

NEIL McINNES

FOREWORD BY CHANDRAN KUKATHAS

THE ROAD NOT TAKEN

Hayek's Slippery
Slope to Serfdom



occasional papers

THE CENTRE FOR
INDEPENDENT
STUDIES



The Centre for Independent Studies is a non-profit, private sector policy research institute. Its major concern is with the principles and conditions underlying a free and open society. The Centre's activities cover a wide variety of areas dealing broadly with social and economic policy. It emphasises the role of markets and other voluntary processes in providing many of the goods and services normally supplied by the compulsory methods of government.

The Centre meets the need for informed debate on issues of importance to a free and democratic society in which individuals and business flourish, unhindered by government intervention. In encouraging competition in ideas, The Centre for Independent Studies carries out an activities program which includes:

- research
- holding lectures, seminars and policy forums
- publishing books and papers
- issuing a quarterly journal, *Policy*

For more information, see the inside back cover.

Executive Director

Greg Lindsay

Editor

Charles Richardson

The Centre's research work is assisted by a Council of Academic Advisers

Professor H.W. Arndt

Professor Ray Ball

Professor Geoffrey Brennan

Professor Lauchlan Chipman

Professor Kenneth Clements

Professor David Emanuel

Professor Ian Harper

Professor R.M. Hartwell

Professor Warren Hogan

Professor Helen Hughes

Professor Wolfgang Kasper

Professor Kenneth Minogue

Professor R.R. Officer

Professor Ross Parish

Professor Steven Schwartz

Professor C.G.F. Simkin

Professor Judith Sloan

Professor Peter Swan

Professor Geoffrey de Q. Walker

PO Box 92 St LEONARDS 1590 AUSTRALIA

Phone: (02) 9438 4377 • Fax: (02) 9439 7310

World Wide Web: <http://www.cis.org.au>

PO Box 5529, LAMBTON QUAY, 3785, NEW ZEALAND

Telephone: (04) 499 5861 Fax: (04) 499 5940

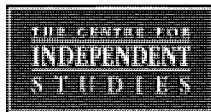
THE ROAD NOT TAKEN

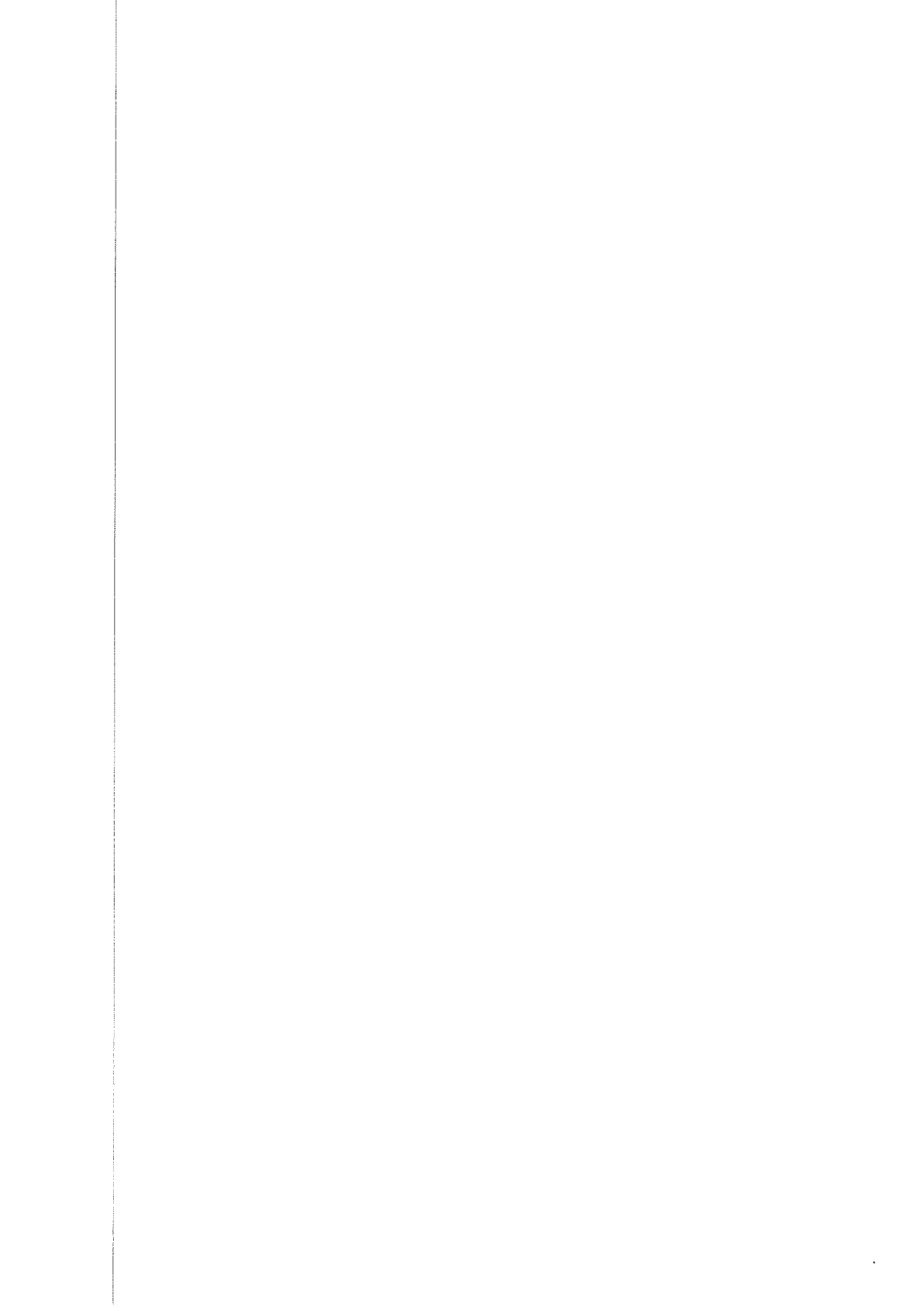
**Hayek's Slippery
Slope to Serfdom**

NEIL McINNES

FOREWORD BY CHANDRAN KUKATHAS

Occasional Paper 65





THE ROAD NOT TAKEN

**Hayek's Slippery
Slope to Serfdom**

NEIL McINNES

FOREWORD BY CHANDRAN KUKATHAS



1998

Published November 1998 by

The Centre for Independent Studies Limited.

Views expressed in the publications of The Centre for Independent Studies are those of the authors and do not necessarily reflect the views of the Centre's staff, Advisers, Directors or officers.

National Library of Australia

Cataloguing-in-Publication Data:

McInnes, Neil, 1924- .

The road not taken : Hayek's slippery slope to serfdom.

Bibliography.

ISBN 1 86432 036 2.

1. Hayek, Friedrich A. von (Friedrich August), 1899-. Road to serfdom. 2. Economic policy. 3. Totalitarianism. I. Centre for Independent Studies (Australia). II. Title. (Series : CIS occasional papers ; 65).

338.9

First published in

**THE
NATIONAL
INTEREST**

Number 51 (Spring 1998), pp.56-66.

Permission to reprint is gratefully acknowledged.

© 1998 The Centre for Independent Studies.

Layout and design by Daryl-Anne Le Roux

Printed by Alken Press, Smithfield, NSW.

Typeset in Garamond 10pt.

Foreword

The year 1999 will mark the tenth anniversary of the crumbling of the Berlin wall, and the beginning of the official end of communism. Yet only ten years earlier it had been hard to imagine Soviet totalitarianism not enduring well into the next century. Now, while it is difficult to see how Russia is going to extricate itself from its current economic mess, it is equally hard to imagine it returning to the follies of central planning - even if communists are returned to power.

The changes that have taken place in western societies in the 1980s and 90s, while less momentous, are no less significant. In 1979 deregulation was not on the agenda, and privatisation was an idea that existed only in the pages of monographs published by the Institute of Economic Affairs. More importantly, the idea that we should turn to socialism for answers is thoroughly (though alas, not totally) discredited. Free market ideas may not have triumphed; but they have achieved a respectability denied them for much of the postwar era.

How this change in the intellectual climate came about, and how what we might call classical liberal ideas worked their way into the thinking of policy-makers and advisers, is a story which is yet to be told. That story will, no doubt, be a complex one. At the heart of it will be the life and writings of F.A. Hayek. And at the centre of that story will be *The Road to Serfdom*.

The Road to Serfdom was Hayek's first explicitly political work. It was also a highly polemical work - although the polemics were offered in the sober and measured language which characterised all Hayek's writing. It was a work calculated to stir, but not to offend. For Hayek's concern, at all times, was to persuade rather than to excoriate - as if evident in the dedication on the book: 'To the Socialists of All Parties.' What this reflected was a conviction that remained with Hayek all his life: that ideas were important because they moved the world; and that for this reason it was vital for those who believed in a free society to put their ideas before the public. Socialism, he was convinced, owed its success to its intellectual attractiveness. To combat socialism, it was necessary not to win political office but to win the battle of ideas.

How persuasive was Hayek's argument? Without doubt, *The Road to Serfdom* offered an effective argument because it achieved a large part of Hayek's purpose: it put the whole question of the coherence and the worth of central planning and socialism on the agenda, making

quite clear that those who wished to defend it would need to offer better explanations than they had come up with so far. But did Hayek have a persuasive case? Were we ever on the slippery slope to totalitarianism?

A full answer can only come with an analysis which puts Hayek's properly in context. If some of Hayek's claims seem exaggerated, how much is this in response to the exaggerated claims of socialism, which promised not only progress but utopia? If some of Hayek's arguments appear inconsistent, how much is this due to the political purposes that motivated them, and in particular Hayek's concern not to alienate the many mild socialists who might be persuaded to shun the totalitarian camp? These, and other questions about the making of Hayek's political philosophy, need to be answered if we are to come to a proper understanding of his ideas and their significance.

The virtue of Neil McInnes's essay is that it begins to do precisely this: to try to understand *The Road to Serfdom* not as a piece of political theory, or policy, but as a work that has its own political history. *The Road to Serfdom* is a work whose reception is itself worthy of examination for what it tells us about the intellectual and political movements of our era. It is a work which continues to sell, and to be read, and to be discussed. This *Occasional Paper*, which has much to tell us about the development of Hayek's thesis and its reception, is evidence of that work's continued vitality, and is itself another part of the Hayek story.

Chandran Kukathas
Associate Professor of Politics
University College, University of N.S.W.

About the Author

Neil McInnes is a consultant to the Australian Department of Foreign Affairs and Trade and a former journalist and senior Commonwealth public servant. He is the author of several books, including *The Western Marxists* (1972) and *French Politics Today* (1977). He is a regular contributor to *The National Interest*, *Quadrant* and other periodicals.

The Road Not Taken

Hayek's Slippery Slope to Serfdom

Neil McInnes

This is another story about a book, a curious book that went from bestseller to oblivion and back several times over. The millions of copies it sold in a score of languages 'completely discredited' its author, exactly as he foresaw it would. Although he was regarded as one of the leading theoretical economists of the century, the economists of the University of Chicago (whose university press had published the offending book) refused to have him on their faculty. No matter, by living to be over ninety he buried not only them but also the very notion of a planned economy, which had been the target of his essay. The book in question is Friedrich Hayek's *The Road to Serfdom*. Looking back to its publication fifty-four years ago one can easily see the reasons both for its enduring fame and for the discredit it brought on its author.

Published in the United States and Britain while the war against Nazi Germany was still raging, the book said that the democracies risked going the same way as Germany because their politicians and their intellectuals had fallen for the idea that an economy could be centrally planned, and they would soon be putting that idea into practice under the name of postwar reconstruction. In fact, Hayek said, central planning led, via cumulative attempts to mend its inevitable failures, to 'a servile state' (he recalled Hilaire Belloc's 1913 book of that name). It led to serfdom, to a condition 'scarcely distinguishable from slavery.' Moreover, any attempt at getting a little bit pregnant in this domain, by toying with moderate planning and a 'middle way' between capitalism and socialism, would set the democracies on a slippery slope that would end, more slowly but just as surely, in that same serfdom. The free market was not only more efficient economically but indispensable for political and cultural freedom. Its enemies were intellectuals, meddling politicians - and unbridled democracy, which is to say, oppression and spoliation by demagogues invoking the unrestricted will of the majority.

Hayek began by saying, 'This is a political book.' That is what

economists say when they want to disarm criticism, and to be judged by looser standards. In fact, it was not a political book but a quite unpolitical one, in that it took no account of the political climate of the day - which happened to be a climate that would persist for the next thirty years, '*les trente glorieuses*', as they are now called. Schumpeter's review noted that it 'takes surprisingly little account of the political structure of our time', and Eric Roll meant the same thing when he called it 'a wholly unhistorical book.' Still, Hayek was right to see that it contained enough politics, cut across enough academic demarcation lines, to outrage the economists - especially since most of them at the time were working for the government and taking its view of the economy.

It would, he said, 'damage my professional standing' and 'alienate my colleagues.' Indeed, it did: 'After *The Road to Serfdom*, I felt that I had so discredited myself professionally I didn't want to give offense again. I wanted to be accepted in the scientific community.' He never was: 'I can feel it to the present day [1979]. Economists very largely tend to treat me as an outsider, somebody who had discredited himself by writing a book like *The Road to Serfdom* ... Some of my more leftish acquaintances (with considerable cheek) gave me to understand that in their opinion I had ceased to be a scientist and had become a propagandist.'

Similar prejudice had almost prevented the book being published at all. Like Orwell's *Animal Farm* a few months later, and for comparable reasons, it was turned down by several publishers, one of whose readers said it was 'unfit for publication by a reputable house.' In the event, it was an instant popular success on both sides of the Atlantic and has been continuously in print in one or other of twenty languages ever since; there was a new French edition in 1993 and a fiftieth anniversary edition in English in 1994. Most readers probably knew it through a *Reader's Digest* condensation, prepared by Max Eastman, of which over one million copies were distributed through the American Book of the Month Club. Hayek got no money out of that version, for the University of Chicago gave it to the *Reader's Digest* for nothing. This led to accusations that the publication was being subsidised by Big Business, which it probably was.

Though always available, Hayek's ideas have been in and out of fashion to a degree unusual even in the modish subject of economics. He was Keynes's peer as a technical economist in the 1920s but he disappeared under 'the Keynesian avalanche' of the 1930s. He resurfaced as a prophet in 1944 but thereafter fell to the rank of an intellectual

outcast and hate figure whose new books, said Samuel Brittan, were greeted with scorn that constituted 'an intellectual disgrace.' The Nobel Prize of 1974 (which Hayek had to share with that arch economic planner Gunnar Myrdal) prepared his resurrection as a cult figure of the Radical Right, supposedly influential in the counsels of Ronald Reagan and Margaret Thatcher. The collapse of communism was seen as vindicating his work and, more importantly, it produced a new generation of Hayekians among the economists of the former Soviet empire. In the West, however, he is now promised a new spell in oblivion by the communitarians and by all those who dismiss as mere 'Cold War liberalism' the impressive achievement of Isaiah Berlin, Arthur Koestler, Karl Popper, and Friedrich Hayek. The last named would no doubt have taken this vicissitude as he took all the others, with the patient courtesy of the petty nobility of Austro-Hungarian Vienna.

Born there in 1899 into a family of academics on both sides, Hayek fought for the Habsburgs in the Great War as an airborne artillery spotter on the Italian front. In chaotic postwar Vienna he had Fabian sympathies until he came under the formidable influence of Ludwig von Mises, for whom he worked as a researcher after taking degrees in economics and law. His brilliance at theoretical economics induced Lionel (later Lord) Robbins to offer him a chair at the London School of Economics in 1931. His assignment was to take on Cambridge, from where Keynes reigned supreme. He did so, and if Keynes won the ensuing stoush, some economists are no longer sure he deserved to. Hayek moved to Chicago (not the economics department) in 1950, and later taught at Freiburg im Breisgau and Salzburg. He died in 1992, too far into dotage to appreciate that his ideas had won out in the Soviet Union. Those ideas had first been set before the public from the London School of Economics, a school founded by the Webbs, where, after working for years under the administration of William Beveridge (father of Britain's welfare state) and alongside Harold Laski (chairman of the Labour Party), Hayek had produced *The Road to Serfdom*, an extraordinary solecism.

The way it came about helps to explain the book's odd mixture of sound theory and wild exaggeration. The LSE was evacuated to Cambridge when London was bombed, and Hayek found himself in quarters generously provided by Keynes, with very few students and fewer colleagues, because economists were called up for war duties. Hayek always said that working for the government corrupted economists, and in this case war service had won them over to planning, no doubt necessary for victory but which many now contemplated

extending into peacetime. There was no danger of Hayek being called up because, although he had taken out British nationality in 1938, he was too recently an enemy alien to be trusted. After all, other refugee scholars had been rounded up and shipped on the infamous *Dunera* to concentration camps in Australia, and Popper was in New Zealand.

'I was in an extraordinarily privileged position,' he said later. It produced in him the conviction that he was alone on the watch; all the other competent men were busy, economic questions had fallen into the hands of 'amateurs and cranks,' and a vast socialist conspiracy was afoot to hand free markets over to the planners. He wrote, said Samuel Brittan, 'as if he were a voice crying in the wilderness, as if most of his friends were socialists, as if almost all intellectuals are socialists, as if socialism had become a kind of official religion.'

There had indeed been, during the war, extensive regimentation of the economy and of much social and intellectual life. The Atlantic Charter had appealed to democracy's least enterprising, most servile inclinations by promising government-purveyed 'freedom from want' and 'freedom from fear,' no doubt at the cost of vast new bureaucratic interventions. Beveridge had already produced his model for a welfare state, to which the Tories were as committed as the Labour Party – and which would be copied across Europe. A year before Hayek's book appeared, the Scottish philosopher John Anderson had anticipated many of its arguments in his article 'The Servile State' (to be found in his *Studies in Empirical Philosophy*):

It can scarcely be denied ... that the capitalist countries are moving in the direction of regimentation and that the ideology of servility is rapidly gaining ground. The process has, of course, been greatly accelerated by the war ... The absurdity of the pretences of the advocates of a 'planned society' should be noted here ... There is no one who is competent to make provision for all departments and aspects of social life ... The expectation of such benefits [as the Atlantic Charter promised] *is* of course delusive; there is no system which can abolish insecurity and guarantee sufficiency. But, by the time that is realized it will not be possible to have back for the asking the rights that have been surrendered in the name of solidarity.

Hayek's main ideas, stated in Anderson's more moderate form, were not unfamiliar in Britain, which is why his book was greeted there 'along party lines.' Labour MP Barbara Wootton wrote a courteous rebuttal (*Freedom Under Planning*) and LSE Fabian Herman Finer wrote one

so discourteous (*Road to Reaction*) that Hayek threatened libel action. Churchill read the book during the 1945 election campaign and incautiously told electors that Labour would 'bring in a Gestapo,' which helped lose him the election. Chastened, he later told Hayek, 'You are absolutely right, but that will never happen in Britain.'

The book's reception in the United States was another matter, a tumult of acclaim and vituperation. An initial print run of 2,000 was followed the next week by 5,000 more, and then the million-odd condensations by Max Eastman. *The New Republic* said chambers of commerce were placing bulk orders to inflate demand. There were 'think' pieces in the *New York Times* and *Fortune*, two contradictory reviews in one issue of the *American Economic Review*, an angry radio debate between Hayek and socialist academics, followed by a lecture tour to overflow audiences across the country that lasted three months. Hayek had hit the New Deal intellectuals on a raw nerve. Those of them ensconced in Washington to run the war economy hoped to stay there when capitalism, which had lurched from the Great Crash to war, fell into the expected hole of post war deflation, which they were sure it would do unless it were planned into full employment. Hayek's assault on their ideal of rational social reconstruction, and the new heart it gave their opponents, caused panic. Milton Friedman said that, thanks to Hayek, libertarianism and capitalism had become intellectually defensible again. H. Stuart Hughes agreed in 1954: 'The publication ten years ago of F.A. Hayek's *The Road to Serfdom* was a major event in the intellectual history of the United States . . . it marked the beginning of that slow reorientation of sentiment - both in academic circles and among the general public - toward a more positive evaluation of the capitalist system which has marked the past decade.' Hayek assisted this re-evaluation of capitalism by rejecting *laissez faire* in the very first pages of *The Road to Serfdom*, and saying that he favoured government intervention for monetary, environmental, and anti-trust policies.

Translations into European languages began at once, but the German version (by Eva Röpke, Wilhelm's wife) published in Switzerland in 1945 met a curious fate. The four occupying powers in Germany had a deal to ban books hostile to any one of them. Hayek's book hardly mentioned the Soviet Union, taking Nazi Germany as the archetypal planned economy, but the Russians saw it was directed at them, and insisted on the ban. Typescript versions (*Samizdat avant la lettre*) were soon circulating. In contrast, pamphlets about Beveridge's projected welfare state not only circulated freely but had been dropped from the air onto German cities during hostilities. In Hitler's Berlin bunker were found min-

utes from officials on how to respond. Hayek would have been gratified to learn that they recommended saying that the Allies were just copying the Nazis' social security system. (Beveridge would have preferred another comparison. Ever tactless, he said to a journalist when his plan was adopted, 'Now we're halfway to Moscow'; a horrified British government made him recant.)

Actually, for all its polemical success, Hayek's book seems to have had little influence on economic policy, anywhere, for a generation. The socialists took over in Britain in 1945 and proceeded to do most of the things Hayek said were fatal to democracy. When Churchill returned to office, he remained loyal to the welfare liberalism he had inaugurated in 1909 and 1911, and did little to dismantle Labour's welfare state; the expression, welfare 'from the cradle to the grave' is Churchill's coinage, by the way. For thirty years after Hayek's book, British governments followed policies nicknamed Butskellism (from Tory Rab Butler and Labour's Hugh Gaitskell) and later MacWilsonism – policies that reflected the quest for *The Middle Way* that had been the title of a book Macmillan wrote in 1938. That included flirting with central economic planning through such bodies as the Industrial Reorganization Corporation and the National Economic Development Councils (the Neddies).

In the United States, the 1946 full employment legislation inaugurated a generation of Keynesian policies, accompanied by generalised government intervention in favour of farm price supports, minimum wages, pro-union discrimination, rent controls, protective tariffs, and middle class welfare in various forms. Planning was so little discredited that Hubert Humphrey and economist Wassily Leontief campaigned in 1974-76 for a national economic planning board. In continental Europe, France's 'indicative planning' and even many features of West Germany's social market economy were anathema to Hayek.

Ignored by policymakers, Hayek took the long way round and rallied several score apostles of the free market to a movement he founded, the Mont Pelerin Society, named for its first meeting place, near Vevey in Switzerland, in 1947. Hayek denied it was a propaganda organisation, and indeed attendance at its annual gatherings did not mean accepting the prophecies of *The Road to Serfdom*. Milton Friedman, a member who is popularly linked with Hayek, was, as an economic theorist, poles apart from him. Other members implemented economic reforms in Europe (Ludwig Erhard in West Germany, Jacques Rueff in France, Luigi Einaudi in Italy, and Reinhard Kamitz in Austria), but not by following Hayek's prescriptions. Those ideas moved nearer

to practice with the foundation, sponsored by Hayek, of the Institute of Economic Affairs in London in 1957, followed by similar free-market think tanks from America to Australia. The accession to office of Margaret Thatcher in 1979 and Ronald Reagan in 1981 marked the triumph of two avowed readers and admirers of *The Road to Serfdom*.

By then 'serfdom' and the 'servile state' had been renamed, less theatrically and more clinically, 'dependency culture,' and some attempts were now made to curb it. This was described by opponents as gutting the welfare state, but nothing of the sort happened in the United States or the United Kingdom. Reagan reduced the appropriations desired by Congress, but social outlays and spending on the poor continued to grow under his administration. The British welfare budget, in constant expansion from 1945 to 1976, levelled out at a steady two-thirds of government spending, or one quarter of GNP. Elsewhere, welfare flourished; in France, for example, the minimum wage has continued to increase as a proportion of the median wage, and 75 percent of French families now get family allowances. Worldwide, recent adjustments made to social budgets have been responses, not to Hayekian or any other ideology, but to cruel necessity: the growing number of the elderly, the proliferation of one-parent families, increased consumption of medical services and, in most advanced economies, high levels of unemployment have combined to make the burden intolerable.

The next surge of interest in *The Road to Serfdom* came with the crumbling of the Soviet empire. The economists in Poland and Russia who emerged as the first wave of reformers had long before secretly made Friedrich Hayek and Milton Friedman their patron saints. All the former satellites soon followed: 'Whereas in the West it may still be fashionable to decry *The Road to Serfdom* as a "mere political pamphlet", it is widely read in newly democratized countries like Czechoslovakia and Hungary,' said Willem Keizer in 1994. That being so, these converts to capitalism would soon discover that Hayek demonstrated not only the impossibility of central planning but also the futility of other centrally organized quick fixes such as instant capitalism, the 'leap into the market,' 'capitalism by design,' 'free markets in 500 days,' and other disasters visited upon these disorganized societies by zealots. The professor of international economics at a Budapest academy says that in Hungary at least it is now understood that Hayek showed that capitalism must evolve slowly, organically; it cannot be bestowed by social engineers on societies suffering institutional void, insecure and uncertain property rights, and coordination failures.¹

1 Laszlo Csaba, *The Capitalist Revolution in Eastern Europe* (Aldershot: Elgar, 1995).

Having reviewed the reception of *The Road to Serfdom* first at the popular level and then by the policymakers, it is time to consider what Hayek's peers, the economists and political scientists, made of it. Apart from some rearguard skirmishes by retreating socialist economists, there was agreement that Hayek had won his main point, the one that shook many left-leaning intellectuals from their dogmatism: what he called the synoptic illusion. There is no one point where all the information that can bear on an economy (and should bear, in a free society) can be concentrated, no one man's head, no committee, no planning board. Such information is hopelessly dispersed, and it is changing faster than it could ever be collected. Some of it is not even articulate, but it nevertheless becomes effective in the bids and offers of market participants. The market is thus the only place where all relevant information becomes available, revealing in price mismatches and anomalies opportunities for entrepreneurs. Once that is accepted, the possibility of central direction or control vanishes, and with it Karl Marx's vision of society as 'the product of freely associated men . . . consciously regulated by them in accordance with a settled plan.' Any attempt at such a thing would be either (Hayek varied on this) bound to fail or enormously inefficient.

This was the conclusion that Hayek, for his part, drew from an arcane debate between economists about whether socialist managers could calculate least-cost production in the absence of market prices. The 'socialist calculation' debate began in the last century, but Mises brought it into focus in 1920 and Hayek thereafter played an active role in it. Mises was not satisfied with the conclusions Hayek drew, saying Hayek put too much emphasis on recent information and too little on property owners' calculations of future prices. (So bigger and better computers would be no help.) But Hayek's achievement was to show that the upshot of this highly technical dispute told against many current proposals for social reconstruction, planning, and government regulation. Socialism would not work, not because citizens were not virtuous enough but because there was a knowledge deficit at the centre, and there always would be. Those who were reluctant to accept Hayek's case against the unified central plan were left to be convinced by the grotesque misallocation of resources in the Soviet Union.

Equally convincing was Hayek's demonstration of how and why the central plan is incompatible with political and cultural freedoms. A plan requires, imperatively, prior agreement on what and how to produce, and subsequent agreement to stick with it and accept its out-

comes. Such agreement is not to be found, and there arises the temptation to fudge it, by propaganda and eventually by repression of disagreement, and by delegating decisions from divided parliaments to arbitrary bureaucrats. This part of the book is written with a passionate eloquence (written, incidentally, by a foreigner composing his first book in English) that drew the admiration of critics like Keynes, and the dismay of nominated targets like Harold Laski, Karl Mannheim, and E.H. Carr.

What drew much incredulity was Hayek's strange choice of Nazi Germany as the type of serfdom produced by economic planning. He had little else to say against it except that it practiced planning, and he ascribed the spread of planning ideas in Britain to the influence of Germans such as Sombart, Plenge, Lensch, and Moeller van den Bruck. Most of his readers had never heard of them, and the British Left and U.S. liberals were, reasonably enough, offended by the suggestion that they got their policies from the sorry bunch whom Fritz Stern was later to describe in *The Politics of Cultural Despair* (1961). The implication that the regimes of Hitler and Mussolini were the end result of dabbling in state planning, of gradual and piecemeal departures from free markets, was seen to be absurd by those who had read Elie Halévy's demonstration, in *L'Ere des tyrannies* (1938), that the dictatorships were born of violent revolution. Pigou said in his 1944 review that Hayek's history was all wrong: Hitler's and Mussolini's resort to central planning was a means, not the cause, of tyranny. To be sure, Nazi ideology rejected the free market of Western liberalism and the calculating rationality of economic man, but it was not for all that to be defined as an *economic* heresy.

In deploring the regimentation of wartime, Hayek said, 'During the war we all had to go to some extent totalitarian.' So it should have been evident that a regime whose whole purpose was war would practice command economy, *Wirtschaft unter Zwang*. Trying to frighten naughty little socialists by saying they would grow up to be wicked Nazis was poor rhetoric and it put many critics off the book. The Soviet regime was a better target, and its moral, economic and political affiliation with Nazism had already been established by Franz Borkenau. Hayek was right to dismiss the leftist myth that Nazism was capitalism's answer to communism, for they were in many ways birds of a feather, given to imitating each other. But even so, it would have to be admitted that Bolshevism began with the aim of a central plan, to be implemented by ruthless coercion. That was its ideological starting point, not the end result of cumulative government intervention in free markets. As it was,

Hayek had little to say about the Soviet Union, possibly because it was still a wartime ally.

All of this could be disregarded as an inept presentation of his case. Not so the dogma of the slippery slope, which was at the heart of Hayek's argument and probably the real reason he wrote the book. The epigraph of *The Road to Serfdom* is David Hume's line, 'It is seldom that liberty of any kind is lost all at once,' a counterverity that shows how much less they knew in 1770 about revolutions and coups d'etat than we do. It prefigures the slippery slope, of which Hayek's teacher Mises had said (in the 1940 Geneva edition of *Human Action*), 'Every step a government takes beyond the fulfilment of its essential functions of protecting the smooth operation of the market economy against aggression, whether on the part of domestic or foreign disturbers, is a step forward on a road that directly leads into the totalitarian system where there is no freedom at all.' Furthermore, in 1944 Hayek said of that road, 'Yet, though the road be long, it is one on which it becomes more difficult to turn back as one advances.' He offered to explain why government interventions in the economy were cumulative and eventually irreversible. Central allocation of resources meant that labour had to be directed, like other factors, so the state began to control individuals, notably in their role of producers. Planners got drawn into detailed economic decisions, rather than setting general rules, so they inevitably started favouring some interests, disadvantaging others. When one intervention failed (e.g., price controls), further intervention was resorted to (say, requisitions or rationing or subsidies).

It was because of this tendency to cumulative involvement that Hayek insisted there could be no halfway house between competition and planning, no social democratic mixed economy. The middle way, says John Gray, became 'the principal target' of *The Road to Serfdom*. As Eamonn Butler said in his *Hayek* (1983), 'One of the most powerful themes of *The Road to Serfdom* is that even modest economic planning has the effect of slowly but inexorably eroding the values and attitudes which are vital if freedom is to exist.' Hayek even argued that attempts to combine competition and planning produced the worst effects of both, the benefits of neither. When he wrote a new introduction to a 1976 edition of the book, Hayek admitted that socialism no longer meant central planning but 'chiefly the extensive redistribution of incomes through taxation and the institutions of the welfare state,' but he added defiantly that 'the ultimate outcome tends to be very much the same.'

Critics protested from the start that to go from saying that central

planning is a disaster to condemning interventionist policies is a non sequitur. Such policies would indeed have unintended consequences, notably market impairment, but 'none of the arguments mentioned here demonstrates that what lies at the bottom of the slope is socialism' (Frank Van Dun). Paul Samuelson asked in his 1948 economics textbook whether it was true

that each step away from the market system and toward the social reforms of the welfare state is *inevitably* a journey that must end in a totalitarian state with neither efficiency nor liberty? The opposing view, held by such evolutionists as Roosevelt, Churchill, and Nehru is that gradual reforms are the only way to prevent a cataclysmic descent through revolution into a communist dictatorship. If the evolutionists are right, Hayek is quite wrong.

Samuelson evidently thought he was. Lionel Robbins said the dangers Hayek foresaw might happen, but Hayek was alarmist to say they *must* happen. Welfare, for example old age pensions, could become a burden but why say it must lead to 'social disintegration and the concentration camp'? Some interventions do have cumulative effects, like price controls, but not all taxes and subsidies or all forms of government ownership and control do. There is therefore no logical or historical reason to fear for the stability of the mixed economies.

Raymond Aron told an audience at Berkeley in 1963 that the proposition that intervention inexorably leads to total planning and totalitarianism was so manifestly false that Hayek could not have meant it. The trouble is he said it. When challenged, Hayek would say that he was issuing a warning, not a prophecy (and promptly return to prophesying with all the confidence of a Marxist). This cavalier attitude to political discussion is common among those who come to it only occasionally. It is negligent to say that X must happen (a prophecy) without saying whether such and such circumstances might avert it. But it is positively thoughtless to say that X can happen (a warning) and not bother to specify the conditions of its appearance and non-appearance. Of course in the present case most of those conditions would be political: all the social forces, political institutions, traditions, customs, and moralities that defend freedom (more precisely, exemplify and practice it) ensure there is no slippery slope - and they are not waiting for an outsider's 'warnings' or 'prophecies' to play their role.

Keynes pointed this out in a letter to Hayek when *The Road to Serfdom* came out: 'I accuse you of perhaps confusing a little bit the moral and the material issues. Dangerous acts can be done safely in a

community which thinks and feels rightly, which would be the way to hell if they were executed by those who think and feel wrongly.' (The text of this letter, in which Keynes calls for more planning, not less, and says Hayek's philosophy will end in failure and disillusion in the United States, is in Harrod's *Life*, pp. 436-7.) Giovanni Malagodi put it in this Crocean way: 'This brings us to reflect again on the immense spiritual and human force of liberty. When it is deeply rooted in the history and in the mind of the citizen, it can withstand larger doses of centralized or semi-centralized planning without withering away. In fact, it constitutes by itself a barrier against the spreading of total dirigism.'

As years went by it was plain to see that the road to serfdom was opened up by the Red Army and not by the mixed economy and the welfare state. Apologists of Hayek's 1944 book therefore had to resort to various saving hypotheses. Hayek himself led the way. In lectures he gave in Australia in 1976 (collected as *Social Justice, Socialism and Democracy*) he said that

socialist parties in the West have almost all for the time being abandoned the most obviously dangerous demands for a centrally planned economy ... [This] has much slowed down the process that I had predicted ... But can it lastingly avoid the same effects? There are strong reasons for doubting that ... Though the process may be slow and gradual, a government which begins to control prices is bound to be driven step by step towards the control of all prices, and, since this must destroy the functioning of the market, to a central direction of the economy.

Attempts to establish a 'just distribution' of incomes entail 'being driven to establish an essentially totalitarian system.' This was said when most governments had been induced by the 'oil shock' to impose price controls if not prices-and-incomes policies. None of these policies led to serfdom; none of them was very successful either, and that was enough (combined with a natural resentment of such controls) to ensure they were soon abandoned, with no sign of cumulative state intervention.

One contributor to the 1977 *Essays on Hayek* (edited by Fritz Machlup) said 'the West' had indeed given up the centralised planning that would have led to serfdom but 'Instead we have taken the road of inflation, governmental profligacy, and uncoordinated governmental intervention into the market; and this must lead us to the serfdom that Hayek foresaw just as certainly as centralized planning, if perhaps more slowly.' Another contributor averred that serfdom had already arrived:

Such has been the process by which the freedom of the

individual has been reduced in our time. No violent revolution; no armed dictatorship; everything appears in its usual form. Constitutions are still in force and democracy still functions, creating the illusion that all is well and that the people still rule. But what a monstrous deception! Beneath the hollow forms of constitutional government grows an increasingly powerful state, manipulating democracy to serve its own ends.

This comes close to the paranoid rhetoric of the wildest American dissidents.

Contributors to a similar volume in 1984 (*The Political Economy of Freedom: Essays in honour of F.A. Hayek*) said the forty years since *The Road to Serfdom* had shown the ineptitude of the mixed economy, there had been 'an unnoticed loss of liberty,' while Sweden had become 'a benign servitude,' and concluded, 'Perhaps it is time to heed Hayek's warning.' Some contributors conceded that Hayek's references to serfdom and slavery were polemical, vague, and careless. Yet in another collection in that year (*Hayek's Serfdom Revisited*, edited by John Burton), John Gray declared, 'No one could say today, 40 years later, that Hayek's argument missed its mark ... We are well on the road to serfdom.'

Mention of John Gray, fellow of Jesus College and professor of politics at Oxford, reminds us that if we are following the history of changing attitudes to Hayek, there is no need to go poring over dozens of different writers; it is enough to read Gray's output over the years, for it has evolved mightily. In a 1980 paper in the *Journal of Libertarian Studies*, 'Hayek on Liberty and Tradition,' Gray commended him on four grounds: scepticism about the government's ability to promote public good; awareness of the danger of unlimited democracy; his critique of distributive 'social justice'; and opposition to large-scale social engineering. Gray's reservations about Hayek concerned his epistemology and his evolutionist view of moral codes.

Gray contributed to the 1984 Burton volume mentioned above an essay that sought 'the road from serfdom.' It was true that, in apparent contradiction to Hayek's *Road to Serfdom*, nowhere had unlimited democracy led to hyperinflation, nor government regulation to totalitarianism. Nevertheless, liberties, Gray maintained, had been lost, and the ground won back so far by Reagan and Thatcher should not be exaggerated. Rent control and price control restricted freedom, and servility induced by the welfare state further endangered liberty. There was still

a danger of hyperinflation, a 'terminal boom' that must 'mortally imperil' the cause of liberty. In a more scholarly book Gray published in the same year, *Hayek on Liberty* (1984), most of Hayek's later, voluminous work on social philosophy is traced back to its first outline in *The Road to Serfdom*. In particular, Hayek's arch-conservative notion that uncritical observance of traditional rules is the basis of social life is set out with complaisance. In *Liberallism* (1986), Gray praised *The Road to Serfdom* for its 'bold and striking thesis' that Nazism was the result of socialism. Hayek's work was 'without doubt the most profound and distinguished statement of the case for liberty this century.' It had 'fallen on deaf ears' until Reagan and Thatcher gave it 'a real political importance.' But at this date, Gray's first doubts about Hayek appeared: he wondered whether liberal ideas were being tainted by contact with 'free market conservatism, with its illiberal policies in the areas of personal and civil liberties.'

By the time he wrote *Enlightenment's Wake* (1995), the Thatcherite era had run its course and Gray's opinion of Hayek had changed utterly. Hayek's neo-liberalism is now mockingly called 'paleo-liberalism', 'a Maoism of the Right.' Free market economics have ruined communities and destroyed the Tory party:

The undoing of conservatism has come about as an unintended consequence of Hayekian policy. The hegemony, within conservative thought and practice, of neo-liberal ideology has had the effect of destroying conservatism as a viable political project in our time and in any foreseeable future . . . inherited institutions and practices have been swept away by the market forces which neo-liberal policies release or reinforce.

Hayek had unleashed 'a managerialist Cultural Revolution seeking to refashion the entire national life on the impoverished model of contract and market exchange . . . a permanent revolution of unfettered market processes . . . a self-undermining political project.' Thatcher's reliance on free markets is denounced as 'Hayek's wager,' 'market fundamentalism,' 'Manchester *revividas*.' Britain was never on a road to serfdom but was now on the road to anomie, ungovernability, the loss of authority, governments made impotent by judicial activists. The tone actually gets shriller after that. Projects such as the World Trade Organization and the European Union are 'neo-liberal rationalist utopias that will founder on the reefs of history and human nature, with costs in human suffering that may come to rival those of 20th century experiments in central economic planning.' If one takes those words literally,

Gray is warning of tens of millions of deaths as a result of what he takes for Hayekian liberalism.

Gray returned to the attack in *Endgames: Questions in late modern political thought* (1997). Hayek is there dismissed as 'a neo-liberal ideologue' guilty of 'peddling an Enlightenment project of the most primitive variety – the free market utopia of paleo-liberals such as Herbert Spencer.' His baleful influence over Thatcher had destroyed England and the Conservative Party. His economic policies had failed and now, Gray announced well before the elections that brought Labour to office, 'the neo-liberal hegemony in Britain is over.' The world of *The Road to Serfdom*, in which conservatives were obsessed with the danger of state tyranny, has quite passed away. The threats to freedom and wellbeing now come from the disintegration of the state, the ruination of common cultures, and the loss of popular traditions of fairness and justice.

When the election of last May confirmed the discomfiture of the Conservatives, Gray joined Demos, a think tank that advises Prime Minister Tony Blair. In a newspaper article on 'The Tasks Ahead,' he read the obituary of 'the primitive ideology of market liberalism,' of 'the ideologies of the New Right (such as Hayek's).' They had been thrown out because they were insensitive to the popular longing for fairness, indifferent to vital human needs for community, and because they severed the link between economic rewards and meritorious performance. Communitarianism has arisen to correct these errors.

Hayek's ideas, we began by saying, and particularly those set out in *The Road to Serfdom*, have been subject to extraordinary ups and downs in learned, as well as in popular and political, estimation. His latest descent into obloquy at the hands of an eminent political philosopher who was once a sympathetic expositor might not be typical; it is evident from the few quotations I have given that in order to achieve his change of mind Professor Gray had to go from being a liberal suspicious of moral conservatism to being a conservative dismissive of economic liberalism, and not everyone is so versatile. Besides, whatever may be said of the 'ravages' of Thatcherism, much of Gray's attack is unfair to Hayek. He never preached *laissez faire* and he tolerated a level of governmental intervention that would make Milton Friedman blanch. He came to endorse basic social services in health, education, and minimum incomes (though not of course minimum wages) as long as there was no control of prices or quantities, i.e., no impairment of competitive markets. Moreover, as a lifelong Catholic, he insisted on the observance of traditional rules of conduct, some of which we could

never rationally justify, as the basis of society.

For all that, there was no doubt that much of what Gray now calls community, fairness and merit, Hayek would reject as the morality of 'tribalism', the myopic morals of small face-to-face groups where a good deed (and a bad one, for that matter) concerns a known neighbour. Against that tribalism (we would now say communitarianism) Hayek set 'the extended social order' where doing good means living in accordance with abstract rules, and where no one relies on the benevolence of a neighbour but on the self-interest of unknown strangers who participate in the same market; in other words, the open society. Popper's two volume celebration of the open society, as against an 'oppressively social morality,' was in press when he read *The Road to Serfdom* and he got his publisher to put in a note making clear that Popper had finished his book first and could not have borrowed from Hayek. Later Popper suggested that *The Road to Serfdom* could well be read as volume three of *The Open Society and its Enemies*. Actually, he was not as close to Hayek as he liked to think, mainly because his knowledge of economics was primitive and Hayek was too polite to tell him so. But on the main point of devaluing the cosy tribal *Gemeinschaft* as against the vast, open, and anonymous *Gesellschaft*, these two Viennese were in harmony.

Ernest Gellner thought this needed explaining, and he called his explanation 'the Viennese theory.'² He said that from the middle of the last century 'individualistic, atomized, cultivated bourgeoisie of the Habsburg capital had to contend with the influx of swarms of kin-bound, collectivistic, rule-ignoring migrants from . . . Balkans and Galicia.' (He could have added Moravia and thus included the Freud family's move to Vienna.) The Viennese were marked by the experience, and people like Hayek and Popper 'would seem to be haunted by the contrast between the creativity of an individualist bourgeoisie and the cultural sterility of kin-hugging gregarious migrants from some Balkan *zadruga*, whose clannish and collectivist feelings threaten liberty and progress.' That, suggested Gellner, was why Hayek was horrified by the thought of enslavement to communal, affectionate cooperation toward agreed ends, as in a plan, much preferring the liberation that came with abstract, impersonal, rule-bound market society.

There could be something in this but the main point would not be the psychological one, about two contrasting attitudes to social life. The main point is the political one, namely that there is a large array of

2 Ernest Gellner, *Plough, S-word and Book* (London: Collins Harville, 1988), pp.26-30.

stable positions in between the extremes, and just because you abandon one extremity does not mean you are “on the road” to the other. There is serfdom – there was a massive case of it until just the other day – and a unified economic plan is one sure way to it, among other ways. Likewise there is the open, anonymous society, though one must doubt that it was ever, or ever could be, as frigidly impersonal and rule-bound as Hayek imagined. But there are a number of workable, livable, viable compromises in between. To try one of them is not to venture onto a slippery slope.

A bibliographical note:

What his peers thought of Hayek over fifty years is extensively sampled in the four volumes of *F.A. Hayek: Critical Assessments*, edited by J.C. Wood and R.N. Woods (London: Routledge, 1991). There will be found the reviews of *The Road to Serfdom* referred to above, by A.C. Pigou, J.A. Schumpeter, and Eric Roll, as well as the articles cited by Lionel Robbins and J.N. Gray. Other collections of articles on Hayek, in addition to those edited by Fritz Machlup and John Burton cited above, include *Hayek, Co-ordination and Evolution* edited by J. Birner and R. van Zijp (London: Routledge, 1994), which contains the papers by Willem Keizer and Frank van Dun; and *Zur Verfassung der Freiheit: Festgabe für F.A. von Hayek*, in the journal *Ordo* (vol. 30, 1979) which contains the paper by Giovanni Malagodi. Raymond Aron’s 1963 lectures are in *Essai sur les libertés* (Paris: Pluriel, 1976). Samuel Brittan’s *Capitalism and the Permissive Society* (London: Macmillan, 1973) includes a sympathetic restatement of Hayekian liberalism. *Hayek On Hayek: An autobiographical dialogue*, edited by S. Kresge and L. Wenar (Chicago: University of Chicago Press, 1994) contains much fascinating reminiscence. For the latest judgements on Hayek one must consult Andrew Gamble’s paper on him in *The Political Classics: Green to Dworkin* (New York: Oxford University Press, 1996) and Gamble’s book, *Hayek, The Iron Cage of Liberty* (Oxford, UK: Polity, 1996). The first issue of *Critical Review* for 1997 was devoted to Hayek; it was mostly very critical, with the notable exception of East European contributors.

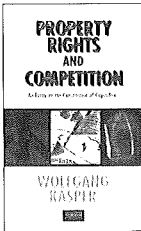
OTHER CIS PUBLICATIONS



How Markets Work Disequilibrium, Entrepreneurship and Discovery

In this stimulating paper, Israel Kirzner, a leading exponent of the Austrian view, argues that the mainstream neoclassical view leaves no room for creative discovery and the role of the entrepreneur. By seizing opportunities that exist in *disequilibrium*, entrepreneurs can create wealth that otherwise would not have existed.

[OP64] ISBN 1 86432 033 8 (1998) 76pp. A\$9.95 NZ\$13.95



Property Rights and Competition An Essay on the Constitution of Capitalism

Property Rights and Competition is a stirring defence of what Hayek called the 'spontaneous order' of the market. Wolfgang Kasper focuses on the importance of institutions: the systems of rules that help us coordinate our lives in a predictable fashion. He argues that economic growth and prosperity depend crucially on institutions that define and protect property rights, treat all citizens equally and impartially, and allow the free market to flourish.

[PM41] ISBN 1 86432 034 6 (1998) 160pp. A\$16.95 NZ\$23.95

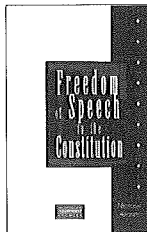


Nationality Disequilibrium, Entrepreneurship and Discovery

Is the nation-state the best form of political organization? Should a country's borders be based on racial or linguistic lines? Does the presence of ethnic diversity strengthen a community, or weaken it? These questions are as relevant today as they were in 1862 when they were considered by the great liberal historian of Victorian England, Lord Acton.

This publication is a reprint of Lord Acton's essay 'Nationality,' with an introduction by Chandran Kukathas.

[OP63] ISBN 1 86432 031 1 (1997) 28pp. A\$5.95 NZ\$9.95



Freedom of Speech in the Constitution

The High Court of Australia is rarely far from political controversy. In recent years both its decisions and its methodology have been the subject of intense scrutiny and sometimes harsh criticism.

Nicholas Aroney used the landmark Freedom Of Speech cases, decided by the High Court since 1992, to analyse the nature of judicial review. Although he is sympathetic towards the results the court achieved, he believes that ultimately their reasoning cannot be sustained.

[PM 40] ISBN 1 86432 032 X (1998) 216pp. A \$24.95 NZ \$29.95



The Centre for Independent Studies, Australasia's leading private policy research organisation, is financed by voluntary subscriptions and donations from individuals, foundations and companies.

You may assist the Centre in achieving its aims by becoming involved in its wide range of activities.

For more information please photocopy and complete the form on this page.

Alternatively you can visit our World Wide Web site at <http://www.cis.org.au>

PLEASE SEND ME MORE INFORMATION ON THE CIS:

Name:.....

Position:.....

Company:.....

Address:.....

.....Postcode:.....

Phone:.....

Send this coupon to:

THE CENTRE FOR INDEPENDENT STUDIES

PO BOX 92 ST LEONARDS 1590 AUSTRALIA

or Phone: (02) 9438 4377 • Fax: (02) 9439 7310

THE ROAD NOT TAKEN

Hayek's Slippery Slope to Serfdom

In 1944 Friedrich Hayek published *The Road to Serfdom*, a warning against the totalitarian dangers involved in central economic planning. Although out of step with the intellectual fashions of its time, it has gradually come to be recognised as a classic, and its arguments have won widespread acceptance among intellectuals and policymakers. Now, after more than half a century, Neil McInnes reviews the changing fortunes of Hayek's book and the way in which his warning has been received over the years.

One of Hayek's most controversial claims was that even small steps towards economic interventionism lead to a slippery-slope ending in totalitarianism. McInnes challenges this view, arguing that the loss of freedom is at least as likely to happen suddenly as gradually, and that Hayek has not shown why intermediate positions are not viable. He also explains the role that Hayek's position played in subsequent debates, and the different ways it has been interpreted by his supporters.

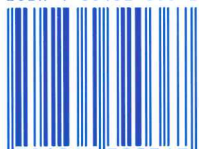
As Chandran Kukathas says in his foreword, '*The Road to Serfdom* is a work whose reception is itself worthy of examination for what it tells us about the intellectual and political movements of our era.' This *Occasional Paper* 'is evidence of that work's continued vitality, and is itself another part of the Hayek story.'

NEIL McINNES is a consultant to the Australian Department of Foreign Affairs and Trade and a former senior Commonwealth public servant. He is the author of several books, including *Eurocommunism* (1976) and *French Politics Today* (1977). He is a regular contributor to *The National Interest* and other periodicals.

ISBN 1 86432 036 2

ISSN 0155 7386

ISBN 1-86432-036-2



9 781864 320367

THE CENTRE FOR
INDEPENDENT
STUDIES

Occasional Papers 65
A\$5.95 NZ\$9.95