

The Road to Serfdom

FRIEDRICH A. HAYEK

Who the heck is Hayek?

Mrs Thatcher and 'mad professor' attacked by Foot

By NICHOLAS COMFORT, Political Staff

MR FOOT, leader of the Commons, last night accused Mrs Thatcher of being in clutches of a "mad professor" with a dangerous philosophy involving a return to the mass unemployment of the 1930s.

Wirtschafts-Nobelpreis für Hayek und Myrdal

He was 100.

Myrdal, 8. Oktober, Der Konservativ.

My Foot of Nobelpriset för Wirtschaftswissenschaften, referring to his Nobelpriset för Wirtschaftswissenschaften, saying that he had been attacked by a "mad professor" with a dangerous philosophy involving a return to the mass unemployment of the 1930s.

Who's afraid of the formidable Fritz?

10-X-74 THE NEW YORK TIMES, TH

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He is seventy-seven years old, Friedrich von Hayek, a Nobel prize-winning economist whose ideas may become official Conservative policy.

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Unretiring Economist Whose Energy Defies Age

Friedrich August von Hayek

WE ARE ALL HAYEKIANS NOW

It is not very easy to find a thoroughgoing Keynesian these days except perhaps in the backrooms of the C.B.I. and the T.O.C.

The academics have got their heads well down, the Treasury has its fingers crossed, and when they get up they find a plan.

are being slowly fulfilled. Think of a book on the subject of "The Choice Between 'Only There' and 'To Allow a Rapidly Decaying'".

PATRICK HUTBER

Nobel Prize winners disagree on economics

By Tim Longdon

The 1974 Nobel Prize in Economics was four - these are conventional wisdom - but the prize was split between four winners.

These distinguished men, the economic field for whom principally to operate with the ability to communicate people, a grave and at times but as a whole and complex found. It is hard to admire two people more sharply.

The Royal Swedish Academy of Sciences - it is there no corporate.

we are not adjectives to be used. Which you prefer - Marx and Freud.

Arthur Shenfield looks at the life of Professor Hayek, a Nobel prizewinner, whose ideas form an important strand of the present economic debate in Britain

A prophet coming into his own?

The Nobel Prize for economics

AN APPRECIATION BY LORD ROBBINS

Financial Times, 11-X-74

Hayek, 8. Oktober, Der Konservativ.

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THE TIMES 21-X-74

The German economy

From Professor F. A. Hayek

Sir, You report in your issue of December 18 that Mr Roy Jenkins is concerned about the solution of the fundamental problems of the unbalance caused by Germany being in a position quite different from that of France, Britain and Italy. The solution is the simplest, most obvious possible. That the latter three countries abandon their socialist policies, and they will in a few years be where Germany has arrived now by this method.

Yours sincerely,
F. A. HAYEK,
Salzburg,
Austria.

LT. EDITOR DAI
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LONDON

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CONSISTING OF TRADE UNION
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F. A. HAYEK
ORIENTAL HOTEL
BANGKOK

Hayek: a short c.v.

* 1899	Vienna
1921-1931:	business cycle research (with Mises)
1931-1950:	LSE (contra Keynes, Lange)
1944:	The Road to Serfdom
1950-1962:	University of Chicago
1960:	The Constitution of Liberty
1962-1992:	(University of) Freiburg (and Salzburg)
1973-79:	Law, Legislation and Liberty
1974:	Nobel Price (shared with Gunnar Myrdal)

Intellectual legacy I: “The division of knowledge”

"How can the combination of fragments of knowledge existing in different minds bring about results which, if they were to be brought about deliberately, would require a knowledge on the part of the directing mind which no single mind can possess? "



F.A. Hayek 1937

Intellectual legacy I: “The division of knowledge”

Knowledge about specific (place and time) economic conditions is dispersed among individuals. It can not be centralised (is often not even explicit, but a “tacit” skill). The use of this knowledge in society is only possible if individuals are free to use it and if it becomes expressed in changes of relative prices.



F.A. Hayek 1937

- critique of central planning
- critique of neoclassical models with “given knowledge”

Intellectual legacy II:

“competition as a discovery procedure”

“wherever the use of competition can be rationally justified, it is on the ground that we do not know in advance the facts that determine the actions of competitors ... it would clearly be pointless to arrange for competition, if we were certain beforehand who would do best” ...

“competition as a procedure for the discovery of such facts as, without resort to it, would not be known to anyone, or at least would not be utilised”

- critique of interventionism (presumption of knowledge)
- critique of “perfect competition” benchmark



F.A. Hayek 1968

Intellectual / political legacy III: Open society a spontaneous order

The very term economy suggests a wrong approach. We are too prone to think of economy in terms of a deliberately planned organization such as a household or an enterprise. In this sense the word economy is the discovery of a system or the well-use of a system and not a system in itself. There are no more metaphors, x

I shall therefore here introduce for a society in which an extensive division of labor is brought about by the price mechanism of a competitive market based on several property of the means of production as well as common goods a catalytic.

As distinct from the deliberately organized process of a household economy or a acquisitive enterprise the participation of the individual in it is necessary of the nature of a game because his decisions must largely aim at adaptation to unknown future circumstances and expectations based on signals

Intellectual / political legacy III: The open society as spontaneous order

Market economy is not an „oiconomia“ (household, organisation), but a „catallaxy“, (unplanned network of voluntary exchanges, spontaneous order of human interaction and not of human design).



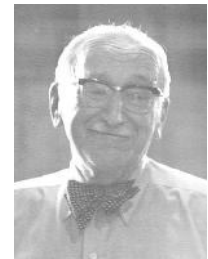
F.A. Hayek 1962

Based on „universalisable rules of just behaviour“ instead of specific commands.

Serves unknown purposes of individuals instead of common goals.

Intellectual / political legacy III: The morals of the open society

“The morals of the market do lead us to benefit others, not by our intending to do so, but by making us act in a manner which, nonetheless will have just that effect ... Our ‘altruism’, in this new sense, is very different from instinctual altruism. No longer the end pursued but the rules observed make the action good or bad.”



F.A. Hayek 1976

“Distributive justice makes sense only in the small group or organisation, where income is deliberately distributed.

In a spontaneous order of catallaxy, there can be no (un)just distribution”

Political legacies

Deeply unfashionable then, commonplace today:

- Decline of socialism (Hayek 1935) ✓
- Importance of “knowledge society” (Hayek 1937) ✓
- Failure of Keynesian politics (Hayek 1941) ✓

Deeply unfashionable still today:

- Atavism of social justice (& welfare state; Hayek 1976; 1944) ?
- Abolition of trade-unions (Hayek 1980) ?
- De-nationalisation of money (Hayek 1976) ?

THE 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?

THE 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.
- Totalitarianism is the new word we have adopted to describe the unexpected but nevertheless inseparable manifestations of what in theory we call socialism.
- The more the state 'plans' the more difficult planning becomes for the individual.

THE ROAD TO SERFDOM

- 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.

THE ROAD TO SERFDOM

- 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.

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.

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- Individualism, in contrast to socialism and all other forms of totalitarianism, is based on the respect of Christianity for the individual man and the belief that it is desirable that men should be free to develop their own individual gifts and talents.
 - The effect of this success was to create among men a new sense of power over their own fate, the belief in the unbounded possibilities of improving their own lot.

The liberal way of planning

- The principles which had made this progress possible came to be regarded as obstacles to speedier progress, impatiently to be brushed away.
- 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.

The liberal way of planning

- 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'.

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- 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

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- 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.

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- 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.

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- 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.

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- 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 unforeseen consequences of socialism

- 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.

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- 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

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- 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

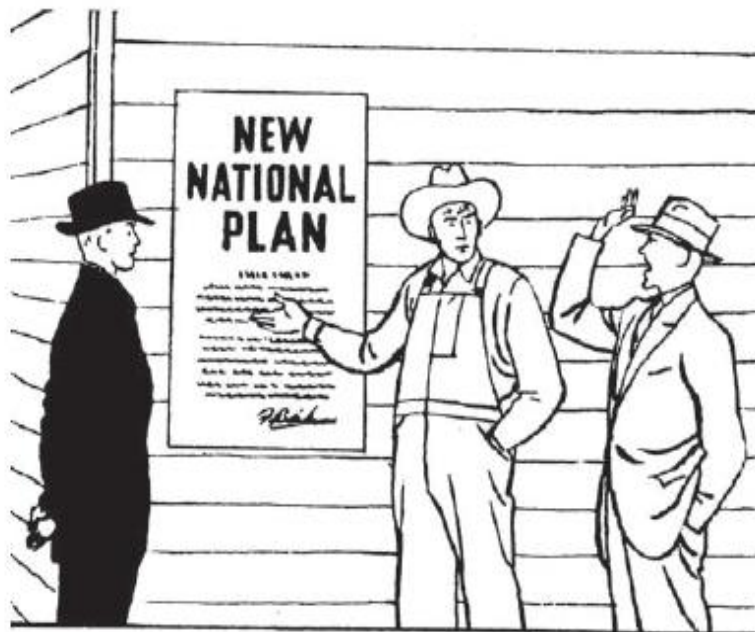
With peace, a new legislature meets; but "win the war" unity is gone. The "planners" nearly come to blows. Each has his own pet plan, won't budge.



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

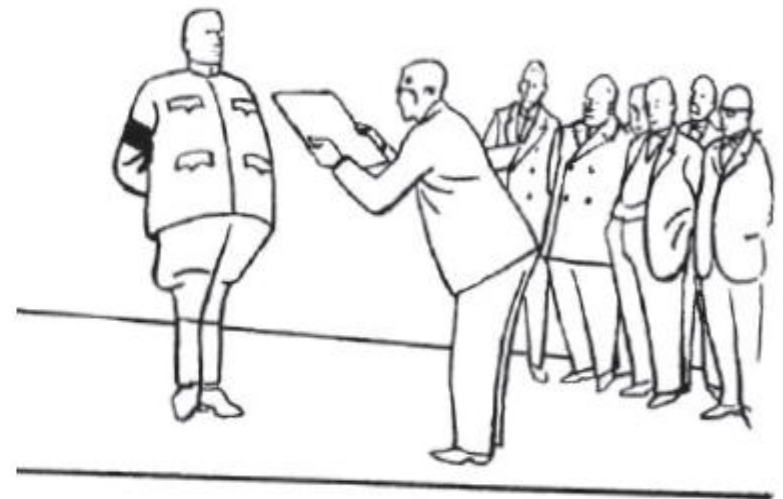
The more that the "planners" improvise, the greater the disturbance to normal business. Everybody suffers. People now feel—rightly—that "planners" *can't* get things done!



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 . . .

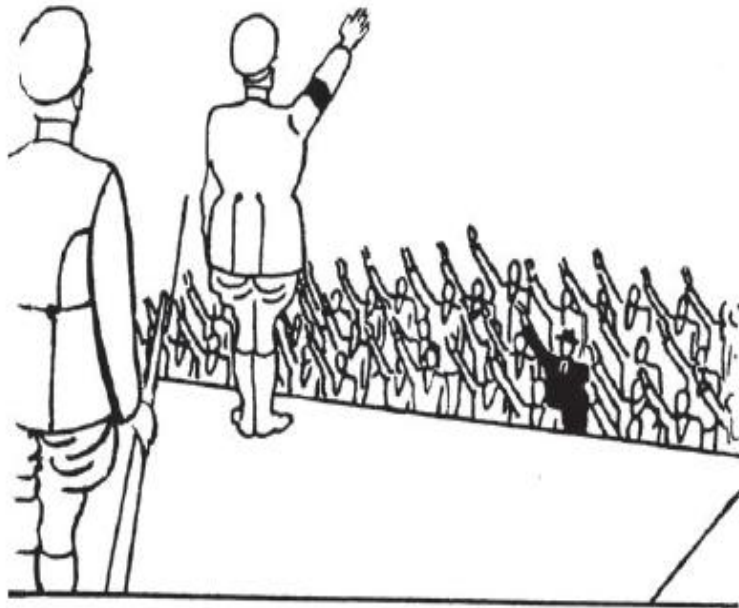
Early step of all dictators is to inflame the majority in common cause against some scapegoat minority. In Germany, the negative aim was *Anti-Semitism*.



13

No one opposes the leader's plan . . .

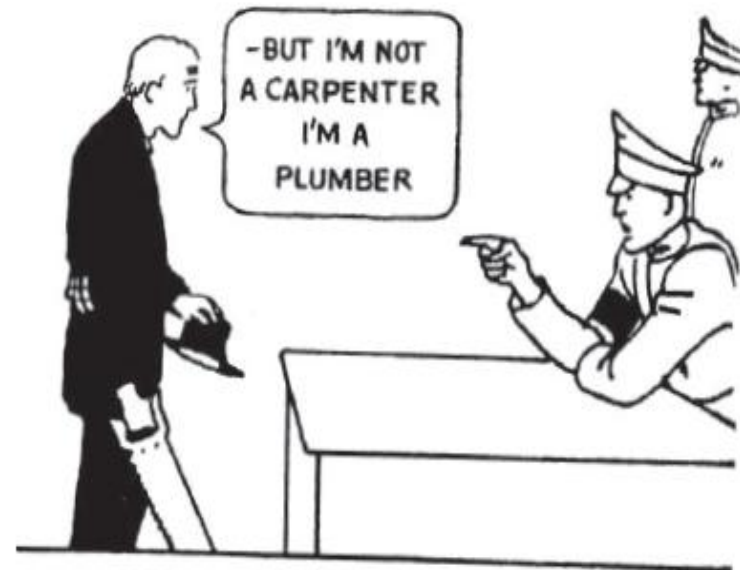
It would be suicide; new secret police are ruthless. Ability to force obedience always becomes the No. 1 virtue in the "planned state." Now *all* freedom is gone.



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"

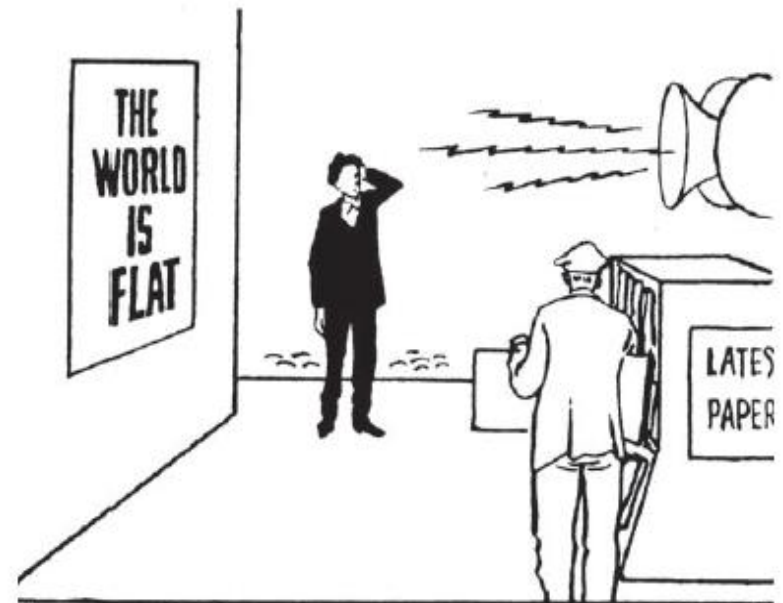
Divisions of the wage scale must be arbitrary and rigid. Running a "planned state" from central headquarters is *clumsy, unfair, inefficient.*



16

Your thinking is "planned"

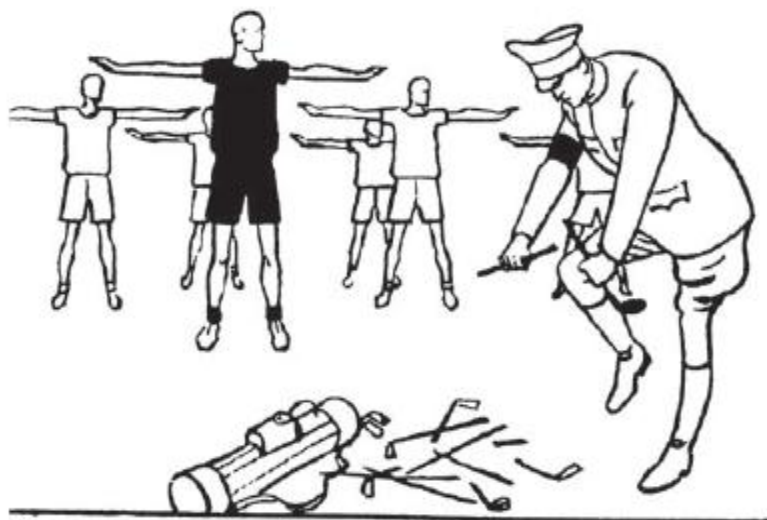
In the dictatorship, unintentionally created by the planners, there is no room for difference of opinion. Posters, radio, press—all tell you the same lies!



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!*

