



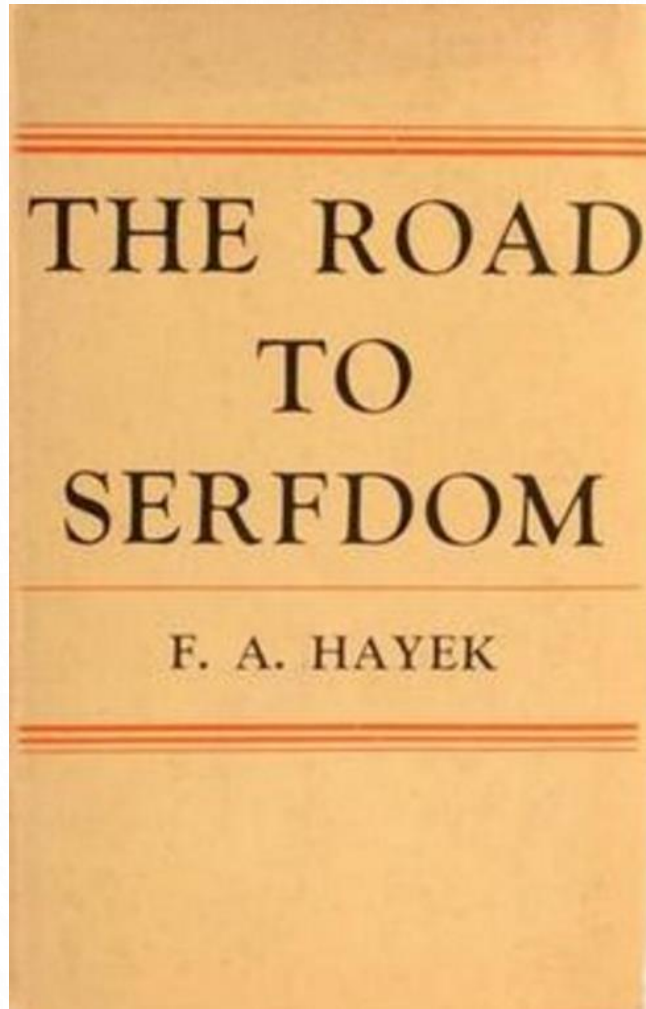
# Friedrich Hayek



8 May 1899 – 23 March 1992

- Friedrich Hayek was an Austrian and British economist and philosopher best known for his defense of **classical liberalism**.
- His account of how changing prices communicate information which enables individuals to coordinate their plans is widely regarded as an important achievement in economics.
- Hayek shared the 1974 Nobel Memorial Prize in Economic Sciences with Gunnar Myrdal for his "pioneering work in the theory of money and economic fluctuations and ... penetrating **analysis of the interdependence of economic, social and institutional phenomena**".

# Friedrich Hayek

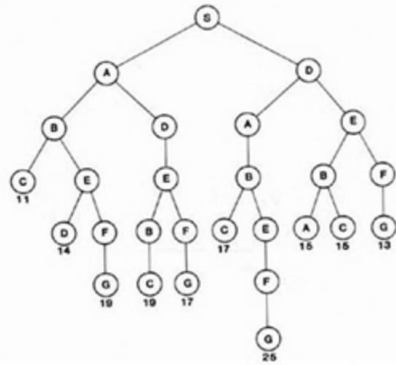


- Hayek served in World War I. He suffered damage to his hearing in his left ear during the war
- He said that his experience in the war and his desire to help avoid the mistakes that had led to the war led him to his career.
- Hayek was concerned about the general view in Britain's academia that fascism was a capitalist reaction to socialism and ***The Road to Serfdom*** arose from those concerns.
- In the 1970s and 1980s, the writings of Hayek were also a major influence on many of the leaders of the "velvet" revolution in Central Europe during the collapse of the old Soviet Empire.

# Spontaneous order

- Hayek viewed concept of the market as a spontaneous order
- Hayek viewed the free price system not as a conscious invention (that which is intentionally designed by man), but as spontaneous order or what he referred to as "that which is the result of human action but not of human design".
- Thus, Hayek put the price mechanism on the same level as, for example, language.
- He explained that **price signals** are the only means of enabling each economic decision maker to communicate **tacit knowledge** or dispersed knowledge to each other, to solve the economic calculation problem

types of organization



hierarchy

# FRIEDRICH HAYEK

- Hayek argued that all forms of **collectivism** (even those theoretically based on voluntary co-operation) could only be maintained by a **central authority** of some kind.
- Hayek argued that **socialism** required **central economic planning** and that such planning in turn leads towards **totalitarianism**.
- In Hayek's view, the central role of the state should be to maintain the **rule of law**, with as little arbitrary intervention as possible.
- A central planning authority would have to be endowed with powers that would impact and ultimately control social life, because the knowledge required for centrally planning an economy is inherently decentralized, and would need to be brought under control.

# FRIEDRICH HAYEK

- Hayek disapproved of the notion of 'social justice'. He compared the market to a game in which 'there is no point in calling the outcome just or unjust' and argued that 'social justice is an empty phrase with no determinable content.'
- *"The results of the individual's efforts are necessarily unpredictable, and the question as to whether the resulting distribution of incomes is just has no meaning".*
- *He generally regarded government redistribution of income or capital as an unacceptable intrusion upon individual freedom:*
- *"The principle of distributive justice, once introduced, would not be fulfilled until the whole of society was organized in accordance with it. This would produce a kind of society which in all essential respects would be the opposite of a free society."*



# FRIEDRICH HAYEK

- But Hayek also wrote that the state can play a role in the economy, and specifically, in creating a "safety net".
- *"There is no reason why, in a society which has reached the general level of wealth ours has, the first kind of security should not be guaranteed to all without endangering general freedom; that is: some minimum of food, shelter and clothing, sufficient to preserve health.*
- *Nor is there any reason why the state should not help to organize a comprehensive system of social insurance in providing for those common hazards of life against which few can make adequate provision."*



Cartoon by Jeff Stahl, 2009

# ROAD TO SERFDOM

- Hayek wrote the book after the WWII, when the world was rebuilding from **German fascism** and was threatened by **Communism**
- The objective of Hayek is to provide a good argument to counter the communist trend. He seeks to convince everyone of the merits of liberal ideas.
- He warns of the danger of **tyranny** that inevitably results from government control of economic decision-making through central planning
- He further argues that the abandonment of individualism and classical liberalism inevitably leads to a loss of freedom, the creation of an oppressive society, the tyranny of a dictator, and the serfdom of the individual.

# HOW DOES A FREEMAN BECAME A SERF?



- One thousand years ago it was by force or economic hardship, such as crop failures.
- Further, serfdom was inherited. That means if your children would be born into your situation of payment to the feudal lord.
- In Hayek's book he argues the road to serfdom is through central government planning or managing of the economy.
- High taxes and large government will have the same effect as it did 1000 years ago.

# ROAD TO SERFDOM



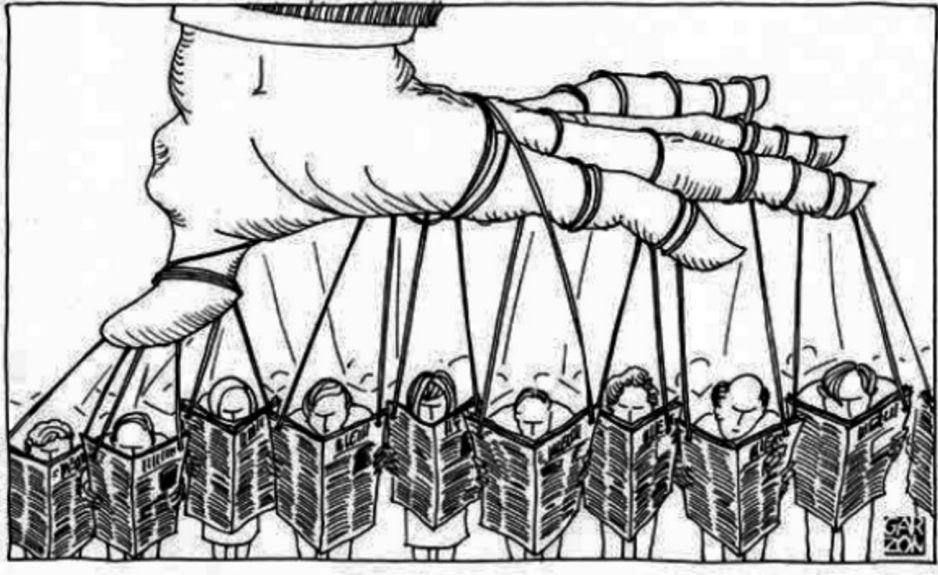
- The merits of the arguments of Hayek,
- *"I now have an unpleasant truth to say: that we are in danger of the fate of Germany"*.
- The link with socialism is established soon after: *"Few people are willing to recognize that the rise of fascism and Nazism was not a reaction against the socialist trends of the previous period, but an inevitable result of these trends.*
- *"the left parties as well as those on the right are mistaken in believing that National Socialism was in the service of capitalism and that he was opposed to any form of socialism. "*
- It was at this demonstration Hayek tackle: how a political system that puts the center state (Nazism, communism etc.) Can be done against the individual

# ROAD TO SERFDOM



- In the democracies at present, many who sincerely hate all of Nazism's manifestations are working for ideals whose realization would lead straight to the abhorred tyranny.
- Most of the people whose views influence developments are in some measure socialists.
- They believe that our economic life should be 'consciously directed', that we should substitute 'economic planning' for the competitive system.
- Yet is there a greater tragedy imaginable than that, in our endeavour consciously to shape our future in accordance with high ideals, we should in fact unwittingly produce the very opposite of what we have been striving for?

# ROAD TO SERFDOM



- The contention that only the peculiar wickedness of the Germans has produced the Nazi system is likely to become the excuse for forcing on us the very institutions which have produced that wickedness.
- The more the state 'plans' the more difficult planning becomes for the individual.
- The first need is to free ourselves of that worst form of contemporary obscurantism which tries to persuade us that what we have done in the recent past was all either wise or unavoidable.
- We shall not grow wiser before we learn that much that we have done was very foolish.

# ROAD TO SERFDOM

- Hayek distinguished three kinds of freedom resulting from this humanism: a **personal freedom**, **political freedom** and **economic freedom**.
- The economic freedom which is the prerequisite of any other freedom cannot be the freedom from economic care which the socialists promise us and which can be obtained only by relieving the individual at the same time of the necessity and of the power of choice:
- It must be the freedom of economic activity which, with the right of choice, inevitably also carries the risk and the responsibility of that right.
- The system of private property is the most important guarantee of freedom, not only for those who own property, but scarcely less for those who do not.
- We shall never prevent the abuse of power if we are not prepared to limit power in a way which occasionally may prevent its use for desirable purposes.

# PLANNING AND POWER

- In order to achieve their ends, the planners must create power – power over men wielded by other men – of a magnitude never before known.
- Their success will depend on the extent to which they achieve such power.
- Democracy is an obstacle to this suppression of freedom which the centralized direction of economic activity requires.
- Hence arises the clash between planning and democracy.

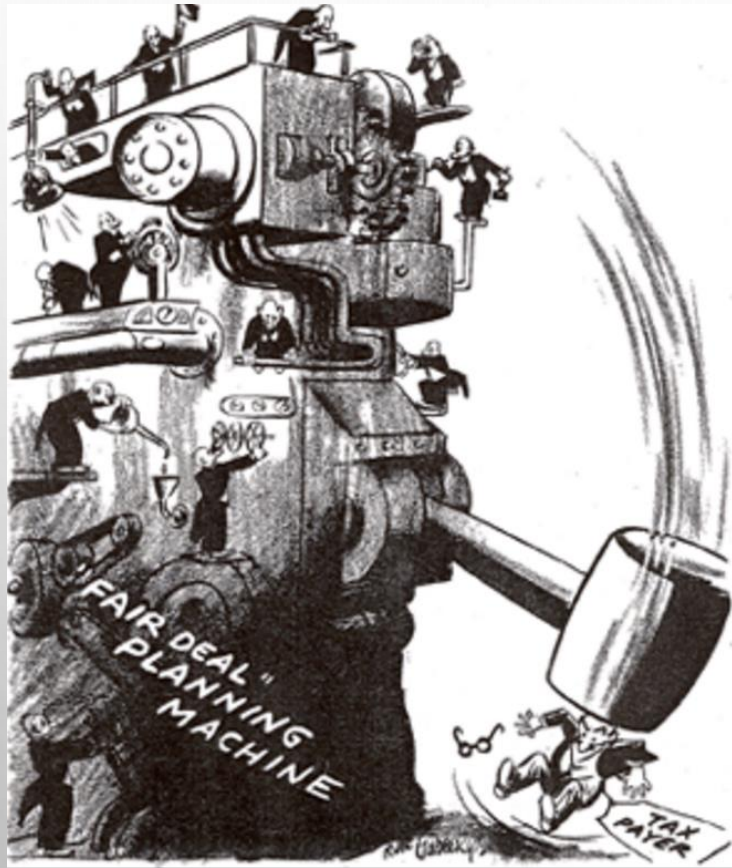


# PLANNING AND POWER



- It might be said that the very success of liberalism became the cause of its decline.
- In the democracies the majority of people still believe that socialism and freedom can be combined
- They do not realize that democratic socialism, the great utopia of the last few generations, is not only unachievable, but that to strive for it produces something utterly different – the very destruction of freedom itself.

# PLANNING AND POWER



- The dispute between the modern planners and the liberals is not on whether we ought to employ systematic thinking in planning our affairs. It is a dispute about what is the best way of so doing.
- The question is whether we should create conditions under which **the knowledge and initiative of individuals** are given the best scope so that they can plan most successfully; or whether we should direct and organize all economic activities according to a '**blueprint**', that is, 'consciously direct the resources of society to conform to the planners' particular views of who should have what'.

# PLANNING AND POWER



- The liberal argument does not advocate leaving things just as they are;
- It favours making the best possible use of the **forces of competition** as a means of coordinating human efforts.
- It is based on the conviction that, where effective competition can be created, it is a better way of guiding individual efforts than any other
- It emphasizes that in order to make competition work beneficially a carefully thought-out legal framework is required, and that neither the past nor the existing legal rules are free from grave defects

# PLANNING AND POWER



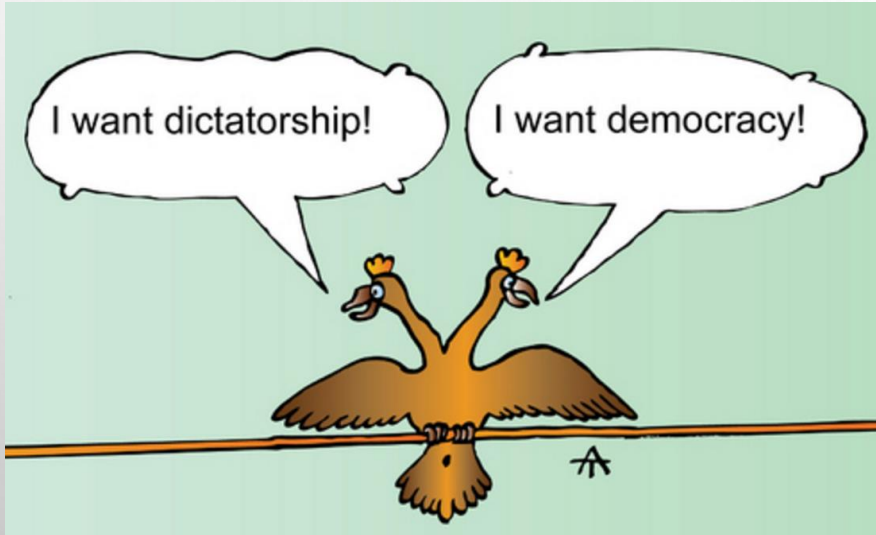
- Liberalism is opposed, however, to supplanting competition by inferior methods of guiding economic activity.
- It regards competition as superior not only because in most circumstances it is the most efficient method known but because it is the only method which does not require the coercive or arbitrary intervention of authority.
- It dispenses with the need for 'conscious social control' and gives individuals a chance to decide whether the prospects of a particular occupation are sufficient to compensate for the disadvantages connected with it.

# PLANNING AND POWER



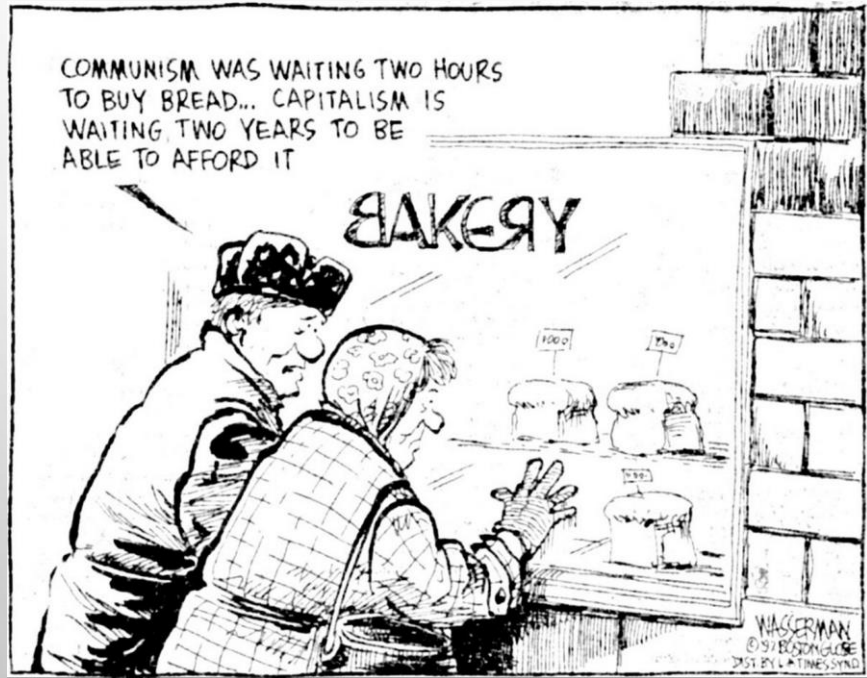
- For example, the harmful effects of deforestation or of the smoke of factories cannot be confined to the owner of the property in question.
- But the fact that we have to resort to direct regulation by authority where the conditions for the proper working of competition cannot be created does not prove that we should suppress competition where it can be made to function.
- To create conditions in which competition will be as effective as possible, to prevent fraud and deception, to break up monopolies – these tasks provide a wide and unquestioned field for state activity.

# PLANNING AND POWER



- Planning and competition can be combined only by **planning for competition**, not by **planning against competition**.
- Democracies who demand a central direction of all economic activity still believe that socialism and individual freedom can be combined.
- Yet socialism was early recognized by many thinkers as the gravest threat to freedom.
- It is rarely remembered now that socialism in its beginnings was frankly authoritarian.

# PLANNING AND POWER



- Democracy and socialism have nothing in common but one word: **equality**
- But notice the difference: while democracy seeks **equality in liberty**, socialism seeks **equality in restraint and servitude**
- Socialism was to bring 'economic freedom' without which political freedom was 'not worth having'
- The word 'freedom' was subjected to a subtle change in meaning; from formerly meant freedom from coercion, from the arbitrary power of other men.
- Now it was made to mean freedom from necessity, release from the compulsion of the circumstances which inevitably limit the range of choice of all of us.

# THE UNFORESEEN CONSEQUENCES OF SOCIALISM

- The demand for the new freedom was thus only another name for the old demand for a redistribution of wealth
- The unforeseen consequences of socialism?
- The extraordinary similarity in many respects of the conditions under 'communism' and 'fascism'
- What is promised to us as the Road to Freedom is in fact the Highroad to Servitude
- The goal of the planning will be described by some such vague term as 'the general welfare'.
- There will be no real agreement as to the ends to be attained, and the effect of the people's agreeing that there must be central planning, without agreeing on the ends, will be rather as if a group of people were to commit themselves to take a journey together without agreeing where they want to go: with the result that they may all have to make a journey which most of them do not want at all.

# THE UNFORESEEN CONSEQUENCES OF SOCIALISM

- Democratic assemblies cannot function as planning agencies.
- They cannot produce agreement on everything – the whole direction of the resources of the nation – for the number of possible courses of action will be legion.
- Even if a congress could, by proceeding step by step and compromising at each point, agree on some scheme, it would certainly in the end satisfy nobody.
- There will be a stronger and stronger demand that some board or some single individual should be given powers to act on their own responsibility.
- The cry for an economic dictator is a characteristic stage in the movement toward planning.
- Thus the legislative body will be reduced to choosing the persons who are to have practically absolute power
- Planning leads to dictatorship because dictatorship is the most effective instrument of coercion and, as such, essential if central planning on a large scale is to be possible

# THE UNFORESEEN CONSEQUENCES OF SOCIALISM



- In the army, work and worker alike are allotted by authority, and this is the only system in which the individual can be conceded full economic security
- In a society used to freedom it is unlikely that many people would be ready deliberately to purchase security at this price.
- But the policies which are followed now are nevertheless rapidly creating conditions in which the striving for security tends to become stronger than the love of freedom.
- If we are not to destroy individual freedom, competition must be left to function unobstructed

# TO BUILD A BETTER WORLD

- To build a better world, we must have the courage to make a new start. We must clear away the obstacles with which human folly has recently encumbered our path and release the creative energy of individuals. We must create conditions favourable to progress rather than 'planning progress'
- It is not those who cry for more 'planning' who show the necessary courage, nor those who preach a '**New Order**', which is no more than a continuation of the tendencies of the past 40 years, and who can think of nothing better than to imitate Hitler.
- It is, indeed, those who cry loudest for a planned economy who are most completely under the sway of the ideas which have created this war and most of the evils from which we suffer.
- The guiding principle in any attempt to create a world of free men must be this: **a policy of freedom for the individual is the only truly progressive policy.**

1

**War forces "national planning"**

To permit total mobilization of your country's economy, you gladly surrender many freedoms. You know regimentation was forced by your country's enemies.



2

**Many want "planning" to stay . . .**

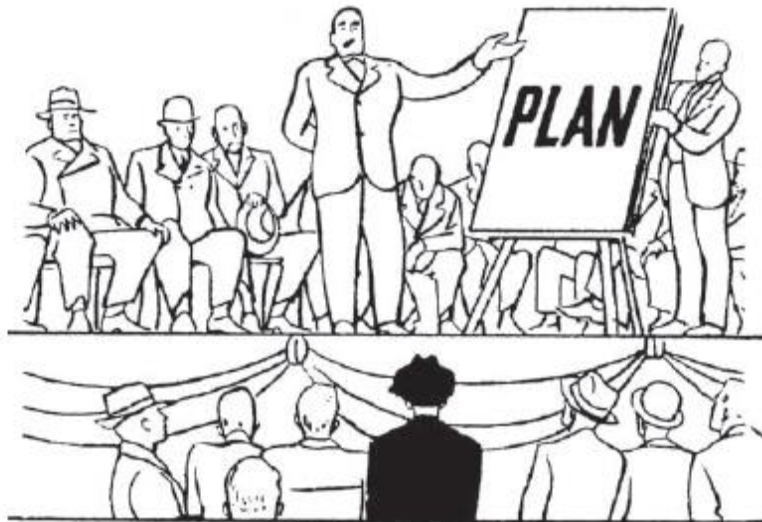
Arguments for a "peace production board" are heard before the war ends. Wartime "planners" who want to stay in power, encourage the idea.



3

The "Planners" promise Utopias . . . .

A rosy plan for farmers goes well in rural areas, a plan for industrial workers is popular in cities—and so on. Many new "planners" are elected to office



4

but they can't agree on ONE Utopia

With peace, a new legislature meets; but "win the war" unity is gone. The "planners" nearly come to blows. Each has his own pet plan, won't budge.



5

And citizens can't agree either . . . .

When the "planners" finally patch up a temporary plan months later, citizens in turn disagree. What the farmer likes, the factory worker doesn't like.



6

"Planners" hate to force agreement . . .

Most "national planners" are well-meaning idealists, balk at any use of force. They hope for some miracle of public agreement as to their patchwork plan.



7

They try to "sell" the plan to all . . .

In an unsuccessful effort to educate people to uniform views, "planners" establish a giant propaganda machine —which coming dictator will find handy.



8

The gullible do find agreement . . .

Meanwhile, growing national confusion leads to protest meetings. The least educated—thrilled and convinced by fiery oratory, form a party.



9

Confidence in "planners" fades . . . .

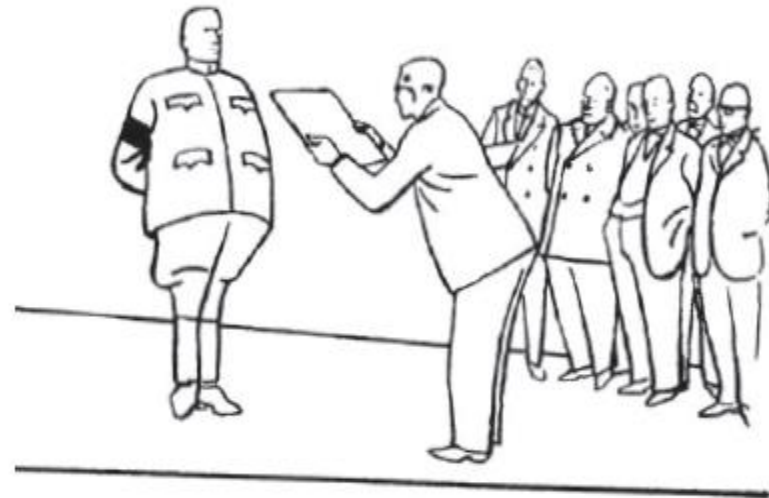
The more that the "planners" improvise, the greater the disturbance to normal business. Everybody suffers. People now feel—rightly—that "planners" *can't* get things done!



10

The "strong man" is given power . . .

In desperation, "planners" authorize the new party leader to hammer out a plan and force its obedience. Later, they'll dispense with him—or so *they* think.



11

**The party takes over the country . . .**

By now, confusion is so great that obedience to the new leader must be obtained at all costs. Maybe you join the party yourself to aid national unity.



12

**A negative aim welds party unity . . .**

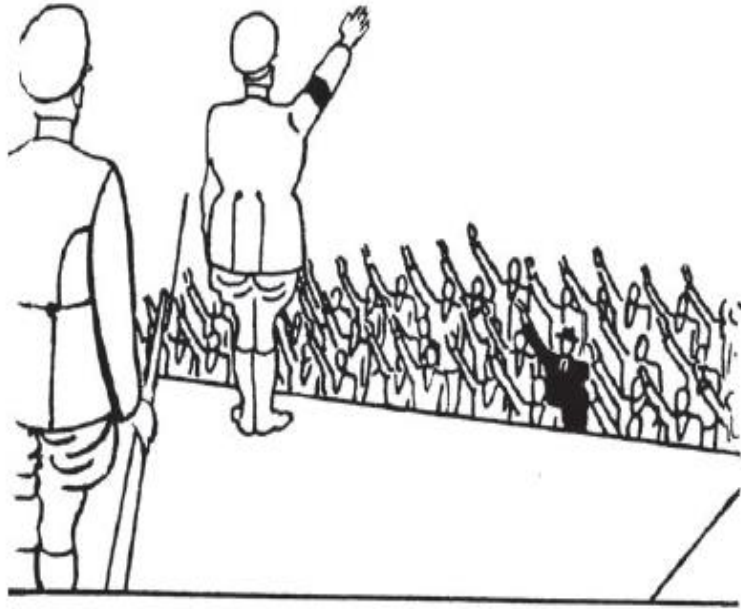
Early step of all dictators is to inflame the majority in common cause against some scapegoat minority. In Germany, the negative aim was *Anti-Semitism*.



13

**No one opposes the leader's plan . . .**

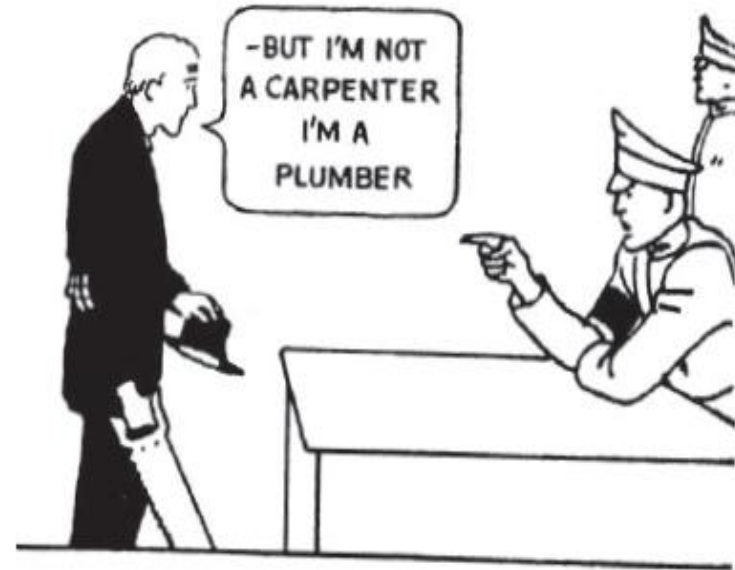
It would be suicide; new secret police are ruthless. Ability to force obedience always becomes the No. 1 virtue in the "planned state." Now *all* freedom is gone.



14

**Your profession is "planned" . . . .**

The wider job choice promised by now defunct "planners" turns out to be a tragic farce. "Planners" never have delivered, never will be able to.



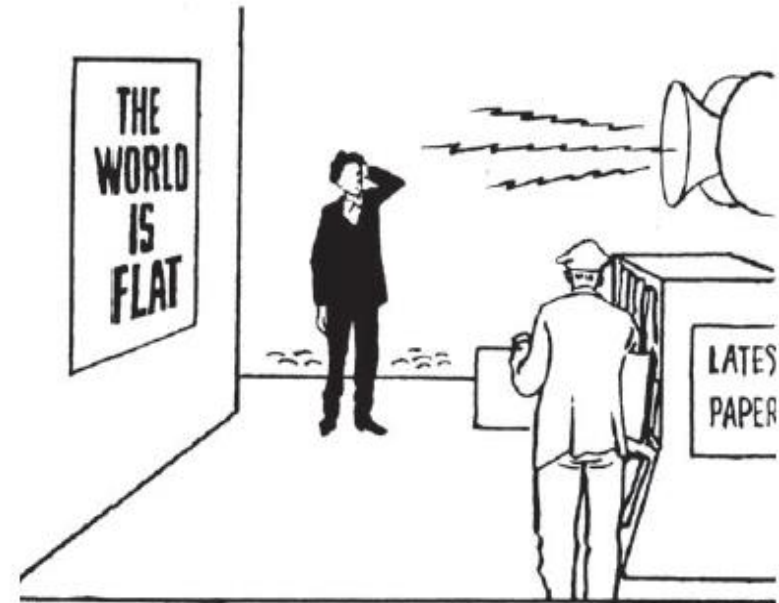
15

Your wages are "planned" . . . .  
Divisions of the wage scale must be arbitrary and rigid. Running a "planned state" from central headquarters is *clumsy, unfair, inefficient.*



16

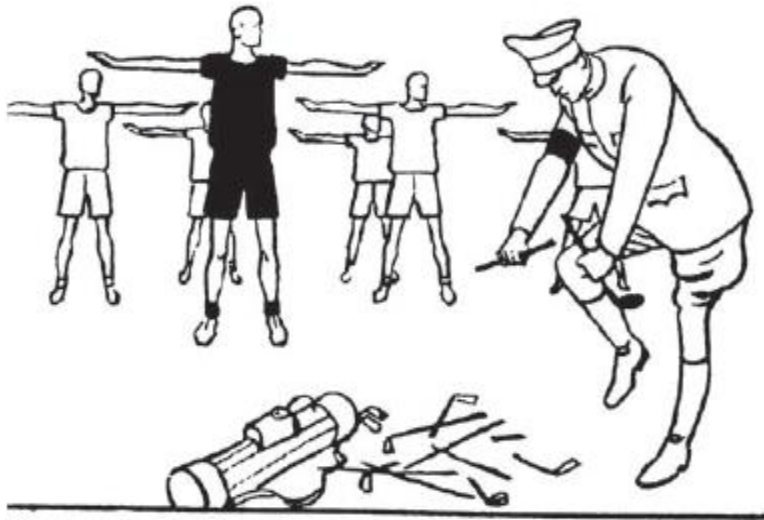
Your thinking is "planned" . . . .  
In the dictatorship, unintentionally created by the planners, there is no room for difference of opinion. Posters, radio, press—all tell you the same lies!



17

Your recreation is "planned" . . . .

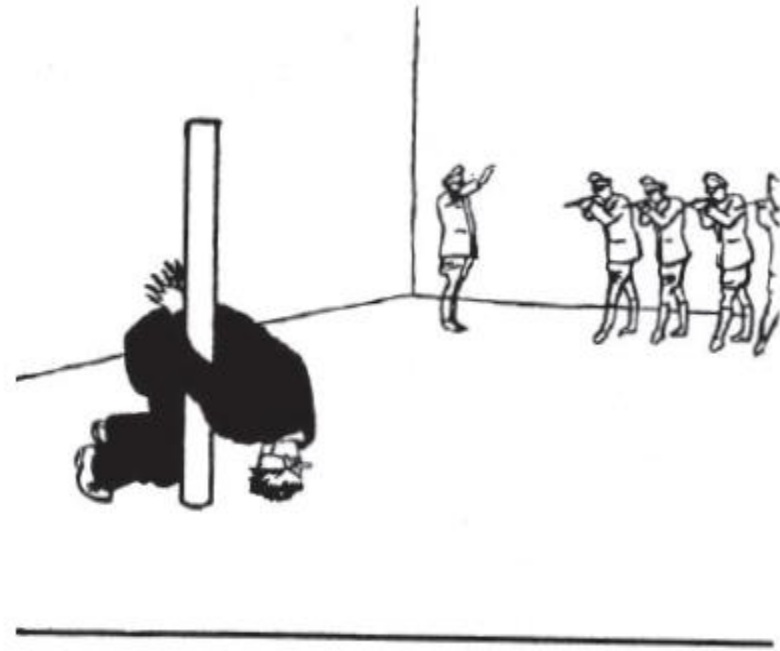
It is no coincidence that sports and amusements have been carefully "planned" in all regimented nations. Once started, "planners" can't stop.



18

Your disciplining is "planned" . . . .

If you're fired from your job, it's apt to be by a firing squad. What used to be an error has now become a crime against the state. *Thus ends the road to serfdom!*



# Watch

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1984

[https://www.youtube.com/watch?v=S\\_7guHTEF7w](https://www.youtube.com/watch?v=S_7guHTEF7w)

The Animal Farm

<https://www.youtube.com/watch?v=Wss6vvFOoeY>