalisation, so it is difficult to get down to

specifics with him, and that is one of the limitations I think of Hayek's particular approach.

Reason: He emphasises that things change over time, the rules under which people act change over time, the institutions through which they are constrained change over time. But he doesn't like wholesale social change where you just say, 'We're paving over Cambodia and starting a new society', or paving over Paris...

Caldwell: ...or paving over Iraq. I think Iraq actually is a perfect example of this. You don't just come in and say, 'Here are all the institutions that have worked well in the West', and expect overnight changes. That seems to me to be a contemporary example of the sort of hubris he argued against.

Reason: Beyond his critique of wide-scale social planning, what would you say are Hayek's other major contributions to 20th century thought?

Caldwell: Another very important one has to do with the role of prices in coordinating social action where knowledge is dispersed.

As I mentioned, in the 1930s, Hayek was engaged in debates with various types of socialists. The model that was then used to describe how an economic system works assumed that all agents had full knowledge and that [an efficient distribution of goods and services] gets obtained [through various transactions]. Some of the socialists argued that the differences between socialism and capitalism, or the market system, were really about what set of people [made the transactions]. Under socialism, you had planners; under capitalism, you had individuals.

Reason: And the socialists argued that their planners could coordinate the production and distribution of goods and services with less trial and error, more quickly, more efficiently?

Caldwell: That's right, because they would be centrally gathering information. The socialists argued that individual entrepreneurs are just looking over their own markets whereas the planners are taking everything into account.

Hayek said, 'Well, wait a second, this does not make sense. Markets do a lot of stuff, but this

model does not shed light on what markets do.’ He zeroed in on the critical assumption of full or perfect information. He said that in the real world, we have millions of individuals who have little bits of knowledge. No one has full knowledge, and yet we see a great deal of social coordination. As Frederic Bastiat said, ‘Paris gets fed.’ No one intentionally plans on feeding Paris, but millions upon millions of people get up every morning and get what they want for breakfast. How does that happen? Hayek’s answer is that a market system ends up coordinating individual activity. Millions of people are out there pursuing their own interests, but the net result is a coordination of economic activities. And prices are the things that contain people’s knowledge.

Mainstream economists have picked up on this and talk about prices as containing information. Modern information theory certainly nods to Hayek as a precursor. He argued that pricing contains knowledge of specific time and place and the man on the spot. Prices contain knowledge that is tacit, that can’t really be expressed by individuals. Individuals make actions in markets, and that’s what causes prices to be what they are. People are acting in markets. They are not always explicitly saying why they are acting, but they are acting on their knowledge of local situation, the past, and more.

Reason: What about his influence in academic economics?

Caldwell: His impact on things like our standard graduate, or even undergraduate, education has been pretty minimal. However, if one thinks of Hayek as being part of a stream of people making contributions that often do not fit easily into the mainstream but which provide real insights into the workings of the economy—public choice analysis, analysis of property rights, transactions cost analysis, the new institutional economics, evolutionary economics, some variants of experimental economics, maybe even parts of behavioural economics—then Hayek, together with people like other Nobel Prize winners James Buchanan, Ronald Coase, Douglass North (who invokes Hayek’s emphasis on getting the right institutions, but also his caution that one cannot just impose them, all the time), and Vernon Smith,

are all contributing to an important line of research that has in many different ways had an impact on the mainstream, even if it doesn’t show up in the textbooks or the latest working papers.

Reason: What do you think Hayek’s legacy in the 21st century will be?

Caldwell: To the extent that the ideas in papers like ‘The Theory of Complex Phenomena’ get developed, that could be a big part of his legacy. He didn’t get very far in developing the concept, but it’s the basis for his claims that what we can know in the social sciences is ultimately very limited. It holds that pattern predictions are the best that we can often do when it comes to society. He suggested that

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it’s better to provide explanations of the principle by which something works than to make precise predictions of how people will act.

Reason: So he taught us that the starting point of our plans has to be a recognition of the necessary limits of our understanding, that the grand old Enlightenment dream of total knowledge has to be replaced with one that is limited and provisional.

Caldwell: That is a Hayekian theme. One of the things that I take away from Hayek is you can’t really prove any of this stuff in a traditional way. What you can do is develop a way of thinking and all sorts of different evidence that ultimately convinces you that this is an appropriate way of looking at this particular type of social phenomenon. I think this is part and parcel of Hayek’s method. It’s certainly what I took from him in my book.

Understanding the limits of what we can do is an important legacy. And so is understanding that in trying to do too much, we often end up making situations much worse.