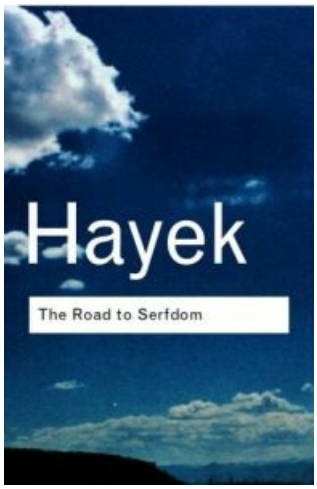

Book The Road to Serfdom

Friedrich A. Hayek
Routledge, 2001
First Edition:1944
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Recommendation

Friedrich A. Hayek, an Austrian economist, wrote this classic defense of democracy and market economies in 1944. That it remains a bestseller is a testament to the thoughtfulness and thoroughness of his critique of socialism and centrally planned economies. *The Road to Serfdom* cites the influence of Karl Marx and other German philosophers who primed German citizens to embrace the totalitarian rule of Adolf Hitler. The Great Depression of the 1930s stepped up questions about capitalism and boosted support for socialism among the people of democratic countries. But Hayek warned that citizens of America, Britain and other democracies put their freedom at risk when they extolled the goals of socialism. This edition of Hayek's classic includes annotation of the original text and an appendix with numerous related documents, as well as the introduction to the 1994 edition by monetary policy expert Milton Friedman. Readers who want to know the seminal works in this field and explore the philosophical differences between socialism and capitalism should know this work.

Take-Aways

- "Liberalism," or minimal government, frees individuals to pursue their self-interest.
- A hybrid government that merges elements of democracy and socialism would not work.
- Socialism involves central economic planning and eliminates entrepreneurial initiative.
- A scarcity of broad consensus undermines the viability of central economic planning.
- Central economic planning also negates the societal benefits of commercial competition.
- In the decade of the 1930s, Germany had the world's most socialist government.
- Strict socialists reject the rule of law for its lack of specificity and predictability.
- Socialism promises the individual freedom from basic wants; liberalism promises the individual freedom to satisfy those wants.
- Socialism consolidates political power, while democracy makes it more diffuse.
- Granting absolute security to any group will increase the insecurity of others.

Summary

Doubts About Democracy and Capitalism

In the early decades of the 1900s, Europeans and Americans increasingly considered alternatives to democratic government and capitalism, especially during the terrible economic depression in the 1930s. Many critics questioned the "liberal," or minimal, style of government that democracy fostered and wondered if socialism might deliver better results.

> "We shall never prevent the abuse of power if we are not prepared to limit power."

These were dangerous daydreams. For market-based economies like those of America and Great Britain, a full turn toward socialism would require abolishing property rights and adopting a centrally planned economy, sharply cutting the scope of individual decision making. True, many supporters of socialism and other types of totalitarian rule have societal goals similar to those of democracy, but socialism's pious objectives fail to justify its punitive means of achieving them.

> "Economic control is not merely control of a sector of human life that can be separated from the rest; it is the control of the means for all our ends."

Few countries integrated socialism into their governance to a greater extent than Germany did in the 50 years prior to the pivotal 1930s, when Adolf Hitler rose to power. German philosopher Karl Marx died in 1883, but his revolutionary belief in socialism and central economic planning lived on, attracting a growing number of German supporters well into the 20th century. German socialism turned into Nazism, subordinating individual needs to Hitler's wishes, not to the state's goals. Other forms of totalitarian rule produced similarly disappointing results in Italy and Russia.

> "Where effective competition can be created, it is a better way of guiding individual efforts than any other."

Citizens of democracies take comfort in the false notion that the elimination of personal freedom that took place in Germany, Italy and Russia could never happen in their countries. But in many democracies, public fascination with socialism's high-minded purposes hinders perception of its real consequences. By making lofty socialist goals almost fashionable, influential thinkers in democracies ignore the basic incompatibility of socialism and liberalism.

The Impractical Art of Central Planning

In the early 1900s, socialism's proponents gave new meaning to many of liberalism's hallowed values. In the liberal tradition of democracy, "freedom" implied the absence of governmental force and the liberation of individuals to pursue their own interests. In the socialist movement, the word's connotation morphed into freedom from want: The state would provide life's necessities to its citizens, in a classless society, by executing a central plan that gave people "no individual rights but only individual duties."

> "In the democracies, the majority of people still believe that socialism and freedom can be combined."

This semantic tactic, and others like it, was effective. Opinion leaders in America and Britain began a public discussion of the theoretical benefits of "democratic socialism," a hybrid form of government that would combine the best elements of individualism and central economic planning. This utopian vision was much easier to conceive than to achieve. Preserving individual freedom and enforcing individual allegiance to a central economic plan are mutually exclusive.

> "Planning and competition can be combined only by planning for competition but not by planning against competition."

Socialism is flawed for many reasons. For instance, it requires all workers to follow a central economic plan instead of pursuing individual goals, but central planning is unworkable. No single plan could ensure the optimal use of labor and capital. Understanding all aspects of society well enough to meet every citizen's needs is beyond human capability.

> "Socialism means the abolition of private enterprise, of private ownership as a means of production, and the creation of a 'planned economy' in which the entrepreneur working for profit is replaced by a central planning body."

Weaving a central plan that would unite every strand of commerce is impractical given people's inability to agree on broad issues affecting everyone's interests. Recognition of this impossibility is central to the political philosophy of individualism. So, instead of one central plan that includes all sectors, socialism is more likely to result in many smaller plans, one for each industry or region, for example. A market-based system of allocating capital, setting prices, and rewarding effort and ingenuity is far more efficient.

> "It cannot be denied that the Rule of Law produces economic inequality – all that can be claimed for it is that this inequality was not designed to affect particular people in a particular way."

The misguided notion that socialism is morally superior to liberalism is equally unsupportable. Socialism may seem better because it promises everyone freedom from basic wants, while liberalism assures the individual only the freedom to satisfy wants. But socialism is an amoral philosophy in that it eliminates the choices commonly available to citizens of democracies, thus limiting people's responsibility for their own welfare. Without the freedom to choose, moral codes of behavior no longer apply.

Liberation and Limitation

Liberalism fostered capitalism by nurturing the development of market-based economic activity, the antithesis of central planning. Great societal advances have taken place under the energizing influence of spontaneous economic development. Concentration of industrial power follows from the efficiencies of large-scale production. The supporters of socialism contend that this natural tendency toward monopoly evidences the inevitable transformation of market-based economies to centrally planned economies. In this dark view, a collective of corporate cartels, or a "corporative" style of government, will take over eventually. But, in fact, the purported evolution of capitalism to socialism is a ruse.

> "The system of private property is the most important guaranty of freedom."

Liberalism imposes limits on economic actors, though. Far from allowing a business to do anything it wants, liberal government restricts monopoly power and other abuses of market mechanisms. Its encouragement of "beneficial competition" also is compatible with ensuring that companies protect their workers' safety, and their products' and services' integrity. Even with "some admixture of regulation," market-based competition can produce positive results.

> "The fascination of vague but popular phrases like 'full employment' may well lead to extremely shortsighted measures."

But excessive regulation can have the opposite effect. Unemployment clearly is a societal scourge. Creating a business climate that favors more employment should be a top priority. But stubborn pursuit of the collectivist ideal of "full employment," regardless of the negative impact on other public priorities, is poor policy. A trade policy

that adjusts the heat of global business competition through diplomacy would be similarly shortsighted. Replacing cross-border competition with sovereign negotiation will negate the value of markets and the business information they provide.

The Rule of Law

Few characteristics distinguish liberalism from socialism more clearly than the two systems' approach to the rule of law, which means the application of formal legislation that addresses certain situations, not certain people. Justice in rule of law is transparent. Everyone understands what to expect in a given circumstance.

> "Outside the sphere of individual responsibility there is neither goodness nor badness."

Following the rule of law is a better way to resolve the problems and excesses of market-based economies than simply eliminating markets through socialism. A socialist central-planning authority cannot easily abide by the rule of law because the results are individually weighed and unpredictable. Central planners rely more on circumstance than on law to adjudicate outcomes. They arbitrarily determine who prospers or suffers, instead of allowing judgment by free markets and independent courts.

> "From the saintly and single-minded idealist to the fanatic is often but a step."

Among other benefits, the rule of law brings blind justice to economic endeavors. Consider the plight of an unfortunate factory owner who must permanently close his operation. In a centrally planned economy, the owner could blame someone in the government for capriciously closing his factory instead of another one. However, in a country that follows the rule of law, the factory owner is more likely to view his loss as a result of bad luck in the game of capitalism.

> "There is little that is likely to induce men who are good by our standards to aspire to leading positions in the totalitarian machine."

The "tragedy of collectivist thought" has been its simultaneous focus on reasonable social goals and its fundamental disrespect for truth, the propellant for the development of reason. Central planning authorities with good intentions will insist that those who practice any art or science must fulfill some goal of the state, unaware that their seemingly rational demands actually restrain individual enterprise. Yet the impetus toward totalitarianism in democratic countries is ongoing, with ample support for the trend coming from "the two great vested interests: organized capital and organized labor."

Poor Leadership and Propaganda

Some apologists for totalitarianism argue that its results depend on leadership, that Hitler and other despots just gave it a bad reputation. This argument does not include any explanation for the obvious scarcity of good dictators. Totalitarian rule, be it socialism or fascism or another variant, coaxes average people with limited skills into national leadership positions. In short, "the worst get on top" in totalitarian society.

> "The ultimate ends of the activities of reasonable beings are never economic."

Leaders with little talent are well suited for totalitarian rule if they can identify and appeal to large homogeneous groups of people who lack education and share most of their opinions on public issues. Totalitarian leaders find it easier to draw support from working-class people with uniform opinions than to try to appeal to highly educated people with a broad mix of opinions. These leaders silence dissent with propaganda, especially communication that stokes public resentment of a common enemy, real or imagined.

Dictator-driven propaganda predictably goes beyond the promotion of totalitarian values to the invention of "facts." The destruction of truth that accompanies central planning often takes the form of semantic mimicry. Dictators misuse such words as "liberty" and "justice," infusing them with a new collectivist meaning, not the sense of individual potential that democracy can inspire. Totalitarian rulers are inclined to represent the truth as something the state provides instead of something that individuals can and should discover for themselves.

Prosperity, Security and Power

Stuart Chase, who wrote books on economics, was a supporter of central economic planning. He found a large audience amid the misery of the 1930s. Chase was typical of the era's collectivist thinkers. He contended that democracy can coexist with central planning if democracy "confines itself to all but economic matters." But he erroneously treated economic activity as a goal. It is actually a tool for achieving noneconomic ends. People take jobs in a market-based economy out of self-interest, not to help their employer profit or to contribute to the economy. They can take or toss jobs as they see fit, instead of wedging themselves into a central economic plan that the government has imposed.

Money is "one of the greatest instruments of freedom" because it permits so much choice. In a centrally planned society, the planners decide what is produced and how much. Under the liberal form of government, individual spending determines everything from production to pricing to product selection.

Some supporters of central planning have pushed for greater government guarantees of economic security. During the Great Depression, millions abandoned their dreams of prosperity and worried more about basic security and access to adequate food and housing. The Depression also set the stage for semantic warfare on new fronts. Widespread fear of privation expanded the political meaning of the word "security."

Among supporters of liberalism, security commonly meant public assistance to needy individuals. In the context of socialism, the word referred to the absolute security of a state-approved standard of living. However, granting absolute security to any group will increase the insecurity of other groups. For example, government can convey absolute security through the mechanism of group membership, benefiting members at the expense of nonmembers.

Capricious favoritism can occur under any form of government, of course. What makes liberalism preferable is its decentralization of power and political clout. Socialism encourages consolidation of power by transferring it from individuals to the state. Liberalism allows more freedom by making power more diffuse, not by making the government more powerful than the governed.

About the Author

Friedrich August von Hayek (1899-1992), an economist from Vienna, Austria, and a proponent of market-based economies, was co-winner of the Nobel Memorial Prize for Economics in 1974 and recipient of the US Presidential Medal of Freedom in 1991.