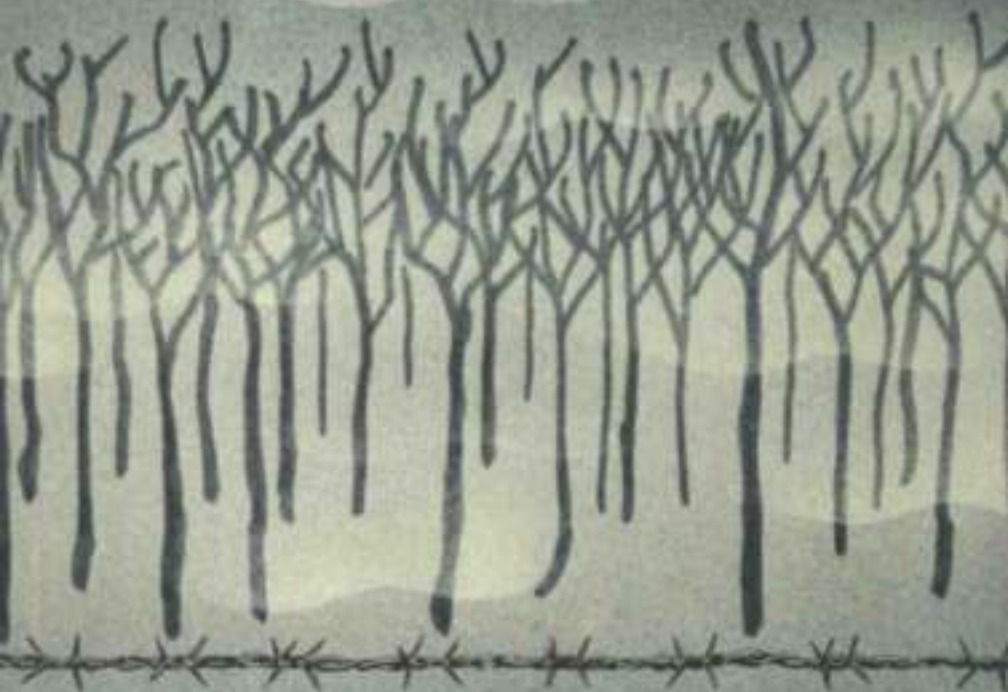


HAYEK'S 'SERFDOM' REVISITED



Norman Barry • John Burton • Hannes H. Gissurarson
John Gray • Jeremy Shearmur • Karen I. Vaughn

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Hayek's *SERFDOM* Revisited

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Essays by economists, philosophers and political
scientists on *The Road to Serfdom* after 40 years

Contributors include

Norman Barry • John Burton
Hannes H. Gissurarson • John Gray
Jeremy Shearmur • Karen I. Vaughn



THE CENTRE FOR INDEPENDENT STUDIES
1985

Published June 1985 by
The Centre for Independent Studies Limited

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National Library of Australia
Cataloguing-in-Publication Data

ISBN 0 949769 22 3

1. Hayek, F. A. von (Friedrich August), 1899- . Road to serfdom — Addresses, essays, lectures.
2. Liberalism — Addresses, essays, lectures. I. Barry, Norman P., 1944- . II. Centre for Independent Studies (Australia). (Series: CIS readings; no. 7).

320.5'12

Published in Australia with permission of the Institute of Economic Affairs, London.

First published in September 1984 by
The Institute of Economic Affairs
2 Lord North Street, Westminster, SW1P 3LB, U.K.

©The Institute of Economic Affairs 1984

Printed in Singapore by Singapore National Printers (Pte) Ltd.

Publications of the Institute of Economic Affairs are distributed in Australia by Venda Pty Ltd, P O Box 236, Mona Vale, 2103.

Some IEA publications of topical interest include:

Choice in Education by S. R. Dennison
Farming for Farmers by K. W. Howarth
The Fallacy of the Mixed Economy by S. C. Littlechild
Unemployment and the Unions by F. A. Hayek
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Foreword

Knud Haakonssen

Champions of a cause have always been easy victims of the authoritarian tendency to worship their predecessors in the good work. Modern liberals are — rather ironically — as good examples of this as their left- and right-wing opponents, and they are thus markedly different from one of their more immediate spiritual fathers, F. A. von Hayek. For although Hayek will occasionally wax lyrical in his discussion of what he considers the liberal tradition, he never replaces argument by reference to authority; and, although one may often want to query his identification of the liberal tradition, one is never in doubt about his respect for the complexity of history.

Hayek's use of the history of political ideas is in fact a very important feature of his work, not just — and, perhaps, not so much — because of its value as intellectual history, but because of the light it sheds on his own ideas. It makes it even clearer than it otherwise would be that, more than any other modern liberal, Hayek stands squarely within the mainstream of traditional political thought as far as his concepts and problem-situation are concerned. This was already apparent in his first major excursion into political theory some 40 years ago (*The Road to Serfdom*, 1944) and it has become ever clearer in his subsequent essays and two central treatises (*The Constitution of Liberty*, 1960, and *Law, Legislation and Liberty*, I-III, 1973-79).

One could of course give many examples of this, but in view of the course which the debate about Hayek generally has taken, it may be most pertinent briefly to make the point that basically his is a theory of government and law. This is not to be taken in the trivial sense in which an anarchist theory is about government — namely about its absence. Hayek's idea of government is highly positive, for government is the provider of a large number of goods, both the extremely complex set of goods that have individual liberty as their kernel and are the basis for most other human goods and the array of *ad hoc* supplements the market-place is always in need of.

Further, in the world we know, these goods can be provided **only** by government, and they can be provided **only** by **strong** government. This may sound surprising in view of the popular image of Hayek as a minimal-state ideologue, but this view is

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very misleading. Although Hayek thinks that most modern governments in the developed world ought to be slimmed down, he does not simply want to minimalise government as an objective in itself, but rather to find the level of government activity that is most beneficial in the long run — and that is a good deal more than the 'minimal'.

Further, there is an important distinction between the **extent** of government and the **strength** of government. Hayek certainly wants to set fairly narrow limits to the areas of individual and communal life subject to government regulations, but within these limits he is as concerned as most other traditional political thinkers that government should have the undisputed strength to make it always effective. This means at least that it should have a monopoly on legislation and the execution of justice; that it should be adequately funded and generally be administratively viable; and that it should have a secure power-base, such as a modern democratic constitution provides.

This last point is worth stressing, for although Hayek is one of the most perceptive critics of the weaknesses of modern democracy, his is obviously an internal criticism aimed at reforming democracy so that it can provide the foundation for strong but limited government. The problem is of course that governments that are strong enough to execute the central functions which Hayek would also allot to them, normally have proved strong enough to exceed these limits. Hayek has spent a major part of his career pinpointing all the temptations that lead governments to these constant extensions in their exercise of power, and *The Road to Serfdom* has probably been his most effective effort in this regard. Similarly he has shown how governments, especially democratic ones, which over-extend themselves are weakened as they become increasingly subject to the demands of special interest groups. In his later work he has undertaken the much more ambitious task of showing how democratic government can be reconstituted in such a way that it does not easily succumb to such temptations. He is in other words attempting a theory of how government can be strong enough to limit itself.

Having indicated the traditionalist perspective under which we have to understand the central concerns of Hayek's work from *The Road to Serfdom* on, I would like to conclude with some reflections on the fate of the basic good whose realisation is the supreme task of government, according to Hayek. For him individual liberty is indivisible, i.e. it cannot be converted into a list of **specific** liberties. This is conceptually impossible because it

presupposes that we know beforehand the full variety of uses to which an unspecified number of people may put their free activity; and it is politically undesirable because to specify liberties tends to limit liberty to just those alone.

Since *The Road to Serfdom* the presumption in favour of individual liberty has on the whole played a continuously smaller and smaller role, while politicians, law reformers and others have been busy specifying particular liberties. In the process these have become politically contentious, and the result is that the liberal-minded citizen easily can be confronted with the hopeless dilemma of having to trade one liberty for another. Thus many Americans who recently voted for Ronald Reagan on account of his economic policies, may have felt somewhat chilled by the moral authoritarianism that presently has influence in the Republican party. For the reverse reason the Democratic candidate would hardly have been an inviting alternative.

It needs little imagination to suggest that we could be facing an analogous dilemma in Australia before very long. In such a situation 'tactical voting' assumes extraordinary importance, but the problem here is that we have very little guidance in our choice of tactics. While Hayek and others have provided us with a good many insights into the consequences of losing our economic liberties, we have very few analyses of the short- and long-term effects of losing various 'moral' and other liberties — and we are left entirely in the dark when we have to compare and choose between the two uninviting prospects. This constitutes one of the most important challenges to the contemporary liberal intellect.

I hope that the reading of Hayek and, in a supporting role, the subsequent essays may stimulate such work, both for the world in general and for Australia in particular. Hayek is of course no stranger to the Australian reading public. *The Road to Serfdom* was republished here in the same year as it first appeared in Britain. In more recent years the work of the Centre for Independent Studies in particular has constantly drawn attention to Hayek, and in 1979 the Centre published three of the lectures given by Hayek during his tour of Australia in 1976 (*Social Justice, Socialism and Democracy*, CIS Occasional Papers No. 2). It is therefore natural that the Centre now should undertake an Australian edition of this 'revisit', which six British and American scholars paid to *The Road to Serfdom* on the fortieth anniversary of that controversial and influential book.

Introduction

John Burton

1984 AND THE ROAD TO SERFDOM

The year 1984 has been the occasion for a plethora of essays and articles re-assessing George Orwell's famous novel of that title which explored the nature of the totalitarian society.

The same year also marks the 40th anniversary of the publication of a more fundamental work on the threat of totalitarianism, *The Road to Serfdom* by F. A. Hayek, who in 1944 was the Tooke Professor of Economic Science and Statistics at the University of London. Drawing upon and developing the tradition of classical liberal political economy, Hayek sought to expose the consequences of ideas about the organisation of the economy then fashionable in his adopted country, Britain, and more widely around the world. He warned specifically that any thoroughgoing attempt to put these ideas into practice in Britain after the war would lead to inevitable, but at the time widely unforeseen, and damaging consequences—as had already happened in Germany and Russia.

The essays in this volume re-examine Hayek's *Road to Serfdom* in the light of both 40 years of experience and developments in political economy, including Hayek's own later work.

The extensive works of Professor Hayek will need no introduction to many economists and others. However, a brief sketch of his distinguished career is necessary to set the scene for students and other readers for whom he is a new name.

Friedrich August von Hayek was born in Vienna in 1899. He gained doctorates in both economics and law at the University of Vienna, the original home of the 'Austrian School' of economics, a major element in the neo-classical 'revolution' in economic thought in the late 19th century and now viewed as a major element in fundamental economic controversy.

The early part of Hayek's career was devoted entirely to technical economics, notably in the areas of monetary theory, the trade cycle, capital theory, the analysis of market processes, and the debate about the problem of calculation under central planning.

By the 1940s, however, he was also publishing more general works, especially on the methodology of social science. In later

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years he was to extend his economic analysis and to fuse it with an approach to the most basic questions of legal and political philosophy, notably in *The Constitution of Liberty* (1960), *Studies in Philosophy, Politics and Economics* (1967), and his major trilogy on *Law, Legislation and Liberty* (1973, 1976 and 1979).

Professor Hayek was (with Gunnar Myrdal) awarded the Nobel Prize for Economic Science in 1974, and in 1984 he was made a Companion of Honour for his services to economics.

THE ROAD TO SERFDOM IN 1944

The Road to Serfdom is to be differentiated from the rest of Hayek's lifework which has mainly been concerned with fundamental issues in economics, the epistemology of social science, and political philosophy—matters which, however important, are unlikely to become the subject of widespread public attention. *The Road to Serfdom*, in contrast, became a best-seller. When first published in America, the University of Chicago's first print run was quickly sold out; in April 1945 the *Reader's Digest* published a condensed version of the book; and subsequently over one million reprints of the condensation were distributed by the American Book-of-the-Month Club.

Hayek himself described *The Road to Serfdom*, in his preface, as a 'political' book that he had been most reluctant to write as likely to offend many friends and also prejudice reception of his more academic work. Yet it was a duty he felt he could not evade, and as a former socialist student he dedicated the book 'to the socialists of all parties'.

The Road to Serfdom cannot be dismissed as some popular, political pap. It is a book concerned with fundamental questions and ultimate values. It is testimony to the value of the book that, 40 years after its publication, we still need to ask the same questions: Are we still unwittingly on a road to serfdom? And what forces—ideas, interests, rules—will determine whether the future will be one of freedom or serfdom?

THE ROAD TO SERFDOM SEEN FROM 1984

The six essays in this book examine the issues raised in *The Road to Serfdom*, and in Hayek's related work, from a variety of perspectives, and assess aspects of Hayek's analysis in the light of 40 years of experience and the development of ideas.

The essay by Hannes Gissurarson, Director of the Jon Thorlakksson Institute of Iceland, explains the basic themes of

The Road to Serfdom and places it in its historical context. John Gray, a Fellow of Jesus College, Oxford, also provides a general analysis of the thesis, and examines criticisms it has attracted. Professor Norman Barry of the University of Buckingham questions a particular aspect of Hayek's analysis in *The Road to Serfdom*—that it is ideas, rather than interests, which ultimately determine the course of social events. Jeremy Shearmur of the University of Manchester contrasts Hayek's insights with the 'wisdom of the age' as this is typically taught to students of politics and social science today. John Burton, of the Institute of Economic Affairs, examines a central issue posed by *The Road to Serfdom*: whether or not the 'mixed economy' will prove to be a stable and durable system of political economy. Finally, Professor Karen Vaughn of George Mason University also examines the question of the future development and degeneration of the Western political and economic system, drawing upon the evolutionary perspective which Professor Hayek has himself done so much to develop.

These essays are evidence of the remarkable resurgence of classical liberal political economy that has occurred over recent decades—a development that we owe in no small part to one of the most outstanding thinkers of our century, Friedrich von Hayek.

**'THE ONLY TRULY
PROGRESSIVE
POLICY ...'**

Hannes H. Gissurarson

Hannes H. Gissurarson was born in 1953. He gained a BA in History and Philosophy and an MA in Modern History at the University of Iceland, and is currently reading Politics in the University of Oxford where he is the R.G. Collingwood Scholar at Pembroke College. He is the editor of *FRELSID*, and the director of the Jon Thorlaksson Institute. He translated *The Road to Serfdom* by Hayek and *Capitalism and Freedom* by Friedman into Icelandic, has edited and contributed to a number of books in Icelandic and published articles in several journals, in Iceland, the United Kingdom, Sweden and the United States.

'THE ONLY TRULY PROGRESSIVE POLICY ...'

Hannes H. Gissurarson

In the first decade of the 20th century, people could travel across Europe without passports and settle down wherever they wanted to without permits.¹ In those days, the difference between agreement and tolerance was still recognised. Even in Tsarist Russia, at the time the very embodiment of oppression, Tolstoy could attack the Tsar from his country seat in Yasnaya Polyana, preach civil disobedience and receive admiring pilgrims from all over the world. In Wilhelmine Germany, not to mention the Habsburg Empire, intellectuals criticising the government and journalists caricaturing the monarch were tolerated. Economic freedom was everywhere extensive. Thirty or 40 years later, all this had changed. In Russia, there was the most oppressive and intolerant regime the world had ever seen, waging a ruthless war against the peasants, forcibly transferring whole populations from one part of the country to another, eliminating all individual liberties. In Germany and in Austria, totalitarian rulers were busy silencing all opponents, persecuting minorities, setting up concentration camps. In the eastern part of the Habsburg estates, nations which had lived together in tolerable peace were turning against one another, Czechs oppressing Germans, Magyars putting down Poles, and so on. Finally, in 1939, a total war broke out.

Why had all this changed? What was it that had happened? And was something similar likely to take place elsewhere? Those were a few of the questions which Friedrich A. Hayek, then a Professor at the London School of Economics, set out to answer in 1944 in his book, *The Road to Serfdom*. Little did he foresee

¹ I owe this and some of the following observations to Michael Polanyi's review of *The Road to Serfdom*, in *The Spectator*, 31 March 1944, p. 293.

the immense controversy which this slim volume was immediately to provoke.¹ Little did he know what his book was destined to become: the source and inspiration of a new political philosophy, and the beginning of the revival of liberalism. In this essay, I will examine Hayek's message 40 years after the first publication of his book, and try to evaluate it in the light of the evidence of those 40 years.

I. DANGER OF DISCRETIONARY POWER

The Road to Serfdom was, and still is, a widely misunderstood book. It was not a prophecy but a warning. Hayek was trying to tell the citizens of his adopted country that 'if you don't mend your principles you will go to the devil'.² He was reinterpreting recent European history, arguing that the rise of National Socialism was not a reaction against socialism but the outcome of it. He was restating the classical liberal doctrine that discretionary power is dangerous and that it is bound to be abused sooner or later. He was claiming that there was no half-way house between competition and planning, that the idea of social democracy was inconsistent, and that the 'mixed economy' was nothing but the name for the transformation of the market order into socialism. On this road, there was a point of no return: 'It is impossible to stop deliberate control just where we should wish'.³ But above all, having lived through the collapse of a great civilisation in Central Europe, Hayek was exhorting the British people never to forget that theirs was the original home of freedom, and that they were the heirs of Milton, of Locke and Hume, Burke and Adam Smith.

Mixed reception in Britain and the USA

The Road to Serfdom was much discussed at the time in Great Britain, but little understood. When some of Hayek's admoni-

¹ The book was very widely reviewed, and two books were published about it: Barbara Wootton's *Freedom under Planning*, George Allen and Unwin, London, 1945, and Herman Finer's *Road to Reaction*, Little Brown and Co., Boston, 1945—the respective titles suggesting the very different approaches of the two authors.

² F. A. Hayek, 'Economic Freedom and Representative Government', in *New Studies in Philosophy, Politics, Economics and the History of Ideas*, Routledge and Kegan Paul, London, 1978, p. 105.

³ F. A. Hayek, *The Road of Serfdom*, Routledge and Kegan Paul, London, 1944, p. 79.

tions against central planning were echoed in Winston Churchill's speeches before the General Election of 1945, Clement Attlee even found it fit to talk in a broadcast about 'the Austrian Professor Friedrich August von Hayek', thus obviously trying to stir up nationalist feelings against Hayek.⁵ On the whole, however, the discussion of the book in Great Britain was courteous. The same could not be said about the United States where the debate was indeed passionate, with some people violently disliking the book and others receiving it with open arms (but sometimes, Hayek thought, perhaps with closed minds).⁶

A true tale is worth telling about its publication in the United States. The book was published by the University of Chicago Press, but only after its rejection by three other major publishing houses.⁷ The explanation is to be found in a letter from one William Miller to W. T. Crouch of the University of Chicago Press:

As to your query whether I intended to suggest that this book was unfit for publication by a reputable house, my answer is that that is what I say, not merely suggest. It just happens that I personally had the opportunity to say as much to the great house for which I read manuscripts, and that I then also took that opportunity to say that in my opinion the book would sell very well. I recommended, nevertheless, that they rejected it and remain gratified, as I think they do, that they did.⁸

Is this not a practical example of the danger of discretionary political power? Miller's reason for rejecting Hayek's book was that he disagreed with it, not that he foresaw a loss from publishing it. If the state had had a monopoly in publishing (as in many countries it still has a monopoly in broadcasting), and if its

⁵ Broadcast, 5 June 1945; *of The Spectator*, 8 June 1945, p. 516.

⁶ Cf. F. A. Hayek, 'The Road to Serfdom after Twelve Years', in *Studies in Philosophy, Politics and Economics*, Routledge and Kegan Paul, London, 1967, p. 218. There, Hayek quotes Lord Acton: 'At all times sincere friends of freedom have been rare, and its triumphs have been due to minorities that have prevailed by associating themselves with auxiliaries whose objects often differed from their own; and this association, which is always dangerous, has sometimes been disastrous'.

⁷ F. A. Hayek, *Studies*, p. 218.

⁸ W. T. Crouch, 'The Sainted Book Burners', *Freeman*, April 1955, p. 423.

reader of political books had been a Miller, then *The Road to Serfdom* would not have been published in the United States. What is the moral of this tale? It is that Hayek was safe with the market, but not with a Miller!

Keynes's elitist apologia for 'moderate planning'

This brings us directly to John Maynard Keynes. His comments on *The Road to Serfdom* are very interesting, not as an example of deep political thinking, but as an illustration of the temper of the times against which Hayek was then fighting. Keynes read the book on his way to the Bretton Woods negotiations in America in 1944. When he reached Atlantic City, he wrote to Hayek:

In my opinion it is a grand book. We all have the greatest reason to be grateful to you for saying so well what needs so much to be said. You will not expect me to accept quite all the economic dicta in it. But morally and philosophically I find myself in agreement with virtually the whole of it; and not only in agreement with it, but in a deeply moved agreement.

These laudatory words are indeed remarkable, coming from a reputed rival of Hayek. However, Keynes stated his objection to Hayek's message in no uncertain terms:

Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue . . . If only you could turn your crusade in that direction you would not look or feel quite so much like Don Quixote. 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.*

* John Maynard Keynes, *Collected Writings*, ed. D. Moggridge, Cambridge University Press for the Royal Economic Society, Vol. XXVII, 1980, p. 385. It is interesting to compare Keynes's words with those of T. S. Eliot in a letter to George Orwell explaining why he did not recommend the publication of *Animal Farm*. The pigs of Orwell's story, Eliot said, as the most intelligent animals, were the best qualified to rule, 'so what was needed (someone might argue) was not more communism but more public-spirited pigs'. (Peter Lewis, *George Orwell: The Road to 1984*, Heinemann, London 1981, p. 96.) Orwell's book was also rejected by three publishers.

Thus spoke the elitist, believing 'that the government of Britain was and would continue to be in the hands of an intellectual aristocracy using the methods of persuasion', as Keynes's biographer, Roy Harrod, later put it.¹⁰ That, however, is a belief which is both improper and implausible. It is improper because it is elitist. And it is implausible because, as Hayek would argue, political outcomes depend much more on the rules of the game than on the players participating in it. The politician is like a dealer in votes, persuaded by votes, not by ideas, as the study of public choice has taught us.¹¹ Moreover, a political order which depends on good politicians is not a stable one. This is a game where we must prepare for the worst although we may hope for the best.

Another true tale is worth telling in this connection. When Keynes last met Hayek in 1946, he assured him that he would turn against inflation, with all his persuasive power, as soon as it became a danger—and he indicated with a quick movement of his hand how easily that could be done. 'But three months later he was dead', wrote Hayek.¹² The moral of this tale is that the good are not always around when we need them. We may find a Miller when we are searching for a Keynes. Hence we need good principles rather than good people. We need fixed rules, not fixers.¹³ This crucial contention of liberalism was well expressed by Bertholt Brecht (of all people) in his *Leben des Galilei*: 'Unglücklich das Land, das Helden nötig hat'. [Unlucky is the land that needs heroes.]

¹⁰ Roy Harrod, *The Life of John Maynard Keynes*, Macmillan, London, 1951, pp. 192-3.

¹¹ Cf. James M. Buchanan and Gordon Tullock, *The Calculus of Consent*, University of Michigan Press, Ann Arbor, Michigan, 1962; Mancur Olson, Jr., *The Logic of Collective Action*, Harvard University Press, Cambridge, Mass., 1965; Gordon Tullock, *The Vote Motive*, Hobart Paperback No. 9, Institute of Economic Affairs, London, 1976; J. M. Buchanan *et al.*, *The Economics of Politics*, IEA Readings No. 18, Institute of Economic Affairs, London, 1978.

¹² F. A. Hayek, 'Harrod's Life of Keynes,' in *Studies*, p. 348.

¹³ This is also the conclusion which Milton Friedman draws after a thorough examination of the monetary history of the United States: Benjamin Strong may have run the Federal Reserve System successfully but what happened when he left? (Cf. Milton Friedman and Anna J. Schwartz, *The Great Contraction 1929-1933*, Princeton University Press, Princeton, New Jersey, 1965, pp. 115-8.)

II. INEVITABLE FAILURE OF PLANNING

In his letter to Hayek, Keynes stated another objection to Hayek's message in *The Road to Serfdom*: that it was a 'very doubtful assumption that planning is not more efficient'.¹⁸ This observation is related to the reservations of George Orwell about *The Road to Serfdom*. Orwell, who had all the right instincts but many of the wrong ideas, agreed with Hayek in a review of his book that 'collectivism is not inherently democratic' and that in Great Britain 'the intellectuals are more totalitarian-minded than the common people'. He went on to say the following about Hayek:

But he does not see, or will not admit, that a return to 'free' competition means for the great mass of people a tyranny probably worse, because more irresponsible, than that of the State. The trouble with competitions is that somebody wins them. Professor Hayek denies that free capitalism necessarily leads to monopoly, but in practice that is where it has led, and since the vast majority of people would far rather have State regimentation than slumps and unemployment, the drift towards collectivism is bound to continue if popular opinion has any say in the matters.¹⁹

The underlying assumption, very common at the time, was that competition somehow leads to monopoly, losing its credibility in the process—and hence that it has to be replaced by planning. The alternatives are not freedom or planning, but monopoly or planning. And monopoly means unacceptable economic power: 'the freedom of the pike is death to the minnows', as R. H. Tawney put it.

It is very important to understand why Hayek did not share this assumption with Keynes and Orwell, or for that matter with Joseph Schumpeter who had written in his influential *Capitalism, Socialism and Democracy*: 'Can socialism work? Of course it can'.²⁰ We have to turn to the great debate on calculation under socialism in the 1920s and 1930s to understand some of Hayek's claims. In a sense, in *The Road to Serfdom* Hayek is merely stating the moral and political conclusions of that debate. What he had tried to explain there was that we all start from a position

¹⁸ J. M. Keynes, *Collected Writings*, p. 386.

¹⁹ George Orwell, review of *The Road to Serfdom*, etc., in *Observer*, 9 April 1944, reprinted in *Collected Essays, Journalism and Letters*, Penguin, Harmondsworth, Middlesex, 1970, Vol. III, p. 143.

²⁰ Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, George Allen and Unwin, London, 5th edn., 1976, p. 167.

of relative ignorance and that we can only hope to discover available opportunities and coordinate our activities in and through the market process. Competition is not a battle between producers; it is first and foremost a *discovery procedure*.¹⁷ The economy is never in perfect equilibrium: there are always gaps to be filled by alert, profit-seeking entrepreneurs. Economic progress can, in other words, never become wholly automatic: invention can never become a routine. The would-be planners *assume* what has to be *attained*, namely the coordination process or dovetailing of individual plans.¹⁸

Orwell's misconception of competition

Looking back from 40 years later, it is of course difficult to understand why so many people then thought that planning would be more efficient than free competition, and that (which is really the implication) monopoly would be the inevitable outcome of unfettered competition. Today, we have before us the evidence of the socialist countries where planning has been a dismal failure. We also have the evidence of government enterprises in Western countries which hardly substantiates socialist claims to efficiency.¹⁹ In those 40 years, furthermore,

¹⁷ Cf. F. A. Hayek, 'Competition as a Discovery Procedure', in *New Studies*, pp. 179-90. The best statements of Hayek's position are in some of his earlier essays, for example, 'Economics and Knowledge' and 'The Meaning of Competition', in *Individualism and Economic Order*, Routledge and Kegan Paul, London, 1949.

¹⁸ As Professor Israel Kirzner says about Schumpeter: 'His picture fails to bring out the power of entrepreneurship to ensure a tendency toward the fulfilment of socially desirable opportunities. It fails to throw into relief how the tension generated by the existing maladjustments draws the corrective entrepreneurial activity. It fails to reveal how it is the market that permits all this to occur. On the contrary, the entrepreneurship around which Schumpeter builds his system is in principle equally applicable to the centrally planned economy'. (I. Kirzner, *Perception, Opportunity and Profit. Studies in the Theory of Entrepreneurship*, University of Chicago Press, Chicago, 1979, p. 119.)

¹⁹ Cf. A. L. Chickering (ed.), *The Politics of Planning*, Institute for Contemporary Studies, San Francisco, 1976. Perhaps the most persuasive evidence is contained in comparisons between the economic performance of pairs of countries with a similar culture but different economic systems, such as Puerto Rico and Cuba, West and East Germany, South and North Korea.

much research has been undertaken in economics and history which shows that there has been no overall tendency towards industrial concentration and that the most durable monopolies which have been formed have been fostered by the state.²⁸ In other words, the trouble with competitions is not that somebody wins them, but that the state stops them, or at least rigs the rules. Orwell's objection, endlessly and thoughtlessly repeated by lesser men, also betrays a fundamental misconception about competition. Competition is a continuous, never-ending process, not for winning or losing, but rather for *selecting* winners and losers, or better still for providing people with information about *where* they are likely to win or lose.

The inefficiency of planning

Planning is always inefficient; it can never coordinate individual activities as well as competition, even if imperfect; and it can never marshal all the available information. The rulers must therefore resort to coercion. That is the original insight, overlooked by most readers of *The Road to Serfdom*, which Hayek added to the classical liberal contention that discretionary power is dangerous. Hayek put the point succinctly in the debate on calculation under socialism:

The difficulty is that, in order to plan at all on an extensive scale, a much more extensive agreement among the members of the society about the relative importance of the various needs is required than will normally exist and that, in consequence, this agreement will have to be brought about and a common scale of values will have to be imposed by force and propaganda.²⁹

It is the inevitable failure of planning which, in the modern world, generates the totalitarian state. The road to serfdom is the road from *Gosplan* to *Gulag*. The failure of planning, on this reckoning, not only generates coercion; it also produces conditioning, brainwashing; and the moulding and manipulating of

²⁸ Cf. Harold Demsetz, *The Market Concentration Doctrine: An Examination of Evidence and a Discussion of Policy*, American Enterprise Institute, Washington DC, 1973; John Jewkes, *Delusions of Dominance*, Hobart Paper 76, Institute of Economic Affairs, London, 1977; Yale Brozen, *Is Government the Source of Monopoly? and Other Essays*, Cato Institute, San Francisco, Cal., 1980. Also many articles in the excellent *Journal of Law and Economics* (Chicago, 1958-).

²⁹ F. A. Hayek, 'Socialist Calculation III: The Competitive "Solution"', in *Individualism and Economic Order*, p. 206.

human aspirations, desires and needs, all in the name of the plan. We must not only fear and obey Big Brother; we must also love him.

This is the frightening aspect of modern totalitarianism which Hayek so vividly describes in *The Road to Serfdom*: the invasion into the minds of men, the end of truth, the loss of all standards save those of the rulers. It is what Arthur Koestler wrote about in his remarkable political novel, *Darkness at Noon*, George Orwell in *Nineteen Eighty-Four* and the neglected Russian author Eugeny Zamyatin some decades earlier in his anti-Utopian novel, *We*. These eminent authors, and their numerous commentators, did not, however, grasp the explanation for it all which was provided by Hayek: that commercial civilisation, slowly developing from the 13th to the 19th century, generated so many differing aims and ends and wants that they can be taken into account or coordinated only in and through the market process.

Planning may succeed in a small, self-sufficient community, but it is bound to fail in the 'Great Society' of which Adam Smith spoke; in the 'Open Society', to use Karl Popper's words; or in the 'extended order', as Hayek would put it.²¹ In such an extended order, planning can succeed only by transforming the order, contracting it, eliminating all 'alien' elements, extinguishing all 'unnatural' aims and ends and wants. This would, of course, mean a return to barbarism—but a barbarism much worse than ever before because more extensive and more effective. Attila the Hun and Ghengis Khan look almost humane when compared with Stalin, Hitler and Pol Pot. Thus Hayek is saying much more than most other classical liberals. He is not merely claiming, with John Stuart Mill in the essay *On Liberty*, or Milton Friedman in *Capitalism and Freedom*, that there are great practical difficulties in ensuring political competition without private property. He is contending that barbarism is the unintended, although inevitable, consequence of a socialist attempt to reorganise our commercial civilisation.

²¹ Some of the problems produced by this great transformation or extension of society were perhaps first seen by the Scottish philosophers of the 18th century, notably Adam Ferguson in *An Essay on the History of Civil Society* (1767) and, of course, Adam Smith in *The Wealth of Nations* (1776). Hayek has also quoted Edmund Burke's warning that, if we attempt to make the whole of social life subject to conscious control, we may 'be well assured that everything about us will dwindle by degree, until at length our concerns are shrunk to the dimensions of our minds'. (*Individualism and Economic Order*, p. 32.)

III. UNNOTICED LOSS OF LIBERTY

Government intervention has everywhere increased, yet in Western countries there is no real sense of a loss of liberty. Is this not at odds with Hayek's message in *The Road to Serfdom*, even if that message is a warning rather than a prophecy? I do not think so. There are several reasons why civilisation has not collapsed in Western Europe, as it has in Eastern Europe, despite the marked increase in government intervention. One reason is undoubtedly that the planners made a retreat, not so much under the influence of books like *The Road to Serfdom* or *Nineteen Eighty-Four* as because of their own experiences with planning and because of the constitutional constraints in Western countries. Man is a learner, even if a slow one. Today's socialism is quite different from the comprehensive and collectivist economic planning envisaged by ardent socialists in 1944.²¹ Another reason is that there was a genuine increase in international trade after the Second World War, extending prosperity and ensuring peace, which are two conditions of individual liberty.²² A third reason may be the huge success of liberal policies in West Germany under Ludwig Erhard, a friend of Hayek.²³

Most importantly, however, it does not follow that, if there is no real sense of a loss of liberty in a society; there is therefore no real loss of it. This may seem paradoxical, but all philosophers are familiar with the example of the contented slave. As Sir Isaiah Berlin has noted, if freedom 'is simply not to be prevented by other persons from doing whatever one wishes, then one of the ways of attaining such freedom is by extinguishing one's

²¹ F. A. Hayek, 'The Road to Serfdom after Twelve Years', in *Studies*, p. 220.

²² F. A. Hayek, 'Liberalism', in *New Studies*, p. 131.

²³ It should be recorded here that in 1950 Thomas Balogh, now Lord Balogh, and one of the guiding spirits of the post-war Labour Party in Britain, strongly advised against Erhard's policies, pointing 'to the gains which the Soviet Zone of Germany has been able to record'. (Gottfried Haberler, 'Capitalism, Socialism and Democracy after Forty Years', in Arnold Heertje (ed.), *Schumpeter's Vision*, Praeger, New York, 1981, p. 78.) Balogh was also the author of a very hostile review of *The Road to Serfdom* in the *Political Quarterly* in 1944: 'The barrel-load of red herrings which he now offers on the political and sociological terrain will provide a gargantuan feast for those reactionaries whose "freedom-loving" policies brought Britain to Dunkirk and Singapore' (p. 262).

wishes'.²⁶ This is indeed one of Hayek's most important theses in *The Road to Serfdom*. If there is a gradual collectivisation of society, man may lose his notion of what it is to be free. The planners must try to ensure the implementation of their aims by extinguishing those wishes of their subjects which they deem to be incompatible with the plan. As Stalin said, under socialism creative artists have to be 'engineers of human souls'. But social conditioning need not even be a deliberate policy, as Hayek once observed:

The most important change which extensive government control produces is a psychological change, an alteration in the character of the people. This is necessarily a slow affair, a process which extends not over a few years but perhaps over one or two generations. The important point is that the political ideals of a people and its attitude towards authority are as much the effect as the cause of the political institutions under which it lives.²⁷

Hayek's argument is, not least, that the conscious removal of an opportunity may constitute a restriction or loss of liberty even if those from whom the opportunity is removed are quite unaware of its removal.

Pigou's confusion between coercion and freedom

Let us try to develop this argument by examining one of A. C. Pigou's criticisms of Hayek in his review of *The Road to Serfdom* in 1944. Pigou wrote:

He does not distinguish, as it seems to me he should do, between the State's directing particular individuals into specific jobs, as it has often to do in war-time, and its *determining the number of persons* to be admitted into different occupations, and securing this number by manipulating rates of pay, and so on. In the former case, individual liberty is, of course, directly attacked: but in the latter, are individuals really less free than they would be if the numbers to be admitted into different occupations were determined by the play of the market?²⁸

²⁶ Isaiah Berlin, 'Introduction', *Four Essays on Liberty*, Oxford University Press, Oxford, 1969, p. xxxviii.

²⁷ F. A. Hayek, 'The Road to Serfdom after Twelve Years', in *Studies*, p. 224.

²⁸ A. C. Pigou, review of *The Road to Serfdom*, in *The Economic Journal*, 1944, p. 218.

The answer is: Yes, they are less free although they may not know it. Pigou's distinction is between two kinds of coercion, not between coercion and freedom, as he believed. In the former instance, people are deprived of all choice; in the latter they are directed, manipulated, perhaps deceived, into becoming the unwitting tools of some masters, and are thus degraded both as human beings and as moral objects. Of course there is a difference between the two instances, but it is more a difference between visible and invisible control than between coercion and freedom. And it is perhaps an illustration of Hayek's thesis that such an enlightened and humane man as Professor Pigou was unable to see this distinction.

In a broader context, Hayek's thesis is that there is no big conceptual difference between the loss of liberty under interventionism and the loss of it under socialism; individuals are acted upon, but not allowed to act; ends are chosen for them, but not by them. The difference is rather in the implementation; it is between prohibition and manipulation. The recent philosophical controversy about Professor Robert Nozick's brilliant book, *Anarchy, State, and Utopia*, offers an interesting parallel. Nozick argues that the only just distribution of income is *by choice*, that is, that distribution of income which is the consequence of voluntary transactions. He shows how 'liberty upsets patterns'. By their voluntary transactions individuals will change a given distribution of income supposed on some socialist premises to be 'just'. Therefore, the socialist state must, as he says, 'forbid capitalist acts between consenting adults'.²⁸ Critics have made a very similar point against Nozick as Pigou made against Hayek, namely, that he neglects the difference between depriving individuals of all choice and restricting it indirectly, for example, by redistributing income through taxation.²⁹ And the liberal answer is the same: in both instances human beings are denied their choice; they are manipulated and moulded according to the will of some masters, even if those masters are elected 'representatives' of the people; they become mere means, not the proud citizens of the Kantian 'Kingdom of ends'.

²⁸ Robert Nozick, *Anarchy, State, and Utopia*, Basil Blackwell, Oxford, 1974, p. 163.

²⁹ Cf. Jeffrey Paul (ed.), *Reading Nozick*, Basil Blackwell, Oxford, 1982, esp. pp. 199-201, 308-10, and 325-32.

Loss of liberty in the welfare state

These reflections are very pertinent in the kind of society we have at present, the so-called welfare state where comprehensive collectivist planning has been replaced by a fine mesh of restrictions, by regulations and redistribution of income. There has been a loss of liberty in this kind of society, but most of us may be unaware of it. This was foreseen by Alexis de Tocqueville more than a century ago:

The will of man is not shattered but softened, bent and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence, it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrious animals of which government is the shepherd. I have always thought that servitude of the regular, quiet, and gentle kind which I have just described might be combined more easily than is commonly believed with some of the outward forms of freedom and that it might even establish itself under the wing of the sovereignty of the people.¹¹

The best example of this benign servitude may perhaps be Sweden.¹² One does not have to read many Swedish newspapers or to stay in the country for a long time to notice the chilling conformity of the people; the almost universal acceptance of the attitudes prevailing in and propagated by the government-subsidised media; the social conditioning from an early age; the suppression of individuality; the gradual transference of loyalty from the family and other spontaneous associations to the state; the substitution of social therapy for punishment; the replacement of historical and moral consciousness—of individual conscience, indeed—by 'social consciousness'; the wide discretionary power of the tax police against enterprises and of children's commissions against parents.¹³ Sweden is certainly better than the Soviet Union if one prefers a nursery to a prison,

¹¹ Alexis de Tocqueville, *Democracy in America*, ed. Phillips Bradley, Random House, New York, 1945, Vol. II, Book 4, Chapter VI, p. 337.

¹² Cf. Roland Huntford, *The New Totalitarians*, Stein and Day, New York, 1980. There are also some interesting reflections about the impact of planning on the British mentality in John Jewkes's *The New Ordeal by Planning: The Experience of the Forties and the Sixties*, Macmillan, London, 1968.

¹³ This has been noticed even by such a left-wing magazine as the German weekly *Der Spiegel* in its report on Sweden, No. 43, 1983.

as most of us would do, but both kinds of society are anathema from a liberal standpoint.

Toqueville foresaw a new kind of serfdom where individuals would not be serfs of other individuals, but of society, of one another; where everything was owned by everybody and thus by nobody; where *demos*, the people, was the despot. In *The Road to Serfdom*, Hayek was reiterating but extending this idea. He emphasised that under socialism, even if it was relatively mild and democratic, the love of liberty might be extinguished—as it was in Germany in the first quarter of this century—and that it was then but a step from the nursery to the prison—from a Sweden to a Soviet Union. The task of the liberal in the present kind of society is, then, I believe, to make people aware of this danger, not by shouting 'Danger! danger!' from the roof tops, but by showing that we have already lost some liberty and have already arrived, to some extent, at the serfdom of which Hayek wrote in 1944. This I take to be Professor George J. Stigler's purpose in his interesting 'Reflections on Liberty', where he says: 'The proof that there are dangers to the liberty and dignity of the individual in the present institutions must be that such liberties have already been impaired'.²⁶ In his essay, Stigler outlines a liberal research program: (a) a study of the limits to entering occupations; (b) an investigation into the causes and effects of restrictions on consumers' choices; and (c) a close scrutiny of the real principles (or perhaps the lack of principles) according to which government favours and benefits are distributed. Since time is a scarce resource, I believe a liberal should heed Stigler's advice and spend more time on such research than on preaching to the converted, pleasant though that may be. We should be happy to acknowledge the insight of Rousseau that to know one's chains for what they are is better than to deck them with flowers.

IV. ROAD BACK FROM SERFDOM?

In the first part of this essay I argued in favour of the old (and new) liberal doctrine, restated by Hayek, that discretionary power is dangerous. I then turned to the original contribution of Hayek: his demonstration that government planning (or intervention) is bound to fail in the market order, that the market order must therefore be transformed into an institutionalised organisation if planning is to proceed, and that this can be done

²⁶ George J. Stigler, 'Reflections on Liberty', in *The Citizen and the State: Essays on Regulation*, Chicago University Press, Chicago, 1975, p. 18.

only by eliminating most human wishes, desires and wants, and by manipulating human minds. I emphasised that competition is necessary to cope with the ignorance which is an inevitable aspect of the human condition. In the third part, I contended that we have indeed suffered a loss of liberty in the present kind of society, the so-called welfare state, and that the greatest danger now might be the gradual decline of the love of liberty. Our task is therefore to remove the flowers of rhetoric from the chains of reality, so that they are there for all to see.

What, however, lies ahead? If the analysis in *The Road to Serfdom* is anywhere incomplete or unsatisfactory, it is, I believe, in placing too much emphasis on *ideas* rather than *institutions*. Ideas can be translated into actions only under the right institutions; the political history of the last decade has shown that much. This is recognised elsewhere by Hayek himself. In his recent *Law, Legislation and Liberty*, he argues for constitutional reform, the 'dethronement of politics'.¹⁶ The last volume of that book contains a description of a possible 'road from the serfdom'. We may or may not agree with the proposals there, but it is an important contribution to a necessary debate. What all liberals have to understand, however, is that there *is* a road from serfdom; we have not reached a point of no return: 'In social evolution nothing is inevitable but thinking makes it so.'¹⁷

Let us carefully survey the map and then choose the right road. The journey will undoubtedly be a long and difficult one, and there are many who will give up on the way. We can reach our promised land, I believe, only by constitutional or institutional reform, on the one hand, and by the intellectual counter-revolution begun by *The Road to Serfdom*, on the other.¹⁸ Our

¹⁶ F. A. Hayek, *Law, Legislation and Liberty*, Vol. III, Routledge and Kegan Paul, London, 1979, p. 149.

¹⁷ F. A. Hayek, *The Road to Serfdom*, p. 35.

¹⁸ This 'counter-revolution' has, to a large extent, been fostered by the members of the Mont Pèlerin Society, an international, but informal, association of liberal scholars, founded in Switzerland in 1947 by Hayek, Ludwig von Mises, Karl Popper, Michael Polanyi, Frank H. Knight, Milton Friedman, George Stigler and many other eminent thinkers. John Kenneth Galbraith used to joke that some reactionaries had met on a mountain top in Switzerland in 1974, trying to turn back the clock, but that the meeting had broken up in a row over whether to privatise or contract out the British navy! Little did that well-known entertainer foresee that in 1983 the British Government would seriously be considering the privatisation of some parts of the navy.

promised land is not a Utopia but a country inhabited by imperfect human beings and constrained by a niggardly Nature. But it is a decent and tolerably free society in which people can travel without passports and settle down wherever they wish without permits; where the difference between agreement and tolerance is never forgotten; and where it is generally recognised 'that a policy of freedom for the individual is the only truly progressive policy'.²⁸

²⁸ F. A. Hayek, *The Road to Serfdom*, p. 178.

***THE ROAD TO SERFDOM:
FORTY YEARS ON***

John Gray

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THE ROAD TO SERFDOM: FORTY YEARS ON

John Gray

When, 40 years ago, Friedrich Hayek published *The Road to Serfdom*, the ideas and warnings it contained went very much against the grain of intellectual opinion. At that time, the belief was widespread that a rational outlook on human affairs demanded the acceptance of comprehensive planning and a clean sweep of many inherited moral traditions. Such figures as Karl Mannheim, H. J. Laski and the Webbs were influential in representing the free society as a sort of chaos, which only rational reconstruction on an ideal pattern could save from disabling inefficiency, inequity and eventual crisis. Because of this dominant interventionist and constructivist temper, Hayek's argument was discounted even by those (such as Keynes) who acknowledged its deep moral and intellectual seriousness. The belief that there is a stable middle way between the socialist command economy and the free-market process—the principal target of Hayek's attack in *The Road to Serfdom*—remained deep-seated in the climate of the time, embodying as it did the ruling superstition of the age: the notion that reason requires, and our knowledge permits, the guidance of human cultural development by conscious planning. Hayek's sharp criticisms of this view—in which, like his great contemporary of the Vienna of his youth, Karl Kraus, he often seeks to puncture the emptiness of vague slogans and vast generalities—were bound to be largely disregarded by the rationalist intelligentsia of the day.

Hayek's achievement—towards the road from serfdom

No one could say today, 40 years later, that Hayek's argument missed its mark. It is a commonplace nowadays to find socialists extolling the indispensable virtues of the market and recognising the folly of attempts at governmental regulation of prices and incomes. Although the full force of Hayek's argument is far from having been heeded, few would now be tempted to dismiss it as a harking back to a lost liberal world; its salience to many contemporary dilemmas of interventionism is unmistakably

plain. At the same time, I think it is fair to say that the logic of the Hayekian argument is still not altogether clear to many of his readers, and its implications are resisted even by some within the classical liberal tradition. Accordingly, my aim in this short essay is twofold: to give an interpretation of Hayek's argument for the claim that we are well advanced on the road to serfdom, in which its distinct elements are clearly identified and their mutual relations discussed; and to consider some classical liberal criticisms of the 'road-to-serfdom thesis' that interventionism must inexorably destroy individual liberty. Since my conclusion will be that Hayek's argument remains unanswered and its alarming implications irresistible, I will end by making a few remarks about how we may hope to set out on the road *from* serfdom.

I. THE ROAD-TO-SERFDOM THESIS ANALYSED

As it is set out in *The Road to Serfdom* and elsewhere in his writings, Hayek's argument has a single conclusion but is supported by three distinct chains of reasoning. The conclusion is that the ideal of a stable interventionist order is a chimera, so that any real world interventionist régime is bound at length to mutate into totalitarianism, or else revert to freedom. This conclusion has, so far as I can see, three quite distinct (but connected) supports, which I shall call *the treason of the intellectuals*, *the nemesis of interventionism* and *the new Hobbesian dilemma*. Let us examine these in turn.

(i) The treason of the intellectuals

In using Julien Brenda's famous phrase to capture the first strand of Hayek's argument, I do not mean to assimilate their views, nor to neglect the power and originality of Hayek's reasoning. His principal contention in *The Road to Serfdom* is that the classical liberal outlook has in the 20th century been undermined by an intelligentsia whose inspirations have been German historicist philosophy and the constructivist rationalism of the French Enlightenment. From his other writings, we know that Hayek traces the hubris of contemporary rationalism back to earlier sources, and in particular to the Cartesian-Baconian dogma that it is irrational to accept any belief whose truth cannot be demonstrated. In the 20th century, however, as Hayek is concerned to show, constructivist rationalism has assumed entirely specific forms which have had an important role in

accelerating the movement away from the tradition of freedom in Europe. The two forms which had perhaps the most fatal influence are scientific positivism and rationalist ethics.

In *The Counter-Revolution of Science*, Hayek has shown us how constructivist conceptions enter into the very foundations of modern sociology in the works of Comte and Saint-Simon. In the 20th century, the chief error of constructivism, fateful to its implications for public policy, has been the synoptic illusion—the belief that the knowledge which is dispersed in society may, somehow or other, be concentrated in a single body. What the synoptic delusion neglects is that much of our knowledge, and much the most important part of it, is stored or embodied in habits, dispositions, traditions and practices, and is often beyond our power to articulate in theoretical form. This fund of tacit knowledge, scattered throughout society, cannot be concentrated in any brain, human or mechanical, because it is largely inarticulate—because, in other words, we always know more than we can ever say. Even when our knowledge can be stated in explicit theory, the synoptic view grossly exaggerates our ability to grasp the complex relationships of social life.

The malign influence of the synoptic fallacy

In economic theory, the synoptic ideal has had a particularly malign influence, leading a generation of economists to imagine that the statistical fictions which dominate macro-economic models reflect real economic relationships. Thus we find attempts to explain the discoordination of recession in terms of aggregative conceptions which neglect the importance of relative price structures. More generally, the domination of economic orthodoxy by the synoptic fallacy has bred a wrong view of economic policy, in which it is imagined that the only problem is that of achieving known ends on the basis of given data with the least possible expenditure. The role of the market as a discovery procedure is thereby missed and the function of social institutions as vehicles for the dissemination of tacit knowledge altogether lost. It is only on account of the pervasiveness of the synoptic illusion that we can explain the extraordinarily popular delusion that social and political problems might be liable to a 'technological' solution conceived in terms borrowed from engineering.

The second influence, that of rationalist ethics, expresses a similar unwillingness to confront the inevitable limitations of our knowledge. Ignoring the plurality of human ends and the

diversity of moral traditions, moral rationalism supposes that we can consciously construct a morality that is adequate to the needs of comprehensive social planning. Even when this ambition does not take a naively utilitarian shape, it evades the fact that we have no experience of a complete moral code—a code without gaps, incoherences or hard cases. In a free society we can get along with the moral rules we have inherited and modified piecemeal, but the attempt to plan generates a whole host of dilemmas far beyond any we have yet experienced or envisaged, and often involves conflicts of values that are not commensurable. That planning compels the authorities to make choices where none have had to be made before, and to do so without the justification of any accepted standard, has been concealed by the widespread acceptance of notions of basic needs and reward for merit which have come to form the threadbare clothing of the modern ideology of social justice. It is because such notions have little or no objective content that the imposition of distributionist ideals in which they figure is bound to involve a measure of administrative discretion incompatible with the rule of law rightly understood. This is only one, if the most important, example of the way in which rationalist ethics has taken us down the road to serfdom by spawning moral ideals with no content apart from a hostility to the market process and its traditional morals.

(ii) The nemesis of interventionism

The second main strand in Hayek's argument identifies a feature of interventionism much emphasised by his colleague Mises, namely its self-reinforcing effect. In his seminal essays on the calculation debate about resource allocation under socialism, Hayek had developed the Misesian critique and demonstrated the impossibility of socialist economic planning. He attributes to interventionist policies an analogous self-defeating tendency, which is denied by the academic and political advocates of interventionism and accounted for by the limited scope of interventionist policy. This is to say that whenever an interventionist policy (of price control, say) fails to achieve the desired result, the practical and theoretical response of the interventionist ideologue is to demand an extension of the policy to new fields. Both interventionist theory and the vested interests created by interventionist policies will always interpret the failure of any such policy, not as a reason in favour of its abandonment, but rather as one supporting its wider application. Both the situational logic (to use a term of Popper's) and the theoretical rationale of interventionist policy in this way compel the transfor-

mation of the free economy into a *dirigiste* régime, if only because every interventionist policy has some unpredictable side effects.

(iii) The new Hobbesian dilemma

This brings us to the third reason in support of Hayek's thesis, which is a version of the argument from public choice theory. I refer here to the logic of political competition in unlimited democracies whereby small groups whose interests are concentrated are able to exact special privileges from the state—and, more generally, to the 'prisoner's dilemma' in which individuals and groups are faced with the necessity of using the political process to protect their interests from predation by others who are under the same constraint. I have called this the new Hobbesian dilemma so as to fasten on its most essential feature, which is the re-creation in a political state of nature of the Hobbesian war of all against all.

It should be especially emphasised here that the mechanism of the legal war of all against all in unlimited democracy does not depend for its operation upon any postulate of egoism or power-hunger among the citizenry. Rather it is a species of the prisoner's dilemma which may afflict rational altruists as much as egoists in that the logic of the political competition for social resources is to injure the interests of all even though each party to the conflict has no choice but to enter it. This is a process which, because it engenders conflicts of interests when these might have been harmonious in a context of peaceful exchange, might well be represented as a form of *spontaneous disorder* were it not that coercion is its distinguishing feature. It is a process explored profoundly in the writings of James Buchanan and Gordon Tullock, to which Hayek acknowledges a debt in the second and third volumes of *Law, Legislation and Liberty*. But an application of the central insight of the theory of the prisoner's dilemma is made by Hayek in Chapter 10 of *The Road to Serfdom*, in which he shows how the very structure of the totalitarian polity inevitably leads to the worst coming out on top because it cannot help generating a ruthless competition for power in which the principled are weeded out and only experts in survival flourish.

This third chain of reasoning links up with the self-reinforcement of interventionist policy discussed earlier, but it is to be contrasted with the first of the three chains of reasoning I have distinguished in Hayek's argument. The contrast is that, whereas the treason of the intellectuals designates a change in ideas and

ideals by which Hayek seeks to account for the decline of freedom, the new Hobbesian dilemma refers to an entirely impersonal process whereby freedom withers, independently of or even contrary to the intentions and beliefs of the majority of the citizenry, by virtue of the conflict of interests which unlimited democracy engenders as it creates a political state of nature and destroys civil society.

II. THE ROAD-TO-SERFDOM THESIS CRITICISED

Each of the three components of Hayek's argument has attracted criticism from within and beyond the classical liberal tradition. Thus, many classical liberals have observed that, although there was unquestionably a mutation in the liberal tradition in the late 19th century and a large-scale desertion from liberalism in the 20th century, classical liberalism itself contained elements which laid it open to corruption and destructive criticism. In economic theory, for example, the classical liberals worked with an objectivist labour theory of value which was invoked by the Ricardian socialists of the early 19th century and by John Stuart Mill in support of hostile criticism of the free market. Again, the communistic fiction of the economy as a sort of super-household, together with the fundamentally illiberal conception of economics as a science of plutology (or wealth-maximisation) in a context of scarcity, are present in Adam Smith and are turned against the liberal tradition by many of its later critics.

These defects in the intellectual foundations of classical liberalism were largely remedied by the Austrian School, but they do something to account for Mill's muddled role as the key figure in the decline of the liberal intellectual tradition in Britain. Whereas it is doubtless true that in Mill's case the stream of liberal thought was muddled by non-liberal influences—by French positivism, the German Romantic cult of individuality, and various socialistic schemes—the intellectual framework that Mill inherited from his forebears contained defects and difficulties of which he was conscious enough, but to which he could find no adequate solution. It was only with the work of the Austrian School that the conception of economics as the science of catallaxy or exchange, together with the subjective theory of economic value, allowed the shaky intellectual foundations of liberalism to be strengthened. Again, though Mill's constructivist rationalism owed much to foreign influence, none of the great classical liberals (with the likely exception of Hume) was

altogether free of an uncritical rationalism which latter-day liberals and their critics alike drew upon in their hubristic projects of social planning.

In summary, although the change in ideas did indeed occur, classical liberals nowadays must be self-critical and acknowledge the weaknesses in their own intellectual tradition which have contributed to the debacle of liberal civilisation.

Reconstructing the foundations of liberalism

I think there is little in this criticism which touches Hayek's argument at any fundamental point. One may characterise Hayek's achievement as completing the reconstruction of the foundations of liberalism begun by his Austrian mentors, and as doing so in part by absorbing into liberal thought the deepest and soundest insights of conservative philosophy—a program of intellectual reform which demands the greatest powers of self-criticism, historical awareness and detachment.

As for his second argument about the self-reinforcing effects of interventionism, however, some contemporary classical liberals have urged that Hayek's account has taken insufficient note of contrary developments. They point out that the extension of interventionist controls has been accompanied by a backlash of phenomena (of which the most notable is the 'black' economy) in which freedom has been recovered by stealth. In its most general aspects, however, this pattern of contrary developments only confirms some of Hayek's most long-standing contentions. It was, after all, one of his most valuable insights that Keynesian policies of macro-economic management by deficit financing worked by exploiting irrationalities—such as money illusion—which their operation over a generation or so could not avoid eroding. In other words, the success of Keynesian policy depends upon the existence of a majority of people with pre-Keynesian attitudes and expectations of precisely the sort that repeated applications of the policy are bound to undermine. Hence, whatever else it may have been, the Keynesian episode was from the start identifiable as a self-limiting experiment.

It follows from this conclusion—and from the erosion of tax illusion evidenced in the growth of the 'black' economy—that even a semblance of success for interventionist policies can be achieved only by further restrictions of individual liberty. This is precisely what Hayek has always maintained. Admittedly, as the experience of the communist bloc proves, even the most severe curbs on liberty fail to guarantee the desired results. But, aside

from the tribute to human ingenuity made by the institution of corruption, the grandiose ruin of socialist policy in the communist bloc is a development from which classical liberals can derive only a melancholy satisfaction. For, while it demonstrates once for all the validity of their position, it does so by depriving millions (soon billions, perhaps) of the very liberty which liberals prize as the paramount political value.

Collapse into totalitarianism not inevitable?

Perhaps the most interesting of the criticisms of Hayek's argument that have come from within the classical liberal camp focus on his third contention about the logic of political competition in unlimited democracy. Thus it has been argued (by Norman Barry) that historical experience suggests the existence of 'an optimal rate of exploitation' whereby the competition of interest groups through the apparatus of the state fails to yield the totalitarian result Hayek predicted. This criticism invokes the fact that no advanced Western industrial democracy has experienced the hyperinflation which Hayek claimed to be the inevitable result of post-war policies of economic management. Where hyperinflation has been experienced—as in Israel and Chile—it has not of itself destroyed democracy, which in Chile was abandoned for other reasons and which in Israel still survives despite the massive external threat to which that small nation state is permanently subject.

Again, none of the advanced industrial democracies has seen the transformation from hampered liberalism to full totalitarian control that Hayek predicted. Liberties have been lost, it is acknowledged, but not in any steady decline and (as with the abolition of exchange controls in Britain) some have even been regained. The interventionist policy has indeed imposed great strains on the rule of law, and many injustices have been committed. But in Britain, the United States and elsewhere, the past five years have seen a reassertion of the rule of law in many fields, and in none of these countries has the loss of liberal freedom extended to the basic personal liberties. Perhaps then, it is argued, liberal democracies contain self-correcting mechanisms as well as the self-destroying mechanism that I have designated the new Hobbesian dilemma; and these counter-vailing mechanisms may save us from the totalitarian nemesis of which Hayek has warned.

What are we to make of this intriguing criticism? Most fundamentally, I think, it exaggerates the importance of the past

five years or so in enabling us to frame a projection of the likely future, and it underrates the losses of liberty which we have already suffered as a consequence of post-war interventionism. Let us take the latter point first. We may well question whether post-war interventionist policies have not encroached upon basic personal liberties. The separation of 'economic' from political or civil liberties embodies a distinction which every classical liberal must judge misconceived; policies such as rent and price controls, aside from their consequences in unemployment and inefficiency, entail substantial losses of liberty for ordinary people. These losses may be less obvious to intellectuals, who are bound to elevate the intellectual freedoms above the rest. But classical liberal thinkers, convinced of the indivisibility of liberty, ought never to fall into this trap. Further, even where liberty has not been subject to legal curbs, the development of the post-war welfare state in Britain, Europe and America has produced a servile psychology—a lack of initiative and entrepreneurship in some sections of the population—on which many observers have remarked. Even though individual freedom is not itself a state of mind, it depends upon habits of thought and feeling which go far to make the self-reliant character of a free man. When servile manners prevail, freedom cannot be safe for long, and will soon be lost.

The inherited burdens of interventionism

The claim that competing interest groups reach a stable equilibrium of optimal exploitation is no less questionable. Such an optimum is as much a theoretical fiction as the optimal tariff of international trade theory. It cannot be known by anyone, still less reached and held in practice. Nor does the history of the post-war period, or the experience of the last five years, lend support to this hypothesis. The nearly 30 years of economic growth following the Second World War were due in part to the devastation of the war itself, and in lesser part to the self-limiting Keynesian policies I have already discussed. The decline in interest-group competition of the last five years owes much to the deepening of economic recession and the dampening—partial and temporary as it may be—of inflationary expectations. The achievements of the governments of Thatcher and Reagan, welcome and admirable as they have been, have not included any significant reductions in the inherited burdens of the interventionist period: the legacy of high taxation, high public expenditure and a vast public debt.

It may well be that the crisis of the early 1970s was avoided, and a reckoning staved off for another decade, only by that orgy of speculative lending which has created a tower of global debt which may yet wreck the world's economy. In circumstances of deepening recession and exploding debt, it seems wildly optimistic to suppose that the nemesis of interventionism has been eluded. Far more likely is it that governments will respond to democratic pressure by seeking to inflate out of the debt trap into a terminal boom. Such a policy, with the hyperinflationary consequences it would necessarily incur, would confirm the catastrophist element in the Hayekian analysis—whether the mechanism compelling such a resumption of inflationist policy was the domestic vote-motive or a prisoner's dilemma among sovereign states, each of which is engaged in policies of monetary nationalism. Given the current global economic climate, there seems little possibility of a soft landing from inflation followed by a gentle revival of growth. If the alternatives we face are hyperinflation or deflationary collapse—alternatives we inherit from the past half-century of interventionism—it seems that the cause of liberty will indeed prove to be mortally imperilled by the accumulated results of mistaken policy.

III. CONCLUDING REMARKS

Hayek's analysis stands, with all its alarming implications and subversive effects on our natural complacency. What is to be done, however, to avert the eclipse of liberty? Much that is heartening is already afoot. Largely as a result of Hayek's own work, classical liberal ideas have undergone a recent revival and have found support especially among the young. And in that fact there is undeniably some hope. It seems to me, however, that we have yet fully to shoulder two tasks—one intellectual and one political—which the road-to-serfdom thesis imposes on classical liberals. It is the central implication of the thesis that, in the natural course of events, we will travel further down the road to the Servile State. Reversing the trend demands, in the first place, further fundamental work on the constitutional framework of the free society. Building on the contributions of such as Hayek and Buchanan, we must devise the juridical form of limited government. This will entail research into ways to give legal effect and protection to radical proposals such as the privatisation of the money supply, the welfare state and the schooling system.

Plainly, there is much more work to be done at this fundamental intellectual level.

The political struggle is a topic on which I can pronounce less confidently, but it seems clear that it has two main aspects. It demands, on the one hand, an unremitting effort to counter the statist bias that still dominates the media and the institutions of higher education. The battle of ideas is far from having been won, and full advantage must be taken of current hopeful trends by producing a new generation of journalists and academics who can interpret in classical liberal terms the current crises the world is facing. On the other hand, in the real world context of power what is required is to link up into a formidable coalition the many interest groups whose interests and ideals are injured by statist institutions. This is a coalition that should embrace recent immigrant groups whose members resent being taxed to support secular schools to which they refuse to send their children, as well as various cultural minorities whose members inexplicably suppose they will do better under socialism than in the free market. At the level of party politics, classical liberals cannot of course commit themselves unalterably to any party or leadership. But we should anticipate the abandonment over the next few years by hitherto friendly conservatives of the classical liberal policies which they have only fitfully implemented. And we should have cogent arguments to give them as to why these policies have been less than fully successful.

In the intellectual context, classical liberals have come close to conquering the high ground. These gains will be lost if, in the next swing of political opinion, we are not well prepared to fight the policy battles over again, and to do so within an explicit framework of classical liberal thought. We have a real chance of success in this struggle, but only if we are ready to accept and act upon the insight that both the conservation of cherished traditions and the hope of further progress necessitate a radical challenge to entrenched institutions and established modes of thought.

**IDEAS *VERSUS* INTERESTS:
THE CLASSICAL LIBERAL
DILEMMA**

Norman Barry

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IDEAS VERSUS INTERESTS: THE CLASSICAL LIBERAL DILEMMA

Norman Barry

I. IDEAS . . .

The Keynesian cliché

There is very little in the economic and social philosophy of Keynes that today's classical liberals approve. Yet one utterance of his—repeated so often by scholars, intellectuals and journalists that it has become a cliché—is regularly endorsed by many of today's free market philosophers. It is, of course, his famous and passionate declaration in the *General Theory* that it is *ideology* which is ultimately decisive in the determination of social events:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else.¹

In a nicely-anticipated denunciation of the group theory of politics, he went on to say that 'soon or late, it is ideas not vested interests which are dangerous for good or evil'.²

As a professional manipulator of ideas, Keynes, of course, had a vested interest in the outcome of any battle between *ideology* and *group* or *sectional* forces. But so do contemporary liberals. What would be the point of writing articles, pamphlets and books on the virtues of the market if it were not possible, by a process of intellectual osmosis, to alter the course of social and economic events? If it were true that the outcome of an historical process rested exclusively on the struggle between interest groups, the behaviour of which could be predicted more or less accurately, how could we explain the renaissance in liberal ideas that has occurred in the last 20 years—a renaissance which has had some influence, albeit small, on a number of Western governments?

¹ J. M. Keynes, *The General Theory of Employment, Interest and Money*, Macmillan, London, 1936, p. 383.

² p. 383

The seeming power of ideas

Superficially, the historical evidence for the autonomy of ideas seems to be overwhelming. The 1917 revolution in Russia was nothing if not a tribute to the potency of the Marxist political *idea* and a stunning refutation of the Marxian *theory* of social change. The *theory* puts ideology into the *epiphenomena* of life: *determined* rather than *determining*. The great systems of ideas appear as 'residuals' thrown up by class relationships and the current stage of the evolution of the division of labour. Yet, in practice, a small group of politically-committed men armed with a comprehensive and rigid ideology was able to defy the Marxian laws of history and create a Marxist society in most unpropitious circumstances.

In his *Law and Opinion in England*,¹ A. V. Dicey pointed to an apparently clear connection between the rising tide of collectivist legislation towards the end of the 19th century and the increasing dominance of interventionist thinking among intellectuals. John Stuart Mill is specifically criticised for muddying the clear waters of *laissez-faire* by attempting to combine the principle of individual liberty with a version of socialism.² Whether Mill's curious, eclectic and perhaps vacillating social philosophy was responsible for the conversion of the liberal intelligentsia to statism can never be known. What is true, however, is that Mill's 'textbook', *The Principles of Political Economy*,³ in which collectivist ideas were given a systematic hearing on perhaps the first occasion in English intellectual history, was at the time the most widely-read book on economics.

Irrespective of Mill's own influence on political events, the new liberal thinkers of the latter part of the 19th century certainly pushed the idea of liberty much further away from its 'negative' and individualistic moorings towards a more 'positive' and social ideal. T. H. Green and his followers⁴ were developing a collectivist theory of liberty, which justified active state intervention on the ground that it maximised a notion of liberty that transcended the merely negative notion of 'absence of constraint', just at the time when statutory law was attenuating the

¹ Macmillan, London, 2nd edn., 1926

² A. V. Dicey, *Law and Opinion in England*, p. xxxviii.

³ First published in 1848.

⁴ T. H. Green, *Lectures on the Principles of Political Obligation*, Longman, London, 1941, first published in 1888, and L. T. Hobhouse, *Liberalism*, Oxford University Press, 1964, first published in 1911.

traditional and quintessentially individualist concept of freedom of contract.⁷ It was inconceivable to Dicey that the transformation of Britain from a *laissez-faire* to a quasicollectivist society could have come about from the pursuit of group interests alone. For him, *opinion* had to validate group interests themselves:

Even, therefore, were we to assume that the persons who have the power to make law are wholly influenced by the desire to promote their own personal and selfish interests, yet their view of their interest and, therefore, their legislation must be determined by their opinion.⁸

In the post-World War II period, the dominance (at least until the mid-1970s) of Keynesianism appears to provide a perfect example of the triumph of ideas: a whole generation seemed to be entranced by a highly speculative theory. After the publication of the *General Theory* in 1936, the idea that an economy could be managed by macro-economic methods, and that full employment could be secured by methods other than the painful process of price adjustment through the coordinating mechanism of an unhampered market, rapidly permeated the economics profession. Some economists were, no doubt, attracted by the employment prospects the new economics promised them; and, certainly, few politicians could resist the Keynesian message that generally desirable ends of employment and prosperity could be secured almost painlessly. Nevertheless, the purely *intellectual* success of the Keynesian system was indeed impressive.

Hayek on the battle of ideas

Contemporary spokesmen for classical liberalism often give an implicit, and sometimes explicit, tribute to Keynes with their insistence that the economic and social world is a battleground of ideas and with their hope that liberal ideas may once again capture the collective mind of the intellectual community. In his *Road to Serfdom*,⁹ Hayek maintained that the systematic progress towards tyranny that he detected was entirely the result of mistaken ideas; it was not the outcome of some mechanical process—say, of group interaction—over which we have little or no control. He writes of socialism that: 'It is because everybody

⁷ Green, 'Liberal Legislation and Freedom of Contract', in *Works*, Longman, London, 1888, Vol. III.

⁸ *Law and Opinion in England*, p. 14.

⁹ Routledge and Kegan Paul, London, 1944.

wants it that we are moving in that direction. There are no objective facts which make it inevitable'.¹⁰ Furthermore, the arrest of this process towards complete collectivisation (and Hayek assumed that complete socialism was not actually desired by all intellectuals) would come about not by a redesigning of institutions which would reduce the influence of intellectuals, but by the transformation of the intellectual world itself. Since he has always regarded the present ills of the world as the product of genuine intellectual error, they can be cured only by the correction of that error.¹¹ This, of course, is why his advice to classical liberals has always been that they can contribute more to the revival of a free society by propagating liberal ideas than by acting through the political mechanism.

His intellectual mentor in the 'Austrian' school of economics, Ludwig von Mises (1881-1972), was similarly impressed by the power of ideas in the determination of events. His absolute and rationalistic confidence in the correctness of classical liberalism¹² (as a scientific explanation of order and prosperity) led him to conclude that the only path to salvation lay in the elimination of error:

The main objective of praxeology and economics is to substitute consistent correct ideologies for the tenets of popular eclecticism. There is no other means of preventing social disintegration and of safeguarding the steady improvement of human conditions than those provided by reason.¹³

Thus, for Mises, forms of government and the appropriate design of institutions were of little significance compared with the persuasive power of correct thinking.

The libertarian 'elite' stance

The claim that victory in the battle of ideas is alone sufficient to assure the success of liberalism is carried to extremes in the final part of Murray N. Rothbard's *The Ethics of Liberty*,¹⁴ a systematic statement of the moral and political foundations of anarchist libertarianism. Here, a deliberately 'Leninist' analysis

¹⁰ *Road to Serfdom*, p. 3.

¹¹ *Road to Serfdom*, p. 4.

¹² His *The Ultimate Foundation of Economic Science*. Sheed, Andrews and McMeel, Kansas, 1978, first published in 1962.

¹³ Von Mises, *Human Action*, William Hodge, London, 1949, p. 185.

¹⁴ Humanities Press, New Jersey, 1982, pp. 251-68.

of contemporary 'welfare' societies is offered, and similar tactics suggested for transforming them into free societies. Thus it is assumed that Western societies, over-burdened with welfare and other statist commitments, will eventually collapse and a resulting power vacuum will be filled by an élite of activists armed with a coherent, systematic and uncompromising libertarian social philosophy. Rothbard is very impressed that, in 1917, a tiny sect of Marxists was able, through determined political action coupled with a clear *theoretical understanding of their own ideology*, to convert a vast country to socialism. It follows that any attempt to reform the liberal democratic states with typical classical liberal policies, such as replacing the ramshackle and inefficient welfare system by a 'negative income tax', is to be eschewed since these devices merely prop up an unacceptable system.

The strong implication of this view is that the masses are essentially *passive*: that all ideas originate with élites and social change comes about through changes in the ideologies of the élites. However, the extreme (and perhaps naive) proponents of the 'ideas-are-decisive' school tend to overlook the complexity of modern societies. If ideas are ultimately the only things that matter, it would be true that social change is entirely a consequence of changes in the ideologies of governing minorities; differing *forms* of government and institutional structures would make little difference.²⁵ This is clearly the case in Rothbard's version of the thesis and it is closely connected with the *sociological élitism* which characterises much other work by him and other libertarians.

Rothbard is an admirer of the influential 20th-century élitist theorist, Robert Michels,²⁶ discoverer of the famous 'iron law of oligarchy'. This simple law holds that in *any* form of social organisation minorities will emerge which are more or less permanent and immune from direct control, even in democracies. Thus what is being asserted is not merely the truism that *governing* is a minority activity, but the more substantive thesis that the majority can never have any influence over public policy. 'Democracy' is therefore *not* the name of a distinctive form of government, but merely an emotive or honorific label.

²⁵ For an account of this theory, Norman P. Barry, *An Introduction to Modern Political Theory*, Macmillan, London, 1981, pp. 207-216.

²⁶ *Political Parties*, Free Press, New York, 1962, first published in 1911.

Policy-making in democracies by coalitions of interests

It is, of course, true that in a democracy public policy does not reflect the people's will or majority opinion in a direct sense. However, the outcomes of policy processes in democracies embody public opinion—albeit in an indirect and confused way. Thus, although there is likely to be a consistent set of preferences held by a majority which is then reflected in the outputs of government, *coalitions* of interests are formed in a democratic voting system which do determine public policy. It is such coalitions which are able to use the machinery of government to advance sectional and particular interests. This process did not begin with democracy; but the emergence of democratic régimes (which ascribe sovereignty to elected bodies) has undoubtedly maximised the power of organised groups in liberal societies. In such circumstances, it is surely naive to believe that radical changes in a social system can be brought about merely by a change in the ideology of a ruling élite (or by a change in the composition of the élite itself).

Rothbard's position is considerably more extreme than that of others who stress the importance of ideas. From Dicey¹⁷ onwards, the argument has been that intellectuals are able to shape and influence *public opinion*. Changes in policy and legislation, it is said, are possible only when they are acceptable to a more general tribunal than that of an intellectual élite. It will thus take time for the ideas of the intellectuals to become the common currency of social life. Indeed, by the time a set of ideas becomes an established element in public opinion, it may well have been seriously challenged or even refuted within the intellectual world itself. The history of Keynesian economic doctrine may be seen as an example of this phenomenon. Thus, those who assert that ideas are crucial for the understanding of social change mean something more than the influence of the values of particular élites.

Nonetheless, the belief that ideas are decisive in social affairs, and that individuals with ideas can defy the seemingly inexorable pressure of group interests, is an essential element in the liberal's credo—even though it is inconsistent with other aspects of contemporary liberalism. They constitute those elements of autonomy and self-determination which partially define the liberal concept of a 'person', that is, a rational agent whose

¹⁷ A. V. Dicey, *Law and Opinion in England*, pp. 1-16.

actions are not *exactly* predictable from 'scientific' mechanical laws of human behaviour (as in Marxism, behaviourist psychology, and some modern quantitative economic doctrines).

Liberal doctrine and economic science

Furthermore, the liberal doctrine that ideas matter, that there is an essential unpredictability in human action which makes freedom possible, is not inconsistent with the idea of a 'science' of society. Indeed, the development of a potent political liberalism occurred coterminously with the emergence of the science of political economy. It is, however, a social science which is not concerned with the prediction of discrete events (that is 'prophecy') but with the exploration of those social regularities, such as market structures and legal orders, which are the unintended or unanticipated consequences of human action.¹⁴ The recognition that order and predictability occur spontaneously when individuals are left to pursue their private aims with the minimum of central direction and control is itself a sound normative argument against governmental action, since the unpredictable nature of the latter contributes to the disorder and chaos of 'planned' societies.

When we add to this conception of social order the notion of economics as that science concerned (in Lord Robbins's phrase) with 'the necessities to which human action is subject', the connection between the liberal's value of freedom and genuine social science is completed.¹⁵ For these 'necessities', such as the recognition of scarcity, the laws of supply and demand, diminishing returns, and the quantity theory of money, are simply the boundaries within which, or the necessary constraints under which, free human action takes place. It is, of course, the belief that (capricious) political action can override those constraints that has done so much to undermine the stability and order of market societies in the post-war years. Thus, the limits or constraints on what ideas men can sensibly hold are provided by the boundaries described by the science of political economy and not by some sociological or psychological determinism.

¹⁴ For an historical account of the development of this doctrine, Norman P. Barry, 'The Tradition of Spontaneous Order', in *Literature of Liberty*, Vol. V, 1982, pp. 7-58.

¹⁵ L. C. Robbins's *The Nature and Significance of Economic Science*, Macmillan, London, 1935, is still the best account of this methodology.

It is the aim of making political action harmonious with the 'laws' of necessity that has enabled liberals such as Hayek to speak—without paradox—of the need to reconstruct intellectually a liberal 'Utopia'.²⁶ A régime of limited government, unhampered markets, free international trade, sound money, and general and non-discriminatory law is indeed utopian: but only in the sense that there are *artificial* or *man-made* obstacles to its realisation. It is not utopian in the socialist sense of depending on a change in human nature. Nor does it hold that poverty can be 'abolished' (by law), or that politicians can be relied upon voluntarily to promote the public good, or that a civilised society is possible without private property.

II. . . . AND INTERESTS

Yet, paradoxically, it is the extension of those basic principles of liberal social science to the study of political behaviour in general—the so-called 'economics of politics'—that has undermined the normative 'pay-off' of that science. The ideology of liberalism really depended on the notion that the pursuit of self-interest is beneficial. This was rather a shocking suggestion when first made by Bernard Mandeville in his *Fable of the Bees*,²⁷ and it was only a little more acceptable when espoused by Adam Smith. It remains true that most people at most times define morality in terms of the deliberate and altruistic promotion of some public act by disinterested agents, and cannot really accept that public benefit can flow from private 'vice'. Recent liberal political economy has, however, applied the notion of the self-interested maximiser to the public world. And, not surprisingly, it has come up with the conclusion that there is no tendency for a 'benign optimum' to emerge in the *political* world of rational agents, as there is in the (private) economic world. Furthermore, while classical liberal theory makes few demands on the individual's morality in market arrangements, the new 'economics of politics' has the implication that the reemergence of a genuine liberal order requires an *abandonment of self-interest* (such as the giving-up of a political privilege) not envisaged in the original theory.

²⁶ Hayek's essay 'The Intellectuals and Socialism', in *Studies in Philosophy, Politics and Economics*, Routledge and Kegan Paul, London, 1967, p. 194.

²⁷ First published in 1705.

A further implication flows from the economic analysis of politics. It is that the direct influence of ideas on policy diminishes *almost* to vanishing point since the *great predictive* power of this approach follows directly from a rather *mechanistic* interpretation of human behaviour as almost exclusively self-interested in the narrow sense. The pessimistic conclusion of recent liberal political economy is that the prospects of a reemergence of a liberal order by a process of natural or spontaneous evolution must be slim because no one political group has a direct interest in its maintenance or survival. Do ideas, then, have any chance against irresistible group pressures?

Olson's analysis of interest groups

The foremost names in the application of microeconomic tools of analysis to non-economic phenomena are Anthony Downs, James Buchanan, Gordon Tullock and Mancur Olson. Of particular interest in the present context is Olson's explanation of differential growth rates in a number of countries (and for the differing economic performances of the various states within the USA) in his recent *The Rise and Decline of Nations*.² Since this work has been justly praised by classical liberals, it is worth emphasising that the economic malaise of certain countries, most particularly the UK, is accounted for by Olson almost entirely in terms of the self-destructive consequences for a liberal economic order of the unrestricted pursuit of group privileges. Ideology is given a secondary, and somewhat mysterious, role in the explanation of events.

Building on his earlier major work on the theory of the state and public goods, *The Logic of Collective Action*,³ Olson shows how societies in which cohesive and well-organised groups able to supply their members with collective benefits have developed, are likely to experience slower growth than those which have under-gone some revolutionary transformation of the social order which destroyed the power of special interests. The analysis derives from the familiar problems involved in the supply of public goods. A public good, such as defence or clean air, confers benefits on everybody irrespective of whether an individual has contributed towards its cost or not. It is thus likely to be either not supplied at all or under-supplied by normal

² Yale University Press, New Haven, Conn., 1982.

³ Yale University Press, Cambridge, Mass., 1965.

market processes. Since everyone has an incentive to conceal his true preferences for public goods, it is often said that the market has 'failed' to provide an optimal supply. For this reason, it is claimed, the state has to act coercively to remedy the gaps left by the private market—by, for example, military conscription and compulsory taxation.

Olson's originality lay in applying this analysis to entities smaller than the state. Organisations such as trade unions, employers' associations and professional associations have similar problems, especially in the context of large numbers: they provide collective benefits for which few members would pay voluntarily. Hence coercion (particularly in trade unions) and the provision of *selective sanctions* and *incentives* become features of such organisations. The main purposes of these groups are to secure for their members exemptions from the application of the rule of law, and to gain monopolies and other privileges in the supply of goods and services. They will also attempt to guarantee their members protection against political competition from outsiders. Since fair and just laws and competitive systems are public goods, no one group has any incentive to supply them. And, although the market economy is to the advantage of all, it will be to the bigger advantage of a particular group to evade its rigour as long as the costs of this evasion fall disproportionately on others. In certain circumstances, therefore, groups will have a strong incentive to invest in politics and other redistributive activities ('... like wrestlers struggling over the contents of a china shop²⁶') rather than in production. Hence it is not mistaken ideas that lead to the expansion of the government sector, but the constant pressure of organised interests.

Political stability leads to group sclerosis

Ironically, the circumstances in which the actions of organised groups are particularly corrosive of the public interest are those of political stability and order. Obviously, Olson's target here is the almost unanimous belief of the political science profession in the virtue of bargaining between well-balanced groups as a source of order. Olson argues to the contrary that conditions of stability favour the solidification and entrenchment of group

²⁶ Olson, *The Rise and Decline of Nations*, p. 44. For a similar analysis of the struggle for distributive shares, Dan Usber, *The Economic Prerequisite of Democracy*, Blackwell, Oxford, 1981.

privilege and the stultification of an economic system through the attenuation of competitive market processes. Thus the UK and the east coast states of the USA are particularly prone to the enervating effects of group politics precisely because of their social and political tranquillity, while other countries which have experienced radical transformations of their societies—such as France, West Germany and Japan—have, for that very reason, avoided the sclerosis brought about by sectional interests. The US federal system allows individuals to flee from states whose legislation and politics protect traditional groups; hence the disproportionate economic growth of the far west or 'sun-belt' states.

Yet Olson eschews a mono-causal explanation—an explanation of social and economic history couched exclusively in terms of group pressures.²⁵ There is a role in his system, albeit an elusive one, for ideas. The growth of government in the 20th century may, he says, also be partly explained in other ways: 'The inter-war depression, World War II and other developments led to profound *ideological changes that increased the scope of government*'²⁶ (my italics). Furthermore, when discussing the trend towards trade protection (a natural aim for groups), he notes that there were strong ideological pressures in Erhard's West Germany which encouraged resistance to it.²⁷ In other words, an explanation of social events in terms of group pressures is always appropriate—except where ideological pressures intervene!

The potency of Olson's scientific explanation depends on the relative absence of strong ideological forces, for these are inherently unpredictable. Yet such is the power of the social processes he has so expertly diagnosed that the implementation of his own political values would require a massive change of opinion. Olson nicely expresses the dilemma of modern liberal social theory when he says that the predictions derived from his book would be falsified quite simply if a sweeping change of opinion led to the repeal of all special-interest legislation, regulation and protection. But he admits that such 'a sweeping change in ideas and politics is extraordinary unlikely'²⁸—as indeed it must be by the logic of his own theory.

²⁵ Olson, *The Rise and Decline of Nations*, pp. 14–16.

²⁶ Olson, *The Rise and Decline of Nations*, p. 71.

²⁷ Olson, *The Rise and Decline of Nations*, pp. 130–31.

²⁸ Olson, *The Rise and Decline of Nations*, p. 236.

Hayek's recent anti-rationalism

What may be even more disturbing for the contemporary liberal is that the recent writings of Hayek cast doubt on the effectiveness and desirability of rational criticism of existing institutions. Although in his political pronouncements and normative economics he remains a subtle and persuasive critical rationalist, some of the implications of this later epistemology are less in tune with contemporary liberal thinking. Hayek's antirationalism tells us that planning is wrong and misguided because it presupposes that a central authority can have access to that dispersed information (or 'tacit' knowledge) on which an efficient economy depends. Not only are we unable to control the course of social evolution; even to attempt to do so deprives us of the benefits of spontaneity and decentralised human action. He now argues that, just as the market weeds out inefficient firms without the aid of government, spontaneous evolution will *select* those institutions, ideas and practices which prove to be successful in the struggle for existence.²⁹ In other words, an unaided reason can never improve on experience. Indeed, in a recent essay, he seems to have abandoned activist classical liberalism in favour of an uncritical traditionalism. In 'The Three Sources of Human Values', he argues that 'tradition is not something constant, but the product of a process guided not by reason but by success', and that, because of the limitations of the human mind, '*all progress must be based on tradition*'³⁰ (italics in original).

The prospect of a stagnant society

But what if spontaneous evolution produces not the order of classical liberalism but the stagnant, immobile societies described by Olson? As the latter observes, the group privileges and anti-competitive practices do not *necessarily* come from state intervention of the kind experienced in the West this century; they can themselves emerge spontaneously.³¹ The survival of an

²⁹ *Law, Legislation and Liberty*, Vol. I: *Rules and Order*, Routledge and Kegan Paul, London, 1973.

³⁰ Epilogue to *Law, Legislation and Liberty*, Vol. III: *The Political Order of a Free People*, Routledge and Kegan Paul, London, 1979, pp. 166-67.

³¹ *The Rise and Decline of Nations*, pp. 177-180.

institution cannot of itself be evidence of its efficiency or usefulness in any but a trivial (or perhaps tautological) sense.

Furthermore, there is mounting plausibility in the thesis that a certain kind of 'stability' tends to emerge from the interactions of groups in liberal democracies, rather than the potential slide into tyranny predicted by Hayek and other classical liberals.²² The historical evidence is that communism comes about through revolutionary violence rather than as the end result of gradual and piecemeal departures from the market order. If a society riddled with group privilege and economic inefficiency does manage not merely to survive but to show a degree of political stability, are we not obliged to accept it as 'efficient' in some esoteric non-economic sense precisely because our reason is impotent and cannot make improvements on an evolving tradition?

The simple view of the world adopted by some liberals is not, therefore, tenable. An important strand of liberal thought recognises that the complexity of modern democratic societies makes it highly unlikely that the liberal social and economic revolution will follow on from a victory in the battle of ideas. Keynes was simply wrong about the unimportance of vested interests in a democratic society (though his theory may well be valid for dictatorships where there are fewer obstacles to the implementation of social and economic philosophies). It is true in a sense that powerful interest groups are, as David Hume suggested, themselves governed by *opinion* about what is 'right'; but this is trivial. What is important is that predictions about the behaviour of such groups are derived from the knowledge of their interests rather than their beliefs.

The new stress on constitutional reform

With this shift in emphasis in liberal thought towards the importance of institutional factors in social change has come a new emphasis on the importance of constitutional reform as the way out of the modern social dilemma of collectivism. These include rigid constraints on monetary and fiscal policy, the protection of individual rights (including property), and limitations on legislative sovereignty. Of course, the success of such

²² Norman P. Barry, 'Is There a Road to Serfdom?', in *Government and Opposition*, Vol. 19, 1984, pp. 52-67.

measures will depend largely on public opinion. This does not, however, prove that Keynes's thesis (and Hayek's original argument) is correct—except in the trivial sense. For the whole aim of such proposals is to check the power of vested interests. Furthermore, the need for such reforms suggests that the destruction of the market order has come about in Western societies not because many people wanted it in some ideological sense but because it was the *accidental* outcome of the actions of vested interests, the importance of which Keynes and, by implication, the early Hayek were so keen to devalue.

III. CONCLUSION

Ideas and interests interact in a complex and bewildering way. It is difficult to ascertain directly the relative influences of each in a particular circumstance. What is clear is that, in modern liberal democracies, the influence of organised groups is much greater than in other societies. In the interstices of Western societies lie numerous 'public-good traps' and 'prisoner's dilemmas' in which self-interested action by groups produces undesirable outcomes not just for society at large but (ultimately) for the group members. It would appear that, if an intellectual climate favourable to liberty were to emerge, it would be powerless to prevent socially disruptive action by organised groups. Keynes's famous observation seems more appropriate to a predemocratic era.

Yet ideas about economics and politics must, in some ultimate sense, influence politicians and legislators irrespective of group pressure. Otherwise, how would change occur (except by revolution)? The point is that the permeating of ideas is a longer and more difficult process in modern democracies than in simpler forms of political organisation. Governments of liberal democracies do reflect *opinion* in a way unnoticed by sociological élitists. But it is more likely to be a reflection of a set of disparate and incoherent *opinions* than a systematic and consistent *public opinion*. Axiomatically, there are no interest groups which campaign for the public interest. Classical liberals may succeed *intellectually* in persuading people that free markets, sound money and private property are in the public interest, but that is surely only the beginning of a long-term process of education.

**HAYEK AND THE WISDOM OF
THE AGE**

Jeremy Shearmur

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HAYEK AND THE WISDOM OF THE AGE

Jeremy Shearmur

I. INTRODUCTION

I wish in this essay to argue that Hayek's *Road to Serfdom*¹ is of considerable contemporary relevance. I will argue this in relation to some older ideas which, because of their role in education in the social sciences, are likely to leave a considerable impression on students of sociology or political science—and on those who are exposed to these subjects in the course of their pursuit of vocational qualifications. I will also argue that Hayek's ideas are relevant to problems in contemporary political thought—to problems facing pluralists, corporatists and social democrats.

II. THE ROAD TO SERFDOM, AND SOME 'FOUNDING FATHERS' OF SOCIAL THOUGHT

It is ironic that, while many might consider *The Road to Serfdom* dated, if we go further back into the history of social thought we come across texts which are not only the objects of ever-increasing scholarly attention but which are also introduced to virtually every student of sociology and political science. That is to say, we come across works which are offered to students as providing the key (rival) frameworks of ideas in which our immediate past, our own time, and our future prospects are to be understood: the ideas of Marx and of Weber. But not only are the ideas of these writers defective in ways that *The Road to Serfdom* helps to bring out; their work is particularly bad as a model of the interrelationship between academic analysis and political action or policy choice.

The influence of Marx on social scientists

It was partly against Marxist ideas that *The Road to Serfdom* was written. When Hayek was writing, not only were Marxist ideas influential, but the example of the Soviet Union as a planned

¹ Routledge & Kegan Paul, 1944.

economy still had its devotees. Since Hayek wrote, however, the academic analysis of Marx's work has become much more sophisticated, and the scientific interpretations of it which inspired those whom Hayek criticised are much less popular today. Similarly, the attractions of the Soviet Union, and of 'central planning', have worn thin. Those who want socialism typically want it with 'a human face', and envisage their ideal socialist commonwealth as allowing in some way for decentralised decision-taking.

While the specific ideas with which Hayek was engaged now find fewer champions, Marx's work is probably studied today as never before. Students are likely to be left with the vague—but important—impressions that Marx offered a 'deeper' analysis than that of 'bourgeois' economics or political science; that this provided the appropriate fundamental categories for the analysis of social issues today (in, say, the notion of class and its applications to history and politics); that Marx showed it is capitalism and the private ownership of the means of production which are responsible for exploitation, misery and 'dehumanisation'; and that these ills will spread until capitalism is replaced by a new social and economic order which will substitute production for use for production for profit. In the new order, power will be in the hands of the representatives of the proletariat (and perhaps the poorer peasants), as a prolegomenon to a final stage of social development in which the state all but disappears. Then, a classless and conflict-free society will be achieved in which people can at last start to live full and truly human lives.

Students will usually also be exposed to critical discussions of Marx's ideas (about alienation, history, dialectic, labour, class, the party, the state, and revolution—to take only some of the headings from McLellan's well-known text¹), both for their coherence and their empirical adequacy to say nothing of the problems of interpreting them. What customarily² are less explored are the problems of Marx's vision of a future society.³ In

¹ David McLellan, *The Thought of Karl Marx*, Harper and Row, New York, 1972.

² But see A. Nove, *The Economics of Feasible Socialism*, Allen & Unwin, London, 1983, the final sections of A. Rattansi, *Marx and the Division of Labour*, Macmillan, London, 1982, and the final section of D. McLellan's book.

³ After all, it could be said that Marx's ideas on this topic were scattered and sketchy; and did he not deprecate the writing of 'recipes for the cook-shops of the future'?

my judgment, however, this is a crucial area for the analysis and appraisal of Marx's ideas. And it is *here* that Hayek's *Road to Serfdom* is of the utmost importance, for it draws our attention to difficulties with Marx's ideas about a future society. Moreover, it does so in ways which have important implications for Marx's views about other matters also.

Economic organisation without markets?

The first issue is the economic organisation of a society in which markets have no role.⁵ In the absence of an *argument* that we would be faced with generalised abundance, all the problems of 'economic calculation under socialism' arise. These include not only problems of 'economising', but also of other functions of the market about which Hayek and others have written (coordination and discovery procedures, for example). By what means are such functions to be performed in a socialist society? Some may not be performed since a socialist society need not be committed to paying the same attention to consumer choice as a liberal one; its members may have different needs, and so on. In the absence of superabundance, however, the idea of opportunity cost is absolutely essential for choices to be made. Furthermore, in the face of ignorance and changes in circumstances (including economic development), problems of coordination arise—as do problems about *how* learning by trial and error is to take place.

In the absence of markets, economic calculation and coordination (if they can be accomplished at all) necessitate centralised economic direction—and a specialised bureaucracy of 'planners'. Yet human *ignorance* and the wish to learn by trial and error point naturally to the advantages of *decentralised* decision-taking. In addition, it is unclear how the 'libertarian' or 'humanistic' elements in socialism (to say nothing of Marx's positive ideas about 'labour as the free expression of human nature, based on love and mutual affirmation⁶') are supposed to be compatible with instructions about what to do being handed down by a central planning board.

⁵ The existence of markets cannot be reconciled with Marx's view of the final character of a socialist society.

⁶ The editor's comment on Marx's 'Excerpts from James Mill's *Elements of Political Economy*', in Marx, *Early Writings*, Penguin, London, 1974. I have discussed this issue in more detail in my 'Smith, Hegel and Marx', delivered to the Carl Menger Society in 1983.

Secondly, there are the issues of power and political control. The initial problem here is that the function of a planning bureaucracy is highly specialised, and not something that could be susceptible to detailed political control. As a result, a gross mismatch exists between, on the one hand, Marx's minimalist view of the state, his suggestions about a delegate system of politics and his general concern for the democratisation of social life, and, on the other, the functional requirements of the centrally-directed economy which Marx favoured. Democratic control of bureaucracy is difficult in any circumstances.⁷ There will also be obvious problems about where resources should be directed (both to whom and to which projects⁸). Given Hayek's arguments in *The Road to Serfdom* about the difficulties of a moral consensus on social priorities in a large-scale planned economy, we have all the ingredients for a system in which power (of a kind not found within a 'capitalist' economy⁹) is placed in the hands of an unaccountable élite—the likely character of which is indicated by Hayek's argument in *The Road to Serfdom* ('Why the Worst Get On Top'), and by the practices of the élite which attained and retains power in the Soviet Union.¹⁰

Hayek versus Marxian socialism

The significance of all this is twofold. First, it indicates the continuing relevance of Hayek's *Road to Serfdom* for all those attracted to Marxian socialism, however 'humanistic', 'libertarian' or 'democratic' they may profess to be. For unless they can resolve the issues he has raised, their views hardly merit serious consideration. Secondly, it indicates the limits to Marx's own ideas as tools for social and political analysis. The very absence of attention to these problems on the part of Marx and the Marxian tradition was, in part, a product of Marx's view that these matters would take care of themselves—essentially because problems of power and exploitation were intrinsically connected to individual ownership of the means of production.

⁷ For reasons that Michels and Weber have discussed. (R. Michels, *Political Parties*, Free Press, Glencoe, 1958; M. Albro, *Bureaucracy*, Praeger, New York, 1970; and D. Beetham, *Max Weber and the Theory of Modern Politics*, Allen & Unwin, 1974.)

⁸ Nove, *The Economics of Feasible Socialism*, Part 1.

⁹ *The Road to Serfdom*, Ch. 8.

¹⁰ Nove's *Stalinism and After* (Allen & Unwin, 2nd edn., 1981) contains a good description.

That such problems still occur—and, indeed, are magnified—in a ‘socialised’ economy shows not only that Marx’s theoretical diagnosis of their character was false, but also that his ideas offer no practical solution to them. Above all, it indicates that what is required is an analysis of the different forms of economic and social organisation available, a realistic appraisal of the character of power, freedom and opportunities for well-being in them, and a rational choice then to be made between them. That is to say, what is required is a kind of analysis which is not found in Marx’s work but *is* found in *The Road to Serfdom*—to which students of Marx’s work should therefore be exposed as a matter of urgency!

It could be objected that I earlier referred to Weber as also having an influential role in shaping the intellectual background of today’s students of politics and sociology. Did not Weber provide a methodological corrective to Marx by way of his emphasis on human action and on the importance in history of ideas? And did he not also emphasise the problems of economic calculation under socialism, and suggest that the attempt to realise socialism would simply produce a monolithic bureaucracy? And did not Weber share many of Hayek’s other concerns—such as a belief in an inescapable pluralism in the realm of values and the key functional role, for capitalism, of a legal system close to the *Rechtsstaat* ideal, together with an awareness of the problems generated by the blindness of a capitalist system to ‘egalitarian, fraternal and caritative values’?¹¹ If so many of the themes of Hayek’s work are already in Weber’s, is it not unnecessary for students to read Hayek as well?

The deficiencies of Weberian analysis

The themes to which I have referred *are* to be found in Weber’s work. But they are presented in a manner which makes it very unlikely that the necessary correctives to Marx will be drawn from them. Doubtless, this is partly because Weber’s major work, *Economy and Society*, was not completed, and because of the sheer obscurity with which some of his views are developed.¹²

¹¹ R. Brubaker, *The Limits of Rationality*, Allen & Unwin, 1983, p. 42. (‘Caritative’ means pertaining to charity or benevolence.)

¹² Compare, for example, Wilhelm Hennis’s fascinating recent article, ‘Max Weber’s “Central Question”’, *Economy and Society*, Vol. 12, No. 2, pp. 135–80, from which some of the problems of understanding Weber also become clear.

More important, however, is that Weber's work is full of theses about 'developmental tendencies' in society, the detailed underpinnings of which are never properly examined. This has the odd¹² result that, among the writers whom students are likely to read today, Weber is a major source of ideas about 'inevitable social tendencies' of the kind Hayek was so concerned to criticise. Thus, while Weber is in some ways an important corrective to Marx, what he typically does not correct is the view that social life is subject to large-scale tendencies which seem, in some sense, outside human control. This, in turn, has disastrous consequences for the *political* analysis Weber offers us. Let us examine some of these issues in a little more detail.

First, in his analysis of individual action Weber did develop, in an interesting way, ideas that are close to those of Hayek. But the connection between these and the bulk of Weber's best-known work is unclear. From the action-oriented individualism of his methodological writings, we move to institutional ideal-types¹³ (such as his typology of domination and his ideas about bureaucracy), the relationship of which to his ideas about individual human action is never fully explained.¹⁴ And, in Weber's political writings, we find discussions whose basis seems to bear more resemblance to Marx's economic-based class analyses than to most of Weber's sociological writings.¹⁵

The result is that we do not always find in Weber an analysis of social change in terms of human action in social settings and its consequences, intended and unintended. Individual action and choice, the importance of which is recognised in Weber's methodological writings, often seem to disappear from sight. In their place we have a picture of the social world which is dominated by large-scale developmental tendencies (as in Weber's themes of 'rationalisation' and 'bureaucratisation', and

¹² 'Odd' because Weber spent much time criticising such views, and his own opinions seem very far removed from them. (For example, K. Tribe, 'Prussian Agriculture—German Politics: Max Weber 1892-7', *Economy and Society*, Vol. 12, No. 2, pp. 181-226.)

¹³ [An 'ideal type' is an abstract conceptual model or mental construct used in the analysis of social phenomena. It was Weber who developed this methodological technique.—ED.]

¹⁴ Cp. J. W. N. Watkins, 'Ideal Types and Historical Explanation', in J. O'Neill (ed.), *Modes of Individualism and Collectivism*, Heinemann Educational Books, London, 1973.

¹⁵ Cp. D. Beetham, *op. cit.*, for example.

in his ideas about changes in the character of capitalism). The character of these developmental tendencies is seldom analysed in detail, so as to bring out that they are *conditional* in character (rather than inevitable), and to expose the particular kinds of behaviour and choice upon which they depend. Consequently, while Weber is not as fatalistic about such developmental tendencies as were some of those Hayek was criticising, Weber's work is nonetheless an important influence today in spreading the kind of approach to the understanding of society which Hayek wished to expose as misleading. And where Weber himself discusses alternatives, or checks, to these developmental tendencies, his discussion often gives the impression that the principal alternative is the operation of the (scarcely rational) will of some charismatic figure, rather than the kind of modest and critical analysis of the likely consequences of our actions and of proposed institutional arrangements which Hayek recommends.

Thus, despite the deep richness and interest of many of Weber's ideas, and despite the presence in his work of many of the elements Hayek uses and of pieces of analysis close, in their spirit, to the approach advocated in this essay, the overall impression that a student will gain from Weber may reinforce the picture of history as an interplay of inevitability and unanalysed voluntarism which emerges from Marx's work. The idea that the course of history is *genuinely* the result of human action, and therefore something we can rationally, if modestly, choose and appraise, seems frequently absent to me. In consequence, Hayek's *Road to Serfdom* is of paramount relevance for students who face our world and its problems with a background in Marx and Weber.

III. PLURALISM, CORPORATISM AND SOCIAL DEMOCRACY

The ideas of Marx and Weber play an important role in shaping the intellectual framework of many students today. But it could be argued that the work of more recent political analysts has had weightier practical influence. It is the ideas of theorists of pluralism and of corporatism, with their characteristic combination of descriptive and normative concerns,¹⁷ which have contributed to the self-image widely accepted by liberal democracies

¹⁷ Compare, for example, S. Lukes and G. Duncan, 'The New Democracy', *Political Studies*, Vol. 11, No. 2, 1963.

today. And while radical forms of socialism may have some appeal among students and academics (and Marxist ideas are again being widely used as analytical tools in the social sciences), it is more moderate ideas about planning and the pursuit of social justice within a mixed economy which are of larger importance in the real worlds of politics and policy formation in liberal democracies—and which, still, form the 'wisdom of the age'.

In *The Road to Serfdom* Hayek was primarily concerned to criticise the wish to impose an overall rational design upon society, and those who were seeking to replace the market by central planning. While he *did* have things of the utmost importance to say about the consequences of attempts to secure a 'fair wage' or 'security' through governmental action in a market system, and about the dire qualities of a *Beamtenstaat*,²⁶ it was the more radical issues which had pride of place. And when, in his essay on 'The Road to Serfdom after Twelve Years',²⁷ Hayek discussed the relationship between his ideas and political developments since he had written the book, it was again with the more dramatic issues—the direction of labour and the abandonment of the rule of law—that he was concerned.

As a result, the reader of Hayek's work today *might* feel that it is, in certain respects, remote from the issues of political analysis and debate of the last 30 years when the ideas of Beer, Dahl and Crosland,²⁸ rather than Laski, have been typical. Is, therefore, Hayek's *Road to Serfdom* of any relevance? My argument is that it is. The ideas explored in it have also recently begun to be recognised as relevant by some distinguished commentators.

The pluralist view

In this short essay, it is impossible to try to tell the story of the development, in our century, of pluralist (and corporatist) ideas. It must suffice to refer to the tradition in American political science which runs from Bentley to Dahl, and also to the impact

²⁶ A form of social organisation 'in which, not only in the Civil Service proper, but in almost all spheres of life, income and status were assigned and guaranteed by some authority'. (*Road to Serfdom*, Ch. 9.) Cp. Weber's account of bureaucratisation.

²⁷ In *Studies in Philosophy, Politics and Economics*, Routledge & Kegan Paul, London, 1967.

²⁸ Cp. Samuel Beer's *Modern British Politics*, Faber & Faber, London, 1965, R. Dahl's *Polyarchy*, Yale University Press, New Haven, 1971, and C. A. R. Crosland's *The Future of Socialism*, Jonathan Cape, London, 1956, for example.

of Schumpeter's ideas about democracy.²⁵ These ideas complement each other and together offer a picture of the workings of a liberal democratic state which, while far removed from older ideals of participatory democracy, was nevertheless championed as a model of how a liberal democracy does and *ought* to work. In such a view, the electorate plays a largely passive role while politicians compete for its votes, and for the support of various interest groups. The interests of individuals are represented via their membership of various associations and interest groups. And these, over and above their role in the political process, also play a role in consultation with the Civil Service in the making of policy.²⁶

Clearly, such views do highlight some features of the political process in Britain and America today (though they are, in other respects, less than adequate—as writers such as Olson, Lindblom and Lowi have argued²⁷). They had considerable political appeal to some people. Interest groups are of key importance. And in Britain, much of the recent history of economic policy has consisted of attempts by government to steer the economy on the basis of a consensus as to what was both needed and equitable (notably in various 'prices and incomes' policies). Such ideas attracted—at a certain level²⁸—a good deal of popular support. In addition, they seemed a suitable vehicle for the pursuit of ideals of social justice in a way judged compatible with the functioning of a mixed economy. Thus, it was argued that some people ('the lower-paid', for example) should get pay increases above the norm during periods of wage and price control. Throughout the 1950s and much of the 1960s and 1970s, there was undoubtedly a growing sense that things were not really working out as had been hoped. But our problems were not obviously of a character illuminated by Hayek's work.

²⁵ J. Schumpeter, *Capitalism, Socialism and Democracy*, Allen & Unwin, 5th edn., 1976, Ch. 22.

²⁶ One high point of such analysis was Samuel Beer's *Modern British Politics*. This book entranced the author of the present essay as a first-year university student with its picture of Britain as a successful example of political collectivism!

²⁷ Mancur Olson, *The Logic of Collective Action*, Harvard University Press, Cambridge, Mass., 1965; C. E. Lindblom, *Politics and Market*, Basic Books, New York, 1971; and T. Lowi, *The End of Liberalism*, Norton, New York, 1979.

²⁸ That is, until it was seen in detail how one's own interests and preferences would be treated.

Recently, however, it has become clear that Hayek's work is of real relevance to pluralism.

The economic incoherence of pluralism

First, just as Hayek has argued that social processes may simulate the consequences of the operations of human reason,²⁰ so the political process by which interest groups have exerted influence on policy might be likened, in its consequences, to the imposition on the economy of an economic plan. There are, however, two differences between this process and large-scale planning. In its favour, it is piecemeal in character and usually aims to work within (rather than to replace) a market economy. Against it is the fact that, precisely because it is arrived at piecemeal and often in secret, there is nothing to ensure that it makes overall sense. Policies may pull in conflicting directions, and there is a danger that the operation of the entire economy may become distorted. Concessions, made piecemeal, may channel economic activity into areas for which there is no coherent rationale—neither economic nor on the grounds of policy. Activities may develop which are dependent largely upon such governmental support and which, once in existence, create a political interest in their continuance. In addition, their existence leads other economic decision-takers to take them into account, through ordinary market mechanisms, thus producing further shifts in economic activity and political interests.

All this becomes especially important if we adopt a view Hayek has urged upon us of the economic system as a system through which information is transmitted. The political process we have just considered might be seen as a source of distortions to the information-transmitting functions of the economic system—distortions which no one has a particular concern to monitor or the ability readily to control. A similar problem may occur to the extent that a 'prices and incomes' policy is successful, since this also interferes with a mechanism which plays a key functional role in a market economy.

I am not here arguing against any political 'interference' with the market. Rather, as did Hayek in *The Road to Serfdom*, I am

²⁰ By way of 'filter mechanisms' (cp. R. Nozick, *Anarchy, State and Utopia*, Basil Blackwell, Oxford, 1974) which—and this is crucial to Hayek's own argument—may be able to accomplish tasks that are beyond the capabilities of rational human agents.

urging that care be taken to implement policy decisions in ways compatible with the market's playing its proper, functional role. I am also suggesting that policy decisions taken as a result of the interplay of pressures, after the fashion of 'pluralism', may be especially liable to have undesirable characteristics, just because they are *not* the product of *rational* planning of this sort. The pluralist account of government as responsive to interests is also such as to put government in a poor position to look after the *general* interest against the pressures of particular interest groups.

'Politics of excessive expectations' under pluralism

A second problem about such a pluralistic system has been highlighted by Samuel Brittan, who has developed some parts of his argument with reference to Hayek. There is the constant temptation in such a 'pluralistic' process for politicians to sacrifice the general interest to claims for specific benefits for particular groups, or to the promotion of specific 'good causes', without explanation of where the resources required for such purposes are to be obtained. In each specific instance, the cost of the 'general interest' is small. The result, as Brittan has argued, is 'a politics of excessive expectations' in which demands are made which simply cannot be satisfied within the system. This, in turn, has dire consequences when it is precisely for the support of groups with such inflated expectations that the 'Schumpeterian' politician must bid, and whose voices he is committed to acknowledging in the policy-making process.

After raising such problems, Brittan writes:

A resolution of [these] problems of liberal democracy is unlikely on a basis relying entirely on self-interest or private interest (which need not be selfish in the vulgar sense). Can any other motives be brought in which would both make members of economic groups refrain from exercising their full market power and induce electors to reduce the excessive and incompatible demands they make on government services?²⁸

In this connection, he considers the possible role of a 'consensus . . . on a legitimate social order which would appeal to people's sense of justice'.

²⁸ Samuel Brittan, 'The Politics of Excessive Expectations', in his *The Economic Consequences of Democracy*, Temple Smith, London, 1977, p. 267.

No moral consensus possible

Brittan then refers, in a critical discussion of this idea, to some of Hayek's arguments about the difficulties of assessing the 'merit' of other people in a large-scale economy—ideas which clearly go back to the problems Hayek raised about a comprehensive moral order in *The Road to Serfdom*.²⁷ Brittan has elaborated on these views in his more recent writings,²⁸ with further reference to Hayek's discussions of democracy and interest groups.²⁹

Hayek's arguments about the problems of an overall moral consensus have recently found another, and most interesting, audience, as is shown in the work of Raymond Plant.³⁰ Drawing parallels between Hayek's views and some of Habermas's ideas in *Legitimation Crisis*,³¹ Plant feels they constitute a serious challenge to the 'Croslandite' socialism to which he is personally attracted. In his view, this challenge has become pressing with the decline of economic growth which had previously allowed for at least the possibility of redistribution, in the name of social justice, without making anyone worse-off absolutely.

The moral of Hayek's *Road to Serfdom* for the ideas we have considered in this section is, I would suggest, fairly clear. If government sets limits to what it takes on, and returns to something closer to Hayek's *Rechtsstaat* ideal, it will not impinge upon particular interests in ways they cannot anticipate. They will thus have less justification for demanding representation in the policy-making process, and we might hope to be freed from

²⁷ This, however, raises the interesting question of how a good measure of consensus—or agreement to differ—has been reached in some countries.

²⁸ Samuel Brittan, *The Role and Limits of Government*, Temple Smith, 1983, especially Ch. 3.

²⁹ Brittan's arguments are striking, and it is interesting to note the way in which they have recently been endorsed by Samuel Beer who, together with a recent reissue of his (collectivist) *Modern British Politics* first published in 1965, has brought out a new volume: *Britain Against Itself: The Political Contradictions of Collectivism*, Faber & Faber, London, 1982.

³⁰ In the second edition of his *Hegel: An Introduction* (Basil Blackwell, Oxford, 1983), in his Fabian Society pamphlet *Equality, Markets and the State* (Fabian Society, London, 1984), and in various recent unpublished papers.

³¹ Jürgen Habermas, *Legitimation Crisis*, Heinemann Educational, London, 1976.

some of the pernicious consequences of 'pluralism' and 'corporatism' to which I have referred. A limited government would, in turn, be better able to allow for debate about policy issues, and thus to allow for the restoration of argument about principles in the place of 'pork-barrel' politics and 'log-rolling'. Through this means, a measure of genuinely democratic participation in government might be achieved. Similarly, it is only if we follow Hayek's suggestions about limiting the welfare commitments of government and ensuring they are enacted in ways most compatible with the operation of the market (cp. *Road to Serfdom*, Ch. 9) that we can avoid a situation in which those genuinely needing assistance are pushed aside in the rush of everyone else to press their various claims for 'social justice'.

IV. WHAT IS TO BE DONE?

I have argued in this short essay for the contemporary relevance of Hayek's work. In the space at my disposal, it has been possible to do little more than indicate a few points of contact between Hayek and some strands of thought currently influential. I have also briefly developed a few arguments, though they clearly demand much fuller elaboration.

Whether my efforts here can be judged successful, the task of critical engagement with other traditions of thought is of the highest importance. It is simply inadequate to polish and repolish the various strands of classical liberal and libertarian thought in isolation. Only in the process of engaging in critical dialogue with those who are not classical liberals—those, after all, who must in the end be convinced—can the liberal discern the basis on which his theories will be evaluated, and thus the problems which must be solved if his work is to be judged successful.

Such a task is both interesting and challenging—but also somewhat daunting. The liberal will have behind him, however, not only the example and resources provided by Hayek's own work, but also those of the liberal tradition which Hayek has done so much to revive. The gulf between classical liberal ideas and much of the 'wisdom' of the age is immense, and the task of engagement will demand a lot of hard work. But the prize is great. Because they are so little known, liberal ideas may make an enormous impact if they are properly presented. Furthermore, because of the impact ideas have on history and human well-being, there is more at stake than mere academic debate.

**THE INSTABILITY OF THE
'MIDDLE WAY'**

John Burton

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THE INSTABILITY OF THE 'MIDDLE WAY'

John Burton

I. THE IDEA OF THE 'MIDDLE WAY'

Since the Second World War the idea of a 'middle way' between a fully collectivised economic system and the minimal-state/free-market economy model of classical liberal thought has been the reigning political and economic ideology in the West. Throughout this period, most of the important political parties in Western countries have advocated one or other version of the 'middle way'.¹

Most—but not all—Western economists have adopted and advocated the same general ideology. Since the 1930s, such mainstream Western economists have been seeking to provide an analytical justification in welfare economics and in macro-economics for the idea of the mixed economy. They have sought to argue for what the Nobel Laureate Professor James Meade, a leading figure in the development of this orthodoxy over half a century, has described as 'very extensive measures of State planning, ownership, control and intervention'²—but not for the complete suppression of the private sector. The same dominant ideology can be seen throughout this period in most other social-scientific disciplines in the West.

These powerful ideological and political currents, translated into government policy and legislation, have had far-reaching effects on the workings of economic and political processes in Western countries. These countries are still commonly referred to in popular and academic writings as capitalist, or market, economies. This description is now quite erroneous. Any country

¹ The idea of the 'middle way' was first brought to general public attention in the UK by advocacy of the Conservative politician Mr Harold Macmillan (now Lord Stockton) in his book *The Middle Way*, Macmillan, London, 1938.

² J. E. Meade, *Planning and the Price Mechanism*, Allen and Unwin, London, 1947, p.11.

in which the government commandeers and allocates approximately one-half of the recorded national income, and extensively regulates the rest of the economy (as in the UK), cannot be described as a market economy. The term 'mixed economy' has been coined to refer to this result of the prosecution of the 'middle way'.

The hazy nature of the mixed company

It is eloquent testimony to the power of approved ideas that the mixed economy has come about in the West without a general understanding, let alone a scientific understanding amongst economists, of how such a politico-economic system would or could operate as a whole.

Economists have plenty of theory, and much empirical evidence, about how the private sector operates. But, despite the emergence over the past 20 years of a branch of economic analysis which deals with public choice—the economics of politics and bureaucracy—economists have relatively little tested knowledge about the workings of the sphere of economic activity nominally controlled by government.

Moreover, economists have no general theory of the workings of the mixed economy as an entire system (as they do of the workings of a capitalist economy). Even the very definition of the mixed economy remains unclear, despite decades of experience with such a system. In an essay entitled 'The Nature and Significance of the Mixed Economy', addressed to the British Association for the Advancement of Science, Professor Maurice Peston offers us the following definition:

Presumably the Western economies are called mixed because both their private and public sectors are quite large . . .

[T]he mixed economy is a kind of hybrid of pure socialism and pure capitalism.¹

This is rather like defining London as lying somewhere between Moscow and San Francisco. Whilst true, it is not very revealing.

Hayek on the allure of the 'middle way'

In his *Road to Serfdom*, Hayek threw light on this curious anomaly of recent and contemporary Western life—the allure of the idea of the 'middle way', so widely embraced yet so little understood:

¹ In Lord Roll of Ipsden (ed.), *The Mixed Economy*, Macmillan, London, 1982, pp. 19–20.

The idea of complete centralisation of the direction of economic activity still appalls most people, not only because of the stupendous difficulty of the task, but even more because of the horror inspired by the idea of everything directed from a single centre. If we are nevertheless rapidly moving towards such a state this is largely because most people still believe that it must be possible to find some Middle Way between "atomistic" competition and central direction. Nothing indeed seems more plausible, or is more likely to appeal to reasonable people, than the idea that our goal must be neither the extreme decentralisation of free competition, nor the complete centralisation of the single plan, but some judicious mixture of the two methods.⁵

This observation, made some 40 years ago, continues to provide an insight into the sources of Western political and economic thinking today. The idea of a 'middle way' continues to attract support because it sounds, superficially, so balanced, reasonable, and judicious.

Is the 'middle way' the road to serfdom?

The question we must now ask is where this rather open-ended path of the 'middle way' is leading us. The experience of the last 40 years reveals some important tendencies about the workings of the mixed economy.

Throughout the post-war period government spending has grown massively in all Western countries, at an underlying rate which is faster than the growth of national income.⁶ Government regulation of economic activity has also expanded very considerably, notably in the USA.⁷ Government has been the major growth industry of the mixed economies. Could it be that the so-called 'middle way' is but a slow road to serfdom, to the eventual dominance of government over all economic activity?

Hayek did not examine this question in any detail in his *Road to Serfdom*, which is primarily concerned with the dangers of erroneous collectivistic economic and social ideas. But he did warn that:

⁵ F. A. Hayek, *The Road to Serfdom*, Routledge and Kegan Paul, London, 1944, p. 31.

⁶ G. W. Nutter, *The Growth of Government in the West*, American Enterprise Institute, Washington DC, 1978.

⁷ G. J. Stigler, *The Pleasures and Pains of Modern Capitalism*, Occasional Paper 64, Institute of Economic Affairs, London, 1982.

... both competition and central direction become poor and inefficient tools if they are incomplete; they are alternative principles used to solve the same problem, and a mixture of the two means that neither will really work and that the result will be worse than if either system had been consistently relied upon. Or, to express it differently, planning and competition can be combined only by planning for competition, but not by planning against competition.¹⁷

The long period of Western prosperity which followed the Second World War (the so-called 'long boom') and lasted until the late 1960s seemed to many economists to disprove this judgment. The emergence since then of stagflation and weakening productivity growth throughout the West has, however, doused such earlier optimistic views in a cold bath of worrying facts.

What is the future of the mixed economy? Which forces are propelling this politico-economic system, and towards what outcome? This essay addresses these questions, drawing upon some developments in both public-choice economics and Austrian economic analysis, including Hayek's later work. It sketches out a positive economic diagnosis of the mixed economy.

The mixed economy as interventionism

It was another Austrian economic theorist and colleague of Hayek's, Ludwig von Mises, who defined the nature of the mixed economy with the most insight. Mises noted that the French had long since coined an expressive term for such a system: interventionism.¹⁸ It is an economic system in which, although voluntary arrangements among individuals remain extensive, government intervention permeates virtually the whole of social and economic life.

As Hayek has shown in his *Law, Legislation and Liberty*,¹⁹ this intrusive intervention by government in Western countries today results from the widespread acceptance of the idea that democratic governments have the right to exercise *unlimited* powers

¹⁷ *The Road to Serfdom*, p. 31.

¹⁸ L. von Mises, *Socialism: An Economic and Sociological Analysis*, Jonathan Cape, London, 1936, pp. 527-543, and 'Middle-of-the-Road Policy Leads to Socialism', in his *Planning for Freedom*, Libertarian Press, South Holland, Illinois, 1974, pp. 18-35.

¹⁹ Vol. III: *The Political Order of a Free People*, Routledge and Kegan Paul, London, 1979.

provided they have been mandated by a majority of representatives in the legislative assembly. The theory has been that, with representative institutions supposedly disciplining the actions of government, it is possible to dispense with other limitations on the exercise of government power. There has thus been a gradual abandonment of the principles of constitutionalism which seek the containment of government power by a set of permanent and unchanging rules.

The serious defects of the philosophy underlying this prevailing form of Western democracy need not detain us here since they have been analysed by Hayek at length elsewhere.¹⁰ Our concern is with the positive analysis of interventionism as a system.

The creation of interest groups by government intervention

Virtually all acts of government intervention create a group of (net) beneficiaries and another group of (net) losers.¹¹ For example, government regulation of air flights (as in Western Europe today) typically aids state-owned airlines and their staffs, but harms the interests of passengers, taxpayers and independent airlines. Subsidies to declining 'smokestack' industries are welcomed by their management and employees, but throw the cost of delaying adjustment onto the rest of the economy. Minimum-wage laws are beneficial to employees who retain jobs, but harm people who are made unemployed by the measure. The inflationary financing of government expenditure by expanding the money supply will—during the initial period when the inflation is not fully anticipated—redistribute wealth from creditors to debtors. Social security systems provide income for recipients and welfare administrators, but the costs have to be borne by

¹⁰ *Law, Legislation and Liberty* Vol. III.

¹¹ Economists envisage that government provision of pure public goods (i.e., goods having technical features which prevent them from being marketable) could possibly render all members of society net beneficiaries provided government could judge the optimal (Pareto-efficient, in economic terms) supply correctly. This latter condition is impossible to implement in practice. Moreover, what some people judge to be a public good, others may judge a public 'bad' (a negatively-valued good). Thus, if they are forced to pay for its provision by taxation, they are net losers. For example, while national defence is often considered a classic public good, pacifists consider it a 'bad' and resent having to pay taxes to finance it.

taxpayers. In short, there is no such thing as a free lunch provided by government intervention: somebody has to bear the costs.

Almost by definition, the two groups created by a government intervention—the beneficiaries and the losers—are likely to feel differently towards it—provided they appreciate what is happening (which, however, is not always so). The beneficiaries will tend to favour the intervention and press for its retention and/or extension. Losers, if they are aware of the burdens imposed upon them, are likely to be much less enthusiastic, if not actively hostile. They have an inherent incentive to resist the burdens imposed on them; and, if they cannot resist them politically, to escape them by other means.

Modern democratic governments long ago discovered that, to stay in power by carrying the support of a majority of the electorate, it is necessary to construct a plethora of interventions to retain the backing of important groups of beneficiaries, while hiding the costs to the losers—by dispersing them as widely as possible, even to generations yet unborn. A classic example is the so-called 'pay-as-you-go' state pension schemes widely adopted by post-war Western governments (but not that of Japan, where the main state scheme is funded).¹⁶ These 'pay-as-you-go' systems imply steeply mounting costs for workers and taxpayers as we move into the 21st century.¹⁷

The benefits of government intervention in Western countries are thus typically concentrated on identifiable groups (industries, voting lobbies, key or 'swing' constituencies, and so on), whilst the costs are spread widely and 'hidden' as much as possible.

This situation has created structures of incentives in the interventionist régimes of the West which are not yet fully or widely understood. On my diagnosis, it has initiated and unleashed two powerful economic processes which I shall label, respectively, 'the new Hobbesian process' and 'the process of intervention entropy'. In the absence of a cataclysm, such as world war, or of profound shifts in the governing ideals of Western peoples, it will be the workings and interaction of these two economic processes which will determine the future behaviour and performance of the mixed economies.

¹⁶ Under a funded system, benefits paid to each retired person are related to the contributions they (and other members of the scheme) have made *themselves* during their working life.

¹⁷ 'Pensions After 2000', *The Economist*, 19 May 1984, pp. 21–24.

II. THE NEW HOBBSIAN PROCESS

In his classic treatise, *Leviathan* (first published in 1651), the English political philosopher Thomas Hobbes envisaged that selfish individuals operating in a 'state of nature'—a social situation in which individuals are not constrained by a framework of law and custom—would steal and plunder from each other, producing a 'warre of all against all'. From these considerations Hobbes derived an argument for an absolute power, the state, to implement laws against the coercive redistribution of goods and resources, so ending the internecine struggle to the general benefit.

Under interventionism, a powerful Hobbesian process of endemic struggle is apparently at work; but it is of a new type, differing in two major respects from the 'warre' of Hobbes's original treatise. First, the new Hobbesian process involves redistributionary struggles between groups, not individuals. Sometimes the groups are highly and formally organised, as with trade unions, farmers, protectionist lobbies for trade barriers, trade associations, and professional associations of lawyers and doctors. In other instances, the 'group' may have little or no formal association to represent it, yet, because of its numbers (as with pensioners or home-owners), it may constitute a powerful 'fiscal interest group' whose support governments are keen to enlist.

The second major difference with the new Hobbesian process is that it does not take place as a direct confrontation between the groups involved—as when bandit armies seek to dominate each other—but as a largely hidden struggle conducted in the political arena through the exercise of overt and covert pressure on government, politicians, political parties, and bureaucrats. Only in some instances is the ruthlessness of the struggle brought to general public attention, as when British miners or French farmers attempt to use quasimilitary tactics to surround and suspend the operation of ports or power stations. More typically, the process goes on behind the scenes, although it also surfaces in the media which have become an important arena for the conduct of public relations campaigns by organised interest groups. The statistics on the 'lobbying industry' in Washington DC reveal the clearest example of a more general phenomenon obtaining in all Western countries today. One report computed that some 4,500 interest groups are represented in the American capital, each of them drawing on the services of one or more

professional lobbyists who, in turn, draw on the services of over 13,000 lawyers.¹⁴

Hayek has referred to this extensive panoply of interest groups in contemporary Western societies as the 'para-government', the sole purpose of such organisations being 'to divert as much as possible of the stream of governmental favours to their members'.¹⁵ Their operations are all aimed at putting pressure on government to use its powers of intervention in the interest of their own groups.

Is the new Hobbesian process self-checking?

The negative-sum nature of this new and grim Hobbesian 'game' has been analysed extensively by the Virginia school of public choice theorists and will not be recapitulated here.¹⁶ The political philosopher Norman Barry has, however, recently argued that the new Hobbesian process will reach a stable equilibrium before government intervention at the behest of interest groups becomes total.¹⁷ He argues that there must be some 'stable rate of exploitation' of the private sector by the protected and subsidised public sector which the latter, in its own interest, would be unwise to exceed. Put simply, his contention is that it does not pay to kill the (private sector) goose that lays the golden egg (for the state).

John Gray has taken issue with this argument elsewhere in this volume (pp. 28–30), but there are additional, economic reasons why the Barry hypothesis is not correct. First, the para-government of modern democracy is not composed of one monolithic public sector, operating as if it were a unitary decision-maker. Very large numbers of organised groups operate in the public sector according to their *own* interests (miners, First Division civil servants, and teachers, for example), and not according to some supposed general interests of the public sector

¹⁴ J. Campbell, 'The Not-So-Hidden Persuader's', *Evening Standard*, 12 October 1977.

¹⁵ Hayek, *Law, Legislation and Liberty*, Vol. III, p. 13.

¹⁶ For example, J. M. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan*, University of Chicago Press, Chicago, 1975; and Buchanan, R. D. Tollison and G. Tullock (eds.), *Toward a Theory of the Rent-seeking Society*, Texas A & M University Press, College Station, 1980.

¹⁷ N. Barry, 'Is There a Road to Serfdom?', *Government and Opposition*, Vol. 19, No. 1, pp. 52–67.

as a whole. The incentive for each is to treat the income of the private sector as a 'common property resource' (to use the jargon of economists)—a resource like fish in the sea which will be snatched by others if it is not snatched first.

Secondly, the para-government extends outside the public sector to include groups such as private-sector unions, trade associations, claimants' unions, and parliamentary lobbying consultants. Again, each of these groups has the incentive to act in the sole interest of its clients and to ignore that the new Hobbesian process as a whole is working to the general detriment of society.

Thirdly, it would be impossible for all these groups to come to a general and enforceable agreement among themselves to stop playing the new Hobbesian 'game'. Barry's hypothesis of a stable equilibrium implicitly assumes that they could. Merely to attempt to visualise a 'constitutional contract' which would have to cover public relations firms, trade unions of all sizes, employers' associations, farmers, bureaucracies, quangos, and so on, is sufficient to rule it out of court. Technically, it is an example of 'the prisoner's dilemma': the various players could all become better off by not playing the negative-sum game they are involved in, but they are unable to reach a binding and enforceable agreement among themselves.

Barry dismisses this objection on the ground that:

The 'open' nature of the bargaining process [in the new Hobbesian struggle] is sufficient in itself to bring home to group members the dangers to everybody in the public sector of excess. It would be extremely difficult for a particular group to secure a secret gain that would not be detected by others.⁸

His argument is wrong for two reasons. First, it is very easy for groups to obtain secret favours from government which go undetected by others—such as seemingly minor yet significant changes in regulations, and subsidies from diverse government agencies and departments. What, for example, has been the true value of subsidies (including covert ones) given to nationalised industries in the UK in the post-war period? It is revealing that we do not have a very clear answer to that pertinent question. Secondly, and to repeat for emphasis, there is no way *all* the groups could come to a *binding and enforceable* agreement among themselves to outlaw their Hobbesian struggle.

⁸ Barry, 'Is There a Road to Serfdom?'.

Intensifying Hobbesian struggle in absence of new constitutional constraints

The new Hobbesian process could be brought to an end only if new constitutional constraints were imposed on government which divested it of its unlimited power to intervene. While government retains those powers, the incentive will remain for people to form groups and lobby for the gains which government intervention can bestow. In the absence of constitutional reform, we may predict from economic analysis that the new Hobbesian process will continue—and may even intensify as more and more groups are induced to emulate the existing elements of the para-government.

This conclusion throws light on a number of contemporary developments. It helps to explain the clear erosion over recent decades of notions of professional ethics and public service in central and local government employment, and their widespread replacement by (often militant) trade union bargaining. It also helps to explain why both the Thatcher Government and the Reagan Administration, although ostensibly committed to reduction of government intervention, have found it difficult to achieve any reduction in the *growth* of government spending, let alone cuts in its volume. Every attempt to reduce subsidies or hand-outs runs into an intense barrage of raucous reaction organised by whichever elements of the para-government find their interests threatened.

The supreme danger is that, in the absence of constitutional reform, this process would seem to be irreversible. Any government which offended too many constituents of the para-government by a significant removal of special privileges, hand-outs and protective regulations might find itself replaced at the following election by another government which had put together a winning coalition by promising to use its unlimited powers both to restore the *status quo ante* and to shower new favours on other groups in return for their votes. Thus an incentive remains deeply embedded in contemporary democracies for governments to drag their feet even while strongly professing to want to roll back intervention.

III. THE PROCESS OF INTERVENTION ENTROPY

Just as the potential gainers from an act of government intervention have an incentive to lobby government for it, so the losers

have an incentive to escape its burden. In principle, the losers could form themselves into a group and lobby to counter the pressures from the potential beneficiaries. This, indeed, sometimes happens. In the preponderance of such instances of new government interventions, however, the potential losers are so widely dispersed, or are so marginally affected by the measure individually, that no effective counter-lobby can be formed. Indeed, as explained above, governments will try to formulate their measures so that the coalition of losers will remain inchoate.

The laws of demand apply to 'bads'

Whilst losers may thus often be ineffective in blocking a new government intervention which harms them, they will retain an incentive to escape from—or at least minimise the costs imposed on them. In effect, such a measure is a 'bad' to each loser—a negatively-valued good. The reactions of losers to such 'bads' obey the same fundamental 'laws of demand' that apply to consumer demand for positively-valued goods. First, the higher the cost imposed on the loser, the larger will be the volume of resources and activity he will be willing to devote, other things equal, to avoiding that cost.²⁸ For example, the heavier the tax burden placed upon an individual, other things equal, the bigger will be the effort he will devote to tax avoidance and evasion.²⁹ Similarly, wage negotiators who find their mutual interests constrained by the imposition of an incomes policy will seek to breach it—by bogus productivity deals, job up-gradings, and so on. And the more the difficulties imposed on them by the policy, other things equal, the more the resources and ingenuity they will devote to circumventing it.

Secondly, over the longer run, those who are searching to escape the impact of some government measure deleterious to their interest will find more, and more effective, avenues of escape. For example, taxpayers are likely to become more adept at tax avoidance and evasion the longer their experience of such

²⁸ This proposition is none other than the 'first law of demand'—that the quantity of a good bought is negatively related to its price—in an unusual setting.

²⁹ The qualification 'other things equal' is important. Some people (the self-employed, for example) typically find it easier to escape tax than others (those—the vast majority—in the PAYE system). Over the long run, people will try to shift to the self-employed category.

activity. And again, the longer an incomes policy lasts, the more will tend to be the ways discovered to circumvent it.

This second proposition is in some respects a re-statement of the 'second law of demand', recast in an unconventional setting. The process which appears to be in operation here is, however, of a broader nature. According to the second law of demand of standard economic theory, the elasticity of demand for a good will be the larger, the longer the price change persists. This hypothesis stems from the postulate that, in the short run, the consumer is subject to certain 'fixities' in his consumption plans because he holds durable capital goods. He cannot, for example, suddenly sell his car (except at a considerable loss) when OPEC quadruples the price of petrol. In the longer run, however, he will find it easier to switch to a smaller car, use other means of transport, or move his home closer to his work.

Such short-run fixities also help to explain why 'loser escape' from government interventions tend to be more efficacious in the longer run. An enterprise which faces higher minimum wages imposed by government, for example, may have little option in the short run but to reduce the number of its employees. In the longer run, however, it may be able to alter its plant and reduce its expenditures on the working environment so that, despite higher wage costs, its overall costs associated with hiring labour are restored to their previous level.²² Such fixities are not, however, the full explanation. Two other factors are involved. First, there is learning-by-doing: the more experience losers gain in evading government interventions, the more skilful in this activity they will tend to become. Second, incentives are created for entrepreneurs to discover new and better means of evasion and avoidance of the costs imposed by government. The most obvious example is the considerable amount of ingenuity applied by specialist firms to devising and refining new schemes of tax evasion and avoidance. Thus, not only are losers able to make more substitutions over longer time-periods; in addition, the substitution/escape possibilities offered to them are likely to increase over time. Indeed, the individual escaper may start acting entrepreneurially for himself—which lies behind the growth of direct bartering of goods and swapping of professional services in order to evade income taxes.

²² R. B. Mackenzie, 'The Labor Market Effects of Minimum Wage Laws: A New Perspective', *Journal of Labor Research*, Vol. 1, No. 2, Fall 1980, pp. 255-264.

Intervention entropy: some examples

The second law of thermodynamics states that the physical universe is subject to a process of entropy—that all matter is subject to increasing disorder over time. Because of the reactions of losers to government interventions, it is becoming more apparent that such measures are suffering from a sort of entropic process. Intervention entropy is not yet fully and generally recognised by economists. Only some of the more obvious examples of the general process have so far been discerned and recorded.

The process has been best analysed for intervention in the form of 'active' monetary policy to achieve a low target rate of unemployment. In the earlier half of the post-war period it was believed by some pseudo-Keynesian economists that very low levels of unemployment could be achieved by 'expansive' monetary policy. After the discovery of the Phillips curve, it came to be believed in the early 1960s that a particular unemployment rate could be attained—but only at a cost in inflation. Under the powerful influence of the writings of Hayek,²² and, even more so, of those of Friedman,²³ it later came to be appreciated that any such trade-off between inflation and unemployment was only a transient phenomenon which depended upon people's initial failure to anticipate the inflation induced by higher monetary growth rates. If the new, higher growth rate of the money stock were adhered to, the stimulating effect on employment would peter out and be reversed, as people began fully to anticipate the consequent inflation.

This is the process of intervention entropy in action. It occurs because inflation is a tax on holding money. Once they recognise their losses and anticipate inflation, the losers react by attempting to reduce their money holdings and to move their assets into real goods which will maintain their real value.

Another example of intervention entropy is to be discerned in the operation of incomes policies. Many empirical studies have recorded that, while incomes policies may reduce the rate of inflation by one or two percentage points for a year or two, their negative effect on inflation disappears thereafter. Indeed, some studies go further and suggest that, in the 'policy-off' period

²² F. A. Hayek, *The Constitution of Liberty*, Routledge and Kegan Paul, London, 1960, Ch. 21.

²³ M. Friedman, 'The Role of Monetary Policy', *American Economic Review*, Vol. 58, March 1968, pp. 1-17.

which follows the breakdown of incomes policy, inflation typically accelerates beyond what it would otherwise have been.²⁰ Underlying this incomes policy cycle is a further aspect of intervention entropy. Those who lose from the operation of the policy try to get around it, and become increasingly successful at doing so. Moreover, after the successive breakdown of incomes policies (there have been something like 17 attempts at imposing an incomes policy in the UK in the post-war period), bargainers start to anticipate their reimposition and so try to 'get in while the going is good'.

It must be emphasised that intervention entropy applies not only to the more well known areas of monetary and incomes policies, but also to the general array of government intervention measures—although many of them have not yet been studied in the same detail (not least because it is often very difficult to study them with econometrics). The general growth of the black economy in Western countries throughout the post-war period—the *size* of which is extremely difficult to estimate, but the *existence* of which is not in doubt—is a particular case in point.²¹

Two statements of the process of intervention entropy

There are two ways of describing the nature of intervention entropy succinctly, both of which are revealing about the outlook for the future. First, the impact of any type of government intervention on those harmed by it will tend to decrease over time, if a constant volume of resources is devoted by government to the prosecution and policing of the policy. Those resources simply become less cost-effective over time as evasion and avoidance build up. Two *caveats* are necessary here. One, there is no suggestion that the process of intervention entropy *always* takes place at a very fast rate, as it does with incomes policy; it may often be very gradual, extending imperceptibly over decades or longer. Two, there is also no suggestion that the losers will, or can, entirely escape the costs imposed upon them by an intervention. The services of tax accountants and lawyers, for example, are not free commodities.

²⁰ M. Parkin and M. T. Sumner (eds.), *Incomes Policy and Inflation*, Manchester University Press, Manchester, 1972; and J. Carr *et al.*, *The Illusion of Wage and Price Control*, Fraser Institute, Vancouver, 1976.

²¹ A. Seldon *et al.*, *Tax Avoidance*, IEA Readings No. 22, Institute of Economic Affairs, London, 1979.

An alternative way of stating the implications of intervention entropy is that, if governments seek over time a constant and stable level of impact for an intervention, this will become increasingly difficult and costly to achieve in the sense of consuming ever-larger volumes of resources and effort. For example, to offset the petering out of the suppressive effects of incomes policy on inflation, government would have to escalate over time the resources devoted to policing it. The resources of tax inspection would have to be increased to deter the growth of tax avoidance and evasion, and new schemes of 'avoision' detected and 'plugged up'. To attempt continuously to hold unemployment below its equilibrium or 'natural' rate by Keynesian methods requires an accelerating, explosive growth of the money supply.

Another way of saying this is that to suppress the increasingly successful attempt of losers from intervention to escape their burdens requires an increasing volume of resources to be devoted to government activity—and, indeed, perhaps an increasingly *diverse* array of interventions as extra instruments have to be brought into play to shore up the declining efficacy of earlier policy measures.²⁵ Thus it is that inflationary monetary policies, for example, often lead to the deployment or extension of wage-price and foreign exchange controls. The experience of France since 1981 is a good illustration.

Herein lies another real and evident danger about the 'middle way'. In the face of the erosive influence of intervention entropy, governments committed to interventionist policies are led to increase the array of controls and the resources devoted them—which can ultimately come only from the taxpayer. They may thus be diverted from a supposedly stable 'middle way' down the road of increasing government intervention, spending and taxation.

IV. THE FUTURE OF THE 'MIDDLE WAY'

It is impossible to predict precisely how these two major economic processes—the 'new Hobbesian struggle' and intervention entropy—will interact in the future to change the structure and workings of Western economies. Only a broad spectrum of possibilities can be delineated on the basis of the foregoing analysis.

²⁵ For further discussion of this issue, J. Burton, 'Capitalism, Democracy and the Problem of Organised Sectional Interests', in J. T. Addison and J. Burton, *Trade Unions and Society*, Fraser Institute, Vancouver, 1984, pp. 129–153.

The illusion of a stable 'middle way'

One particular possibility, however, seems most unlikely, namely, that the 'middle way' of interventionism will prove to be a stable equilibrium. If 'stability' is defined here to mean that the structure of the economy, including the extent and severity of government interventions and their impact on the rest of the economy (including the relative sizes of the 'black' and the recorded economies), will remain roughly as at present, such a prospect could result *only* from a sheer fluke. For equilibrium would require the intensifying new Hobbesian process to be precisely offset, not only in general, but also in every particular (in every economic sector, for example) by the workings of the process of intervention entropy. There is no reason in economic analysis why this should be so. It is extremely implausible that the 'middle way' is a self-equilibrating system like the textbook (Marshallian) model of demand and supply, in which the workings of the system always return it to the same equilibrium after a random disturbance.

A road to serfdom through group economic warfare?

There are two other, more plausible, possibilities. One is that the new Hobbesian process will prove in the long run to be stronger than that of intervention entropy. In the instance, governments would be led to weave an ever more complex web of regulations, subsidies and government agencies at the behest both of new organised interests and of older ones trying to protect their established gains from erosion by the entropy process. Government expenditure and intervention would then grow remorselessly, while the economy would stagnate in a morass of restrictions. How long the institution of majoritarian democracy could survive under such circumstances is a moot point. It seems likely that such an evolving system would eventually be transformed into a despotism by one or more dominant groups. Henry C. Simons warned us of this prospect in the same year *The Road to Serfdom* was published:

Organised economic warfare is like organised banditry and, if allowed to spread, must lead to total revolution, which will, on very hard terms, restore some economic order and enable us to maintain some real income instead of fighting interminably over its division among minorities.²⁷

²⁷ H. C. Simons, 'Some Reflections upon Syndicalism', *Journal of Political Economy*, 1944.

In short, if the system of interventionism so evolves, it will be a road to serfdom.

An 'Italian outcome' for interventionism?

There is, however, another possible scenario for the future of the mixed economy, which is that, while the new Hobbesian process will continue—producing ostensibly growing burdens of government intervention—the process of intervention entropy will develop even more strongly, at least in considerable parts of the economy. In this instance, although the government would seem to be very interventionist and 'in control' of the economy, the reality would be that a large volume of economic activity had escaped government control—mainly by moving into the 'black' and 'grey' areas of the economy.

This second scenario should not be dismissed as entirely implausible. On the contrary, something very like it seems already to have evolved in Italy. There the bureaucracy is 'so swollen and inept that it is mocked as *lacci e laccioli* ("shackles and snares")'.²⁸ Theoretically, the Italian government controls vast stretches of the economy through a variety of state investment holding corporations which have lost gargantuan sums of taxpayers' money as a result of yielding to the pressures of politicians and vested interests within the organisations themselves.²⁹ The Italian state welfare system is generally regarded as being out of control, and the schools and social services in disarray.³⁰

Against this background it may seem paradoxical that 'Italy now leads Europe in champagne and whisky imports; that it is top of the league in second home ownership and in holidays; and that it puts more money into savings than any other country in Europe'.³¹ This apparent paradox—between the chaos being wreaked by government intervention and the indicators of continuing economic prosperity—is largely attributable to the process of intervention entropy in Italy. Various estimates by

²⁸ 'Land of Miracles and Malgrado', *Time*, 17 August 1981.

²⁹ E. Pontarallo, 'Italy: Effects of Substituting Political Objectives for Business Goals', in B. Hindley (ed.), *State Investment Companies in Western Europe*, Macmillan, London, 1983, pp. 25-58.

³⁰ Note 28.

³¹ J. Burton et al., *Industrial Policy*, Adam Smith Institute, London, 1984, p. 72.

Italian, Swiss and American economists of Italy's *economia sommersa* (the 'submerged' economy) suggest that it might now account for some 30 per cent of her economic activity and income.²⁸ It has also been estimated that between 10 and 15 per cent of the Italian labour force are in jobs which do not officially exist.

This possible outcome of the evolution of the 'middle way' does not sound so bad—or at least seems infinitely preferable to the 'road-to-serfdom' scenario that would unfold if the new Hobbesian process were to prove stronger than intervention entropy. There are, however, some awkward questions about the long-run future of the 'Italian outcome' for the mixed economy.

First, while such an evolutionary outcome may provide a higher standard of living than the alternative, it would be a system of 'loophole capitalism', as Mises (scathingly) described it. Genuinely profitable economic activity—that is, business not based on the coercive power of government intervention—would reside largely in the black markets 'outside' the interventionist order. And, to remain largely undetected and unsuppressed, it would have to stay mostly smallscale—as in Italy today.²⁹ Large-scale capitalist enterprise, not based on government favour, might well not survive in such an environment, or it might choose to migrate to 'capitalist oases' such as now exist on the Pacific rim of Asia.

Secondly, there could be no guarantee that such an outcome would remain politically stable under majoritarian democracy. The organised interests thwarted by intervention entropy might succeed in putting together a coalition of voters sufficiently large to install a ruthlessly collectivist government which would use previously unconsidered means to suppress intervention entropy as far as possible. The prominence of the Communist Party in Italy today is a pertinent reminder of that possibility.

Finally, it is not a necessary implication of the foregoing analysis that all mixed economies will travel the same general route or at the same speed. Western mixed economies may develop in differing directions. Much will depend on other

²⁸ A. Martino, 'Another Italian Economic Miracle?', paper delivered to the Mont Pèlerin Society General Meeting, Stanford University, 1980.

²⁹ C. F. Sabel, *Work and Politics*, Cambridge University Press, Cambridge, 1982; and Sabel, 'Italy's High-Tech Cottage Industry', *Transatlantic Perspectives*, 1982.

factors, such as the precise nature of the constitutional framework and the electoral system of a particular majoritarian democracy.

V. CONCLUSION

The idea of a 'middle way' between the full collectivisation of all economic activity and the constitutionally-constrained and minimalist state of classical liberal thought has been widely adopted in the Western world because it sounds inherently reasonable and judicious. But in fact the mixed economy is a system of interventionism which, as it has developed, has generated two powerful economic processes.

These two processes clash, and there is no reason to believe they precisely offset each other so as to create a stable politico-economic system. On grounds of strict economic logic—rather than wishful thinking—the idea of a stable 'middle way' must be judged a mirage. It could happen only by a sheer (and continuously recurring!) fluke. Far more plausible is that such a system, given the fundamental processes involved, will become either a road to serfdom or a form of loophole capitalism with no guarantee of providing a secure basis for large-scale capitalist enterprise.

The source of these dangers is the presumption that an elected government in a majoritarian democracy has an unlimited right to intervene in the voluntary arrangements of citizens. All such interventions are, of course, always labelled as being in the interests of 'social justice', 'the public good', 'compassion', and so on. In practice, however, government intervention always creates losers as well as gainers, and it is to attract the support of the latter that the measures are undertaken. Majoritarian democracy is a system in which each group in the para-government attempts to exploit other groups via the coercive power of government. The only way out of these straits is to return to the principles of *constitutional democracy*, as Professor Hayek has argued in his trilogy, *Law, Legislation and Liberty*.²⁰ This, quite simply, is the agenda for our era.

²⁰ F. A. Hayek, *Law, Legislation and Liberty*, Vols. I-III, Routledge and Kegan Paul, London, 1973, 1976 and 1979 respectively.

**THE CONSTITUTION OF
LIBERTY FROM AN
EVOLUTIONARY PERSPECTIVE**

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THE CONSTITUTION OF LIBERTY FROM AN EVOLUTIONARY PERSPECTIVE

Karen I. Vaughn

Forty years ago, in the pages of *The Road to Serfdom*,¹ Friedrich Hayek described with alarming vividness the symptoms of a decaying liberal order. The message of this troubling book was not only that there was really very little difference between the national socialism of Nazi Germany and the communism of Soviet Russia, but, even more disturbing, that the same kinds of attitudes and philosophical beliefs which gave rise to the two most despicable régimes in modern history were also dominant among the intelligentsia and political pundits in the liberal West.

I. HAYEK'S TWOFOLD MESSAGE ON ECONOMIC PLANNING

The immediate targets of Hayek's book were the social planners who wanted to 'rationalise' economic activity. His message to that audience was twofold. He argued, first, that no individual or group could, in principle, plan an economic system in all its infinite detail since there were simply too many unspecifiable variables to take into account in the plan. Hence, attempts to satisfy consumer demands through the agencies of government were destined to be dismal failures if judged by the stated goals of the planners.

His second and more important contention in this context was about the long-run consequences of attempts to engage in comprehensive economic planning. Hayek argued forcefully that economic and civil liberties are two sides of the same coin. Those who are blind to this congruence have failed to understand that,

¹ University of Chicago Press, 1944; Phoenix Books edition including the Foreword written in 1954—referred to hereinafter as *Road*.

to be even remotely successful, economic planning requires the restriction of individual choices in a manner inconsistent with the kind of personal freedom that has characterised modern Western liberalism.²

According to Hayek, the institution that most protects the political freedoms of individuals is the rule of law, which binds both private and public individuals alike.³ In order to carry out a comprehensive economic plan, however, the state would necessarily have to become involved in the most detailed aspects of everyday life, including deciding what occupations people could pursue and where and under what conditions they could practise them. Clearly, where the state required such power, the rule of law could only be a hindrance to state planning, and personal autonomy would inevitably give way to the needs of the state. Hence, the *Road to Serfdom* was really about the gradual erosion of liberty that accompanies the erosion of the rule of law in the realm of economic activity. The only difference Hayek then saw between the England of 1944 and Nazi Germany or Communist Russia was the 30 or 40 years' headstart the totalitarian states had in the decline of belief in the principles of liberalism. The disturbing implication of Hayek's analysis was not only that 'it could happen here' but that 'it'—a totalitarian government—was likely to come about unless conscious steps were taken to preserve the tradition of individual liberty which accounted for the material and spiritual superiority of the West. What were the steps to take?

The importance of the 'Constitution of Liberty'

After the publication of *The Road to Serfdom*, Hayek believed it was imperative to articulate the principles of economic freedom and the rule of law in order to halt our progress on the road to serfdom, the ultimate destination of all comprehensive state plans. It was to this task that he turned his attention during the 1960s. That he entitled one of his major works of that period *The*

² *Road*, especially Chapter VII, 'Economic Control and Totalitarianism', pp. 88–100.

³ 'Nothing distinguishes more clearly conditions in a free country from those in a country under arbitrary government than the observance in the former of the great principle known as the Rule of Law.' (*Road*, p. 72.)

Constitution of Liberty emphasised the importance he placed on devising the right set of political rules to enable a liberal order to thrive.

In describing the characteristics of a free society, Hayek built on Adam Smith's notion of a social order as one that results from the unintended consequences of human action—halfway between a 'natural' (that is, biological) order which arises from purely physical relations and a consciously-created organisation which is the product of deliberate design.⁴ An economy is a spontaneous order which emerges from the purposeful actions of individuals but is, as a whole, intended by no one. It cannot be said to have a purpose of its own, but only serves the purposes of the individuals whose actions create the order. Such an order is only possible, however, because individuals follow rules that make certain features of their behaviour predictable. Rules are important to set the framework within which individuals can make their plans and pursue their interests.⁵ To a large extent, therefore, the kind of spontaneous order which emerges depends on the rules individuals follow both in their private dealings with one another and in their dealings through the state. Hence the importance of designing the 'right' rules.

The immediate implication of Hayek's work on defining the rules of a liberal society was that governments interfere in the particular operations of the spontaneous order at their (and their citizens') peril. Attempts to replace a spontaneous order with a conscious, comprehensive plan for society simply cannot work according to the planners' expectations. However, the very description of a spontaneous order led Hayek to another, more difficult problem. If we accept that human societies are in large part the unintended outcomes of individual acts and that human actions have unlooked-for consequences, does that not also apply to the rules of social order? Perhaps the rules themselves are also the unintended consequences of other actions, and perhaps they emerged as part of a larger spontaneous order. But, if that is so,

⁴ University of Chicago Press, 1960 (hereinafter *Constitution*). In addition, he published *Studies in Philosophy, Politics and Economics*, University of Chicago Press, 1967 (hereinafter *Studies*).

⁵ *Studies*, pp. 96-105.

⁶ Especially *Constitution*, Chapter 15, pp. 220-233, in which Hayek discusses the implications of following a rule of law for economic policy.

the very idea of designing the constitution of liberty becomes problematic. How can we design a system of rules to protect individual liberty when we cannot foresee the consequences of our schemes? On the other hand, if we cannot in some sense design the rules by which we live, can we ever hope to change them for the better?

In order to answer this question, Hayek sketched out a sweeping theory of social change that was broadly evolutionary in its structure.⁷ His theory was an ingenious attempt to provide an explanation for social change that takes account of the limitations of human knowledge. When it comes to an explanation for the emergence of and changes in the rules of social order, however, Hayek went both too far and not far enough in his recognition of these limits.

II. THE EVOLUTION OF RULES

In his three-volume work, *Law, Legislation and Liberty*, Hayek builds on the notion of a spontaneous order arising from human action but not from human design to explain the emergence of the rules of social behaviour as the product of an evolutionary process. He argues that, to a large extent, some of the most fundamental aspects of human culture—language, values and laws—were adaptations to primitive man's struggle for existence. In some prehistoric time, man was engaged in an evolutionary competition both with other species and with competing human cultures. Those institutions and cultural norms which gave some groups more successful behavioural strategies won out relative to others and became dominant. The more successful strategies became embedded in tradition and continued to be practised long after the reason for doing so became lost to conscious knowledge. Indeed, the value of a particular strategy might never have been consciously recognised by anyone since success did not depend at all on any individual knowing why the rules worked—just so long as members of group followed them.⁸

⁷ Hayek's evolutionary social theory is expounded principally in the three volumes of *Law, Legislation and Liberty*—Vol. I: *Rules and Order*, University of Chicago Press, 1973; Vol. II: *The Mirage of Social Justice*, 1976; Vol. III: *The Political Order of a Free People*, 1979. (Hereinafter referred to as *L, L&L*.)

⁸ *L, L&L*, Vol. I, pp. 17–18, and Vol. III, pp. 153–165.

The survival of rules and cultures

Not all the rules that survived and became embedded in tradition, however, were necessarily crucial to the success of the community. What survived were bundles of rules in which important practices would be mixed with irrelevant or perhaps even harmful ones. Yet, so long as the entire set of rules was better adapted than any other existing set, the culture would thrive. Since no one knew for certain the purposes of a particular rule, it would be difficult for individuals consciously to break apart the bundles and reject less-preferred rules in favour of better ones. Since the danger of eliminating a crucial rule would normally outweigh the benefits of introducing a potentially better one into the group, the most viable strategy for a group to follow would be to permit very few changes in the rules. It was therefore not human consciousness but the differential survival of cultures that discriminated among various social rules.

The limitations of man's knowledge is a powerful argument against attempts to introduce drastic change into the accepted rules of social order. While change undeniably does, and often must, take place (otherwise there would have been no human cultural evolution), Hayek infers from his analysis that only when it proceeds slowly and at the margins of a culture will the dangers be minimised of making fatal errors which could seriously undermine the viability of a society. Tradition is valuable, human rationality has limits, and the benefit of the doubt should be given to the *status quo*. And, at least in Hayek's 'rude and elementary state', good rules will, apparently, win out in an evolutionary competition.

This is admittedly a conservative message—so conservative indeed that some commentators have argued that it could inspire either an attitude of individual impotence in the great sweep of history (a feeling that there is no purpose in individual efforts directed to the improvement of society), or an unwarranted optimism that everything will work out in the end.⁹ Yet neither attitude is justified by a closer examination of this evolutionary theory of the rules of social order.

⁹ For example, James M. Buchanan, *Cultural Evolution and Institutional Reform*, Working Paper, 1982. Also, Buchanan's 'Law and the Invisible Hand', in *Freedom in Constitutional Contract*, Texas A&M Press, 1977.

The implausibility of the Hayekian account in complex societies

Hayek's account of the origin of rules seems plausible for the early dawn of human culture. It is, however, far less plausible an explanation of the survival of rules in modern, complex societies. There is no question that there are limits to the kinds of rules which will allow cultures to persist; for instance, a culture which requires its members to practise celibacy obviously will not flourish, as the Shaker community in the United States discovered earlier this century. Yet casual empiricism reveals a wide degree of cultural variety consistent with the survival of a group in the modern world.¹⁰

It may be true that the amount of cultural variability consistent with survival was much smaller in prehistoric times because of a very primitive technology or a very parsimonious environment. It may also be true that the kinds of cultural norms which evolved in the prehistory of the human race were of a very general, basic nature that we would take for granted as defining the characteristics of a human being. For example, such traits as parental involvement in child rearing, and an ability to form cooperative groups or to subordinate one's immediate goals to a more long-range purpose may have been the basic cultural traits which evolved first before the wide variety of practices we call 'culture' could begin to emerge. Yet these most basic traits may have been the ones which distinguished successful from unsuccessful human groups. The variety of cultural practices and the artefacts which accompany them may have developed only with advancing technology long after the cutting edge of survival ceased to be a ruthless discriminator among societies. But if, at least in the modern world, physical survival is not the screen by which various rules of social order are selected, what is? Or is there no screen at all?

No rule-selecting evolutionary process in politics

I shall argue that, at least in the case of ideas about appropriate political rules, there is no valid evolutionary explanation in the sense of describing uni-directional change and a selection mechanism which operates in favour of some rules above

¹⁰ Buchanan advances this argument in *Cultural Evolution*, pp. 6-8.

others.¹¹ While there are many aspects of human culture that can be explained by the use of evolutionary models incorporating selection mechanisms, the rules of the political order simply change. More importantly, there is no sense in which 'good' rules—that is, rules consistent with individual freedom—necessarily win out in an evolutionary struggle. Good rules of political organisation must be constructed and vigilantly maintained by active partisans whose ideas may or may not prevail in competition with others.

Hayek to some extent shares this view. If we examine his work over the last 40 years, it is obvious that he believes the case for a free society must be articulated and advocated. He certainly does not *in practice* rely on the long sweep of evolution to bring about the optimal rules of a just order. Indeed, the major thrust of his arguments has been that the hallmarks of civilisation—the ideas of the rule of law and of limited government—have deteriorated in Western culture. Essentially, for 40 years Hayek has been trying to restore a tradition that has gone into decline. The wisdom inherent in the deliberations of the Founding Fathers of America and in the Gladstonian era in Britain has, Hayek believes, been lost. And the unhappy consequence is that our political institutions have been gradually eroding individual liberty. His intellectual activities have therefore been aimed at changing the way in which people understand political and social reality, and at changing their values in order to make it possible to reform the structure and rules of government. For all his emphasis on tradition, Hayek's program has been revolutionary. To seek to bring about a transformation of popular political

¹¹ Jack Hirshleifer lists the following criteria for an evolutionary explanation: change cannot be random for the phenomenon we wish to explain; there must be an element of irreversibility in the process—once something evolves it cannot go back; changes at the macro-level result from accumulated changes at the micro-level; and changes are somehow 'unintended'. (*Research in Law and Economics: Evolutionary Models in Economics and Law*, JAI Press, Vol. 4, 1982.) I argue that, while changes in rules and ideas about what rules should be may result from unintended micro-changes, what emerges is largely random and reversible. It is often possible to go back to older, discarded notions of political order.

ideology is revolutionary, even if the transformation is back towards an earlier set of views.¹²

For someone who explains the emergence of rules as a product of evolution, this ideological activism would seem to be a contradiction. Yet when we consider the mechanism by which cultures—and the ideas of which they consist—evolve, there is no real contradiction. In any evolutionary explanation of social phenomena, the ultimate source of novelty and hence of change must be human choice. Spontaneous orders may emerge as the product of the unintended consequences of human action, but the actions themselves originate from human intention.¹³ And, while the intentions of human beings are rarely fulfilled according to their expectations, the only way we have a chance of influencing the outcome is to participate in the game. The outcome is in no sense preordained: it depends on who the players are and on how well they play.

In order to assess the possibility of success for such a revolutionary venture, I want first to explore the reason for the ideological decline which Hayek so decries. The interesting question here is how an evolutionary explanation of the rules of social order can be compatible with a degeneration into a less 'adapted' state. We can imagine that it might take a long time for the particularly felicitous notion of limited government to emerge, and we can accept that it might emerge not in some triumphant march of progress but from a lucky accident—as

¹² 'The fundamental principle that in the ordering of our affairs we should make as much use as possible of the spontaneous forces of society, and resort as little as possible to coercion, is capable of an infinite variety of applications. There is, in particular, all the difference between deliberately creating a system within which competition will work as beneficially as possible and passively accepting institutions as they are.' (Hayek, *Road*, p.17.)

¹³ Karen I. Vaughn, 'Can a Democratic Society Reform Itself? The Limits of Constitutional Change', in *For a Free Society in the Coming Decade*, The Mont Pelerin Society, 1983. (Also published as 'Kann sich eine demokratische Gesellschaft ohne Revolution reformieren? Die Grenzen konstruktiven Wandels', in *Zeitschrift für Wirtschaftspolitik*, 32, Jahrgang. 2, 1983, pp. 7-8.)

Tollison and Ekelund have recently argued.¹⁴ But given that ideas such as limited government and the rule of law *did* emerge within a society to the great benefit of the population, how then do we account for a deterioration or retrogression of political ideology within that society?¹⁵ While notions of improvement and deterioration are admittedly difficult to pin down in theories of social change, it is a puzzle why, in a democracy allowing individuals some political choice, a political organisation which yields obvious material benefits and expands personal autonomy should be so vulnerable to attack from opposing ideologies.

Special-interest groups undermine democracies

Hayek's answer, and the dominant explanation among economists today, is that unconstrained democracies provide an open invitation to special-interest groups to compete for ways to use government to further their own ends at the expense of the general welfare of the community.¹⁶ Although this is a powerful explanation of the mechanism by which limited government breaks down, it only partly answers the question. First, the USA did not begin as an unconstrained democracy. It began as a constitutional republic in which 'superior' notions of republicanism gave way to 'inferior' ideas of democracy. Even more to the point, changes in the rules of a democratic society have in some sense to be agreed by the population—or at least not arouse vigorous opposition. Why, therefore, even in an unconstrained democracy, are interest groups so able to operate to the

¹⁴ Robert D. Tollison and Robert B. Ekelund, Jr., *Mercantilism as a Rent-Seeking Society*, Texas A&M Press, 1981. Tollison and Ekelund argue that a free society emerged as the unintended consequence of the political competition between Parliament and the Crown in the 17th century to monopolise the disbursement of rents to supplicants. Interestingly, Hayek also traces the idea of the rule of law to the 17th and 18th centuries. He argues that it was 'consciously evolved' during the liberal age. Presumably, this means that it emerged through the conscious intellectual efforts of successive thinkers directed towards an abstract problem. (*Road*, p. 81).

¹⁵ Hayek's reference to the idea of a 'just' distribution of wealth as an atavism should be recalled: '... the long-submerged innate instincts have again surged to the top. Their demand for a just distribution in which organised power is to be used to allocate to each what he deserves is thus strictly an *atavism*, based on primordial emotions.' (*L.L&L*, Vol. III, p. 165.)

¹⁶ *L.L&L*, Vol. III, pp. 13–17.

detriment of society as a whole? How do they so easily convince others to go along with their activities when the result is not only a decline in the rule of law but also in the material and spiritual benefits which have accompanied it?

The economist's ready answer to this question, which I fully accept so far as it goes, points to the relative costs and benefits of interest-group action. Interest groups have much to gain by lobbying for special favours from government, while the average individual citizen stands to lose very little by their actions. Hence, interest groups have a much stronger incentive to organise to seek gain through preferential treatment than individuals have to organise to stop them.¹⁷ While that explanation is important, there is surely more to the story. Specifically, no interest group ever lobbies publicly for its own direct benefit; it always claims that its activities are in the public interest in some sense. Thus it must be believed that people generally are not in favour of using government for personal gain—otherwise there would be no purpose in trying to construct elaborate public-interest cover stories for essentially selfish requests. My question, then, is this: Why is it so easy for interest groups to win on the ideological plane? Why, for example, has Lee Iacocca¹⁸ emerged in the USA as a pop hero rather than an unpopular figure? The answer is that democracy (and, to a lesser extent, republicanism) requires individuals to make political decisions as if they possessed more knowledge than it would ever be worth their while to possess. Moreover, for some issues, it may even require citizens to act as if they had more knowledge than it is even in principle possible for them to possess.

III. KNOWLEDGE AND POLITICAL REALITY

One of the defining characteristics of a democracy is that its citizens choose their leaders and have influence over government

¹⁷ The most recent exposition of the interest-group theory of government and its disastrous consequences for a liberal order is in Mancur Olson's *The Rise and Decline of Nations*, Yale University Press, 1982. Olson argues that, once interest groups get a lock on a democratic system, the only way economic freedom can be attained is through some kind of cataclysmic event which destroys them.

¹⁸ Lee Iacocca is the president of Chrysler Corporation who managed to arrange a multi-million dollar 'loan' from the Federal Government to save Chrysler from bankruptcy—a bankruptcy which many analysts have attributed to earlier bad management.

policy. Let us consider, then, the contrast between an individual attempting to participate intelligently in the political process with the same individual attempting to make intelligent decisions in the market process. In order to use the market to achieve his purposes, it is not necessary for him to know why it works; he needs only to know how to use it. In this sense, participating in market institutions is much like learning to drive a car or use a wordprocessor. There is a complicated theory, known to someone, which explains how the device functions, but an individual user does not have to understand the theory to benefit from its services. Furthermore, because he has the ready measure of prices available to him in markets, an individual can easily assess the value to him of a particular market transaction. And when particular market institutions emerge to help organise transactions, an individual can decide without difficulty whether the institution is to his benefit. He can learn to use the institution either directly or by imitating others, and he can determine its efficiency by referring to his profit-and-loss statement.¹⁰ When a market institution helps individuals to improve their profits, the institution will spread as people avail themselves of its advantages—and it will tend to become an established practice. (A good example is the rapid advance of money market funds once the idea occurred to someone to organise banking in that way.)

For aspects of culture such as the growth of economic institutions (or changes in technologies) where individuals can fairly easily acquire information about the consequences of an innovation, there is an obvious selection process at work. If an innovation is 'efficient' in the narrow economic sense of that word, it has a competitive advantage over other techniques and will succeed. Individuals seek to improve their own well-being, but the unintended consequence of their actions is a more complex, integrated social order. Because this model of an evolutionary system where the 'fittest' survive permeates the literature of economics, it is not surprising that Hayek, an

¹⁰ That particular economic transactions are difficult for some people to master provides opportunities in the market for others who are more skilful at market dealings to make money by offering to serve as agents for the less adept. Mutual funds are an example. Markets provide an incentive for the production and dissemination of information about how to benefit from the market process. There is nothing equivalent in the political process. Political parties provide information, but it is not necessarily accurate information.

economist, should have wanted to generalise the model to other forms of cultural change, including the emergence and selection of rules of social order.

Individuals and rule-changing decisions

This can be contrasted with the problem facing a citizen in a democratic society who is required to take a position on a proposed change in political rules. In the first place, while we might think of him attempting to use the political system for his own purposes, the latter are complicated because they include some desire to live in a 'good' society—whatever that may mean to an individual. Thus his purposes involve some idea about how people's activities, including his own, should be constrained. One problem is that such preferences are generally not articulated clearly by an individual. Even if we assume they are, he still faces a considerable difficulty in making a reasoned political decision. To make an intelligent decision on some change in political rules—some change in constitutional design, perhaps—an individual must try to understand the rule, determine its possible consequences, assess the impact of those consequences on him, and then make a moral judgment about the desirability of the new rule. All this implicitly requires an individual citizen to develop a theory of social causation and to apply it to particular instances. He may not develop a particularly profound or carefully reasoned theory; but political judgments are nevertheless based on some kind of social theory which relates rules to certain outcomes and includes moral judgments about those outcomes. The problem for the individual is that there is no political equivalent of a profit-and-loss statement to help him determine whether he has made the right judgment about the political process. The political party is a poor substitute.

Ideology as an 'economising' device

In part, citizens resolve this problem by subscribing to an ideology—a set of beliefs an individual holds about the world and his role in it. An ideology is composed of a set of theories about social causal relationships combined with a set of values pertaining to those relationships. It can be thought of as an economising device for dealing with a complex reality, most of which individuals cannot investigate completely in order to choose their actions. Since individuals are faced with the unavoidable problem of having to make decisions and act on the

basis of very little information, they use their ideologies as proxies for the missing information. Ideology is not only important for the individual because it gives him a basis for making judgments about the appropriateness of certain actions—his own and those of others; it also has a social value in that, insofar as a society is characterised by a shared ideology, it enables people to predict large areas of social reality. That people generally take their ideology for granted at any one time is probably of the highest significance. And, like the unconscious adherence to the rules of social order which Hayek describes,²⁸ most people hold as part of their ideologies an unarticulated set of beliefs which may very well have contradictory parts. Hence, an ideology does not have to be an accurate picture of reality in order to serve a useful social function. As long as it is 'good enough' to allow the individuals to function in the social realm, it serves its purpose. However, when for some reason an individual finds his ideology no longer to be 'good enough'—when, for instance, he is faced with some crisis or with the necessity of making a decision among alternatives that call on contradictory or missing elements in his beliefs—then he is forced to make a conscious alteration in his beliefs—in his causal model of the world and/or in his values.²⁹ The problem is that, for the most part, he has very few markers to help him choose which alteration to make. More to the point, in many instances there is no one correct choice available to him—no 'right' course of action open to him if only he would take the time to search for it.

In all aspects of his deliberations about political policies (except, ideally, in his formation of a moral judgment), an individual is in much the same position as a social scientist trying to develop theories of social change. In arriving at political judgments, a citizen of a democracy—insofar as he participates in the political process—must act as a social scientist. But that also means he faces the same limitations as does a social scientist. The problem the social scientist faces in attempting to test his theories is that he confronts a complex reality where it is impossible to make crucial empirical experiments. The tests of his theory, either in terms of logical coherence and/or indirectly through

²⁸ *L.L&L*, Vol. I, p. 19.

²⁹ Hayek argues that the internal contradictions in people's beliefs will be an engine of constant ideological change in society: '... modern man is torn by conflicts which torment him and force him into ever-accelerating further changes'. (*L.L&L*, Vol. III, p. 159.)

statistical inference, are never conclusive. No test of a hypothesis, even if it is both statistically significant and logically coherent, is immune from attack from those who offer an alternative explanation based on another logically coherent theory.²² Professional scientists have developed methods for dealing with these problems which define what is considered to be an adequate explanation for a particular event. While the methods are not without problems, there is a community of specialists who at least agree to the rules of the game. Nevertheless, because of the problems of experimentation with a complex reality, social scientists never manage to reach the degree of agreement that characterises many of the 'hard' sciences. Clearly, if it is difficult for social scientists who specialise in the production of theories of social reality to reach theoretical agreement, how much more difficult will it be for an ordinary citizen to arrive at a reasoned choice of rules? It is no wonder, therefore, that the average citizen solves this problem, not by joining some scientific community, but by subscribing to and making use of an ideology.

Unpredictability of change where no objective social 'truth' exists

We can assume that, when faced with the necessity of making a decision that does not fit conveniently into his existing ideology, an individual will attempt to alter his ideology to make it more consistent with reality. And, given the difficulties involved in this exercise, he will search for a consensus among his peers—perhaps guided by the advice of experts he trusts. But this only substitutes one information problem for another. How does he judge among competing experts? Where there is no objective social 'truth', no theory which is widely accepted—even among experts—about the consequences of alternative rules for a social order, then changes in ideology are unpredictable at best. Indeed, I would go so far as to argue that shifts in political ideology frequently have a large random element when evaluated

²² Hayek has advanced this argument repeatedly: for example, *Studies*, pp. 22–34. Also, Ludwig von Mises, *Human Action*, Yale University Press, 1963: 'The champions of logically incompatible theories claim the same events as the proof that their point of view has been tested by experience. The truth is that experience of complex phenomena—and there is no other experience in the realm of human action—can always be interpreted on the ground of various antithetic theories.' (p. 42)

from the perspective of the cogency of the idea. What gets adopted probably depends more on who is advocating an idea and how it is packaged than on the quality of the idea itself.

Summary of the thesis

To return to the original problem, how can we explain the degeneration of a political system which has obviously benefitted its citizens? The answer seems to be that the causes of the benefits are not obvious to most people, including those the population at large regards as experts. The argument which attributes material wealth to a free society and the argument that political and economic freedom are inseparable are very difficult abstractions; and even when they are understood, they cannot adequately be 'proved' at the level of the individual. Since, in a democracy, people are required to make important decisions on the basis of such abstractions, it is not surprising both that most of them fail to get it right and that the political system is vulnerable to decay. Unlike changes in technologies and economic institutions where private ownership—including equity ownership in joint stock companies—disciplines results, there is no mechanism for weeding out failure in political ideas which does not put the entire society at risk. Innovation in the political realm necessarily binds the entire society to the dominant opinion, and mistakes cannot be contained.

Neither is it possible to choose better political institutions simply by observing the successes and failures of others. In a complex reality, simple observation will not enable us to distinguish the particular causes of success or failure, as Hayek has often argued. For instance, one observer of the Soviet Union could argue that its standard of living is so low because of its central planning while another could equally argue that it is as rich as it is *only* because it has centrally planned its economy. There is no physical (unintended?) constraint on the production and dissemination of political ideology that will automatically select those ideologies which serve individual long-run purposes. It is more likely that no bad idea ever really dies; it simply hovers in the recesses of someone's mind to be trotted out in a slightly different verbal garb when people are searching for a solution to a new crisis.

In some ways this is a very pessimistic message. We cannot rely on the unintended consequences of human action to generate a 'spontaneous order' of rules—at least, not of rules that will

permit other spontaneous orders to flourish. So what is left? Only a vigorous ideological activism on the part of all who value the Great Society.²⁵ The idea of the Great Society is not 'natural' in any biological or sociological sense of the word. It is not something which must, in any determinate sense, emerge from a natural process of cultural evolution. Human beings are capable of creating it and functioning in it, but they are also capable for many lesser social orders. Hence the values which make the great society possible must be taught and reinforced if they are to be preserved.

Reason and rules

Hayek laments the passing of the time when people were willing obey a set of rules they did not understand—the rules which made the Great Society possible.²⁶ If there ever was such a time, however, it cannot be reinstated. In modern, complex democratic societies, people must be convinced of the *reason* for rules. And they must be shown which rules will make society possible. The growth of technology and economic institutions attests to the creativity and imaginativeness of human beings when they are free to experiment with ideas. We cannot assume creativity and imagination applied to innovation in technology, science and economic institutions and, at the same time, also assume that people will not attempt to be creative and imaginative about their political institutions or that they will be willing to submit to rules the purposes of which they do not understand. The more open the society, the more likely that creative and intelligent individuals will insist on thinking through the rules of behaviour they follow and the more experimentation—for better or for worse—we will observe. Hence the overwhelming importance of ideological activism to convince people of the value of a free society.

Towards a reversal of the Road to Serfdom

One optimistic implication of my analysis is that the evolution of ideas is *not* uni-directional. There is no presumption that,

²⁵ This is Hayek's term for the advanced, complex industrial society which results from economic and political freedom. (*L, L&L*, Vol. 1, p. 14.)

²⁶ 'The refusal to yield to forces while we neither understand nor can recognise as the conscious decisions of an intelligent being is the product of an incomplete and therefore erroneous rationalism.' (*Road*, p. 205.)

because a good idea has been lost, the loss is irrevocable. The *Road to Serfdom* can indeed be a two-way street if the inducements to change direction are strong enough and the arguments in favour of freedom persuasive enough. Much progress has already been made in the arguments for liberty. At least for the present, the case for comprehensive economic planning has been demolished. We now have a much better understanding of how markets work (due in no small part to the seminal work of Hayek), and we have a much more realistic understanding of how government functions.²⁹ What still needs to be accomplished is to complete the argument Hayek began in the *Road to Serfdom*—the argument that liberty is all of a piece and that economic and political freedom cannot be separated for very long. There is mounting evidence that, in the communist East, the failure of economic planning is proving to be a very good argument in favour of economic and political freedom. In the West, the case for economic freedom has yet to be made (indeed, there seems to be a serious retrogression in the United States despite the popular perception of the ideological bent of the Reagan Administration). But to the extent that people value certain civil liberties there is still a basic shared ideology upon which to build that case. We still do not know enough about the transmission of ideas and the role of intellectuals and specialists in disseminating them. This is the gap that must be tackled because the task in the years ahead is to disseminate the principles and the practices of liberty in a way that builds on what current consensus there may be.

We must also expect that the case for liberty will never be completely won. It is in the nature of these ideas, as has been shown, that they can never be tested conclusively and thus are always vulnerable to counter-argument. We might, however, take some comfort from the hope that, if people can be convinced of the importance of the rules which permit a free society to flourish, the widely disbursed material benefits which flow from genuine liberty will give few people cause to reevaluate their political ideologies—at least for a very long time.

²⁹ Our better understanding of how government functions is due to the work of the public-choice theorists, and primarily to those of the Virginia School.

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