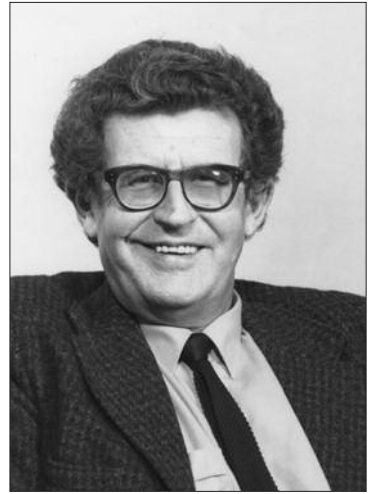


THE ESCAPE FROM SERFDOM*

Friedrich von Hayek and the restoration of liberty

KENNETH MINOGUE



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If the central contest of the twentieth century has pitted capitalism against socialism, then F. A. Hayek has been its central figure. He helped us to understand why capitalism won by a knockout. It was Hayek who elaborated the basic argument demonstrating that central planning was nothing else but an impoverishing fantasy. His account of a modern economy as a spontaneous order is a standing challenge to Utopians who seek to take society by the scruff of the neck and make it correspond to some ideal or other.

Like Popper and Wittgenstein, Hayek was part of what Ernest Gellner called “the Anglo-Austrian intellectual alliance”. Born in 1899 to a family of academics and civil servants, he fought on the Italian front in the last year of the First World War. He was in the dangerous business of artillery-spotting from the air. On one occasion, his pilot spiralled down towards the ground after being attacked. Hayek “climbed on the rail”, but the pilot just managed to pull out of the spin. Was it terrifying? he was asked. No, he merely found it exciting, adding: “I had no nerves.” At war’s end, he returned to an inflationary Vienna in which the university had to be closed down for lack of heating fuel.

By his own account, Hayek was a kind of alien in the land of the Habsburgs. His essence belonged in a different time and another place. He was by temperament an Englishman, and by political conviction an eighteenth-century Whig. He made a good fist at solving the first problem by coming to the London School of Economics in 1931 as a lecturer, becoming a year later Tooke Professor of Economics, and later taking out British citizenship (along with membership of the Reform Club). The second problem couldn’t quite be solved in the same way, but Hayek finessed it by becoming a powerful ancestral voice recalling a straying Western world to the fundamentals that had been so clearly explained by his real contemporaries, the eighteenth-century theorists of commercial society, especially Hume and Adam Smith. He thus became part of a curious tradition in which foreigners explained to the English what their freedom actually was about.

Hayek identified freedom with the enterprise which individuals exhibited in pursuing their own projects within a framework of abstract laws. Unfreedom, on the other hand, occurred when governments imposed their own projects on their subjects. Hayek had a clarity on these matters only possible, perhaps, for someone from a country not long,

* Originally published in *The Times Literary Supplement*, January 14, 2000

and not completely, liberated from corporatist constraint. His grasp of these realities collided with what most people then thought was obvious. In the 1930s, it seemed the merest common sense to demand that governments should remedy an absurd world in which millions were unemployed but there was so much work to be done to improve lives. In the 1940s, the challenge of war showed that it could be done. Listening to these opinions, Hayek later said, reminded him irresistibly of opinion in the Germanic world of his youth. Even those who understood the failure of the Russian command economy inclined to what Hayek thought was the illusion of that epoch: that liberal democracies could dabble with impunity in piecemeal central planning. The state could control prices or direct labour and yet still retain the rights and vitality of a free society.

In 1944, with the war still in progress, Hayek attacked this pick 'n' mix view of social policy in *The Road to Serfdom*, which became an instant bestseller, especially in America, where it was serialized in a brilliant abridgement by Max Eastman in the *Reader's Digest*. His central argument was that a modern economy was a vast system of information flows which signalled to everyone indispensable facts about scarcity and opportunity. The vitality of modern Western economies, and the best use of scarce resources, rested upon workers and entrepreneurs having these signals available to them. No planning committee could possibly plug into them. Central direction could lead only to poverty and oppression, and the collapse of communism powerfully confirmed his view.

The Road to Serfdom had an enormous impact, but it infuriated the intellectual classes, and especially many of his fellow economists. Post-war reconstruction was in the air, and a generation had grown up which was determined to stabilize the ups and downs of the trade cycle. In Keynesian demand management, they thought they had the techniques for doing so. Hayek always suspected that the corruptions of power also played their part in this attitude. Academics had been drawn into planning the war effort; they now looked forward to being even more prominent in peacetime. They liked the power and importance it gave them. It was like a drug. Now they were faced by a formidable critic who told them to lay off the staff. Even the mildest indulgence in the pleasures of a command economy was a move down a slippery slope, the end of which was the very totalitarianism against which they had just been fighting.

In the atmosphere of the time, Hayek's views were often judged to be so far out as to be off the map of rational politics altogether. Even the sympathetic had their doubts. His great friend and colleague Lionel Robbins thought he was "alarmist". Hayek suspected that here was a good man who had fallen under the dire influence of Keynes as a result of their wartime collaboration. Keynes himself, with whom Hayek's personal relations were always good, wrote to say that things dangerous in countries with a less robust tradition of freedom would be perfectly safe in a constitutional democracy such as Britain.

Hayek met Winston Churchill briefly, who said to him: "You're absolutely right, but it won't happen here." This was the Churchill who had, it was sometimes suggested, lost the 1945 election because of popular revulsion against his speech suggesting that a Labour government would be the first step to a British Gestapo. Attlee attributed this speech to the influence on Churchill of Friedrich "von" Hayek – the "von" being an irrelevant badge of rank which Hayek had long been trying to shrug off.

With *The Road to Serfdom*, Hayek was moving from technical economics towards the broader issues of social philosophy that had always attracted him. It also caused him to be drummed out of respectable academic circles. Ostracism was to equip him with a destiny which turned his life into a kind of legend: that of a figure who fell and rose

again. In serving the legend, his social philosophy took on Salvationist aspects. As he once put it, he and Keynes had been the two most prominent economists in Britain, indeed probably in the world, in the 1930s; by 1946, Keynes had died and been instantly elevated to sainthood, while Hayek himself was to remain something of a non-person till the 1970s. Socialist opinions had come to dominate the Western world. The conventional wisdom, shared by British Conservatives until well into the 1960s (and by some even now), was that there was no serious alternative to a mixed economy. It was the period of “Butskellism”. In 1947, Hayek gathered together a few friends – including Karl Popper, Robbins and Ludwig von Mises – for a conference on the free market at Mont Pelerin in Switzerland. The meeting created a kind of internationale whose role was to link believers in classical liberalism. The Mont Pelerin Society remains a powerful body to this day. Meanwhile, in London, Anthony Fisher provided the money to set up the Institute of Economic Affairs in London as a “think tank” to advance the case for restoring competition and free enterprise to economies increasingly subject to governmental regulation.

Its creators were Ralph Harris and Arthur Seldon. In time, similar institutes became active all over the world. They were careful not to identify themselves with any political party, and in fact when their time came, their policies were as often implemented by parties of the Left as of the Right. Hayek himself remained out in the intellectual cold, leaving London for personal reasons to move to the University of Chicago in 1950. Since the Economics Department there did not want him, he joined the Committee on Social Thought.

By the 1970s, Western states were taxing ever more heavily to cover the rising costs of redistribution and subsidy. Hayek himself recognized that a modern state had a duty to succour the needy; what he opposed was egalitarian redistribution. The oil crisis of 1972, the collapse of the Phillips curve which had argued a trade-off between unemployment and inflation and the slowing of economic growth along with rising inflation led to a new mood, in which Hayek’s ideas once more spread beyond a coterie. The Thatcher and Reagan administrations of the 1980s were influenced by his ideas. Finding a new energy in his seventies after an earlier period of depression, he brought out a three-volume treatment of social philosophy: *Law, Legislation and Liberty*. The *Fatal Conceit* (of socialism) followed in 1988, when he was approaching ninety. By this time, he was long remote from academic economics (which may well have been the poorer because of it), and he had become less an inspiration to academic inquiry than the icon of an intellectual movement. Yet, it was notable that the rising vogue for normative political philosophy, which rested on a narrow ridge of reality, took good care to insulate its premisses from having to confront the realities with which Hayek was concerned. John Rawls’s theory of justice was clearly a case of the constructivist rationalism that Hayek had spent his life criticizing. To some extent, he suffered the fate of the justified reformer: having been proved right, he could be taken for granted.

Yet there can be no denying the broad scope (nor, as I shall argue, the continuing relevance) of what Hayek achieved. His superb German education gave him a wider understanding of the social sciences than is common in English-speaking economics. He recounts an incident about his LSE colleagues in the 1930s which shocked him. He had decided that Sir William Beveridge was a disastrous Director of the School, good at raising money, devious and foolish about the ways he found to spend it. In pursuing this judgment, Hayek ended each committee meeting of his fellow economists with the words:

Beveridge delendus est, only to discover later that none of his colleagues knew what he meant.

Thus he had the great advantage of having had a broader education than most of those he criticized. In 1952, he had even published a serious contribution to philosophical psychology called *The Sensory Order*. It argued for a holistic view of the mind as itself an order similar to that of society. Yet his remarkable breadth of interests was based on exploring a single basic idea; in Isaiah Berlin's sense, he was a classic hedgehog.

Asked what was the central problem of his intellectual life, he replied: the formation and recognition of complex orders. Abstractly stated in this way, it sounds a remote question, and one part of him wanted nothing better than to explore it in academic obscurity. Another part of him, however, was a prophet who wanted to save the world.

Both the problem and the solution came from the Scottish Enlightenment. Adam Smith had recognized that there was something puzzling, almost providential, about the way in which, in a modern commercial society, each individual worked to improve his own condition; yet the consequence was a prosperous and reasonably harmonious society. Smith had no illusions about human deviousness and self-partiality, but he recognized in self-interest the dynamic which animated a type of society more productive and less barbarous than any previously seen. He was too sophisticated to fall into the vulgar modern error of thinking that self-interest was the same as the vice of selfishness. His fellow social theorist Ferguson talked of institutions which are the result of human action but not of human design.

What they created was the central insight of the eighteenth century, a major intellectual breakthrough. The Western tradition had until this time divided what it experienced into things natural, created by God, and things artificial, made by man. Some highly interesting phenomena, such as states and languages, did not easily fit into either box, and the idea that they had emerged unplanned out of the footsteps left behind by many generations came to be the master idea of social theory. It was the idea that gave vitality to academic history, and Hegel and Marx, both keen students of the Scots, showed what remarkable tunes could be played on it.

Hayek himself tended to explain his theory of the extended order of society less in historical terms than by invoking the idea of evolution, and then had to disentangle himself from critics who accused him of Social Darwinism. For the mere fact of survival entails nothing particularly liberal, or even moral; mere survival is the most brutish of facts. But Hayek took the view that the idea of evolution had in fact first emerged in social theorizing, and was only later taken over by biologists. He greatly admired Bernard de Mandeville, the Dutchman who had anticipated many of the arguments of the economists in his early eighteenth-century satire *The Fable of the Bees*. The shock effect of Mandeville's essays lay in the claim that prosperity depended not on virtue but on vice. A modern society could prosper only if people spent money on luxuries, hired servants, found employment for indolent bureaucrats and litigious lawyers, and in general let rip their propensity to vanity, intemperance and display. He was, you might say, the first Keynesian demand theorist.

Mandeville's cynicism was not shared, of course, by later free-market theorists, who recognized that freedom could survive only if a law-abiding and morally self-controlled population left governments with relatively little to do. Against the believers in negative liberty, and those who detected inconsistency in affirming both moral rectitude and economic liberty, Hayek was clear that freedom and virtue were comrades in arms.

There was certainly nothing raffish or bohemian about Hayek himself, whose doctrine

constantly emphasizes the importance of the moral conventions of respectable, property-owning society, in which families are stable and contracts are kept. He seems to have thought the development of such conventions was so remarkable as to be, in a superficial sense, something irrational, given the human weakness for preferring immediate satisfaction to deferred gratification.

The fortunate survival of these otherwise irrational rules focused his attention on the intellectual tradition which most threatened his “extended order”. This was the philosophy he called “constructive rationalism”, which he derived with almost chauvinistic glee from the French, Descartes and Rousseau (along with Spinoza and Hobbes) being the prime villains. Rationalists believed that to every complex pattern there must correspond a designer. Imperfection was evidence of a failure of rational design; it required, as it were, a *deus ex machina*. At times, Hayek extended his criticism of this principle into theology. The universe itself could not possibly have been the work of a constructively rationalist deity. The Saint Simonians and Comtists in France, the Bolsheviks in Russia and the Fabians in Britain were all constructive rationalists in this sense, all pushing the world in a totalitarian direction, in which the initiative of individuals would be submerged in the projects of the state. They were all what Anthony Flew has called “Procrustean”, ready to lop off the human bits that did not fit into their perfect society. Even some of the later heroes of liberalism had been infected by this dream of central power. Thus John Stuart Mill, who understood economics tolerably well, had argued that while production responded to the pressures of the market, the distribution of goods might be arranged as a society wished.

By contrast, argued Hayek, the English, who were largely empiricists in both theory and practice, recognized the limitations of human rationality, and thought it best to let each person (rather than the state) be the best judge (subject to law) of his own business. He recognized, of course, that law had been deeply corrupted in the course of the twentieth century, even in Britain, perhaps especially here. The common law, which he greatly admired, had given way to a vast increase in regulation of a managerial kind.

The problem is that individuals are not free if their activities must be subordinated to a state bent on its own projects. Unfortunately, the lessons of warfare had shown the way for welfare. Activist governments will, for example, tax the property of their subjects, in order to pursue egalitarian ambitions which have nothing to do with those who have been taxed, and whose own creative vitality is thereby impaired. And here is the crossroads where Hayek’s criticism of the economics of socialism meets his moral concern with freedom.

Hayek powerfully demonstrated that socialism in most of its forms impoverished society. The market was responsive to changes in preferences, technologies and aspirations in a way no central planning body could be, and competition was a discovery procedure on which progress rested. Many socialists have taken these criticisms with appropriate seriousness; many have liberated themselves from the metaphysical conception of “market forces” as an alien power oppressing us, unconnected with our own desires and actions. Markets in some form (it is widely agreed) there must be. Andrew Gamble has written that “Hayek has much to contribute to the renewal of the socialist project”. Such a view depends, however, on identifying Hayek’s view of individualism with the socialist view that the principle of moral equality involves “the creation of conditions in which individuals can fully enjoy such a sphere [of autonomy] and develop their full potential”. Can Hayek’s individualism incorporate this ideal? Can socialist egalitarianism be derived from Hayek’s belief in equal rights for individuals? It’s an ingenious bid for a merger, but

I don't think it will work. The idea of individuals developing their full potential is a piece of sub-Aristotelian jargon which rather suggests that they are plants needing regular watering and manuring. There is, I think, nothing of this in the Hayek who thought that (as Gamble recognizes) freedom can survive only in a society of enterprising individuals. And whoever enterprises one thing – one bit of his or her potential – cannot at the same time be developing some other bit. Yet this assimilation to socialism does raise serious problems for Hayek. What exactly is it that leads him to reject it?

One answer that can often be extracted from his writings is that socialism is simply an inefficient way of satisfying human needs. Hayek believed that it makes no sense to ask if human life itself has a purpose. We can do no more than recognize the benefits of the great society; namely, that there are now vastly more human beings alive to enjoy the benefits of civilization. If we were to abandon the free market, productivity would decline, and many of them would starve, as they currently are in resolutely non-Hayekian North Korea. Along these lines, we might well make a case that the basic disagreement between Hayek and the socialists is one of means. It merely concerns the problem of how best to achieve fecundity and prosperity. And certainly there is a lot in Hayek that suggests he has an instrumentalist view of the social order. We assign moral responsibility to the individual, he tells us, “in order to influence his actions”. Peace, freedom and justice are alike “three great negatives”. But what then is left of freedom, which was certainly at the heart of Hayek's moral allegiance? Is it valuable merely because it makes us rich?

The question has an extra resonance, given the fact that in the 1970s, as social problems began to give substance to Hayekian warnings about interventionist meddling in the economy, many Western states stepped back from the brink and began restoring the conditions of enterprise. But this fortunate reversion to freedom owed nothing to a revived appreciation of its value. It happened merely because the GDP was in danger. The psychology of “serfdom” was little touched.

We may simplify the basic issue by considering the place of co-operation and competition in socialist and classical liberal thought. The socialist project is one which takes society to be an enterprise of social co-operation, to be based on a sense of community. An achieved socialist society is one in which conflict would have been replaced by harmony and mutual aid. This point of view finds it hard to distinguish competition from conflict, which is taken as the unmistakable sign of social failure. Competition is rejected, because it means that some must fail, and failure entails disharmony. The moral problem is dissolved into social harmony, which is why the very word “moral” in contemporary life is giving way to talk of the “anti-social” or the “unacceptable”. The vocabulary of individualism is sometimes appropriated to commend this project, but the individuality has been so smoothed out that everyone fits together like pieces in a jigsaw puzzle. It is, you might say, hardly a real individuality at all; yet even so, the egalitarian community requires extensive and continuing direction from the top. That “actually existing” forms of socialism have involved a high degree of repression suggests that this project is at odds with the kind of people we moderns actually are. Hayek's view is that competitive enterprise evolved out of command economies with difficulty, and is always threatened by an atavistic (one of his favourite words) reversion to more communal forms of society.

Competition in the modern world requires individuals to navigate their way between two sorts of consideration. The first is success, the second is sustaining a moral identity, a sense of themselves as not being contemptible, against the temptations of indulgence

and the short cut. Morality here is a point of honour not to win by cheating, or by betraying our fundamental commitments.

Hayek did not push into what one might, as a shorthand, call the morality of competition, but he would, I think, have recognized it as the moral ground of freedom. Prosperity might be the power that freedom gives, but it is not its point. Hayek was a great admirer of Huizinga, who (like Hobbes) explored the idea that much of human life can be construed as a competitive game, and had a sense that religion had somehow been important as supplying what he thought were irrational motives for abiding by the moral rules on which private property and the fulfilment of contracts was based. The idea that the point of human life is a test or challenge is deeply embedded in a Christian civilization, and it notably contrasts with the socialist view that life's point is the satisfaction of needs or the actualization of potential.

Hayek is rather like a great general who is in brilliant command of the strategy of his central idea, but who has little concern with (as it seems) remote tactical issues, such as the moral value of freedom or what it is actually like to experience unfreedom. On the moral value of freedom, it may be that he was basically a sceptic, unwilling to pronounce, but convinced that a socialist society would turn individuals into instruments of a social project and thus foreclose the moral question altogether. On the issue of unfreedom, he generally quoted others, such as Tocqueville, who could describe psychological conditions with an insight he could not match.

Hayek's achievement has been to save freedom in the twentieth century, by convincing even socialists – for the moment – that the economy must be left alone. What has not changed is the deep passion of reformers and idealists in our civilization to take over governments and use their authority to enforce a single right way of life. This impulse now focuses on social issues like sex, drugs, education, culture and the other areas where a beneficent government aims to help what they patronizingly call “ordinary people” by a bit of subsidy here, a few regulations there. The economy is being left alone. It won't be for long. And that is why Hayek, though not a man for all seasons, will undoubtedly be the man for the century ahead of us.

Government officials' joke about Keynes: “Where five economists are gathered together, there will be six conflicting opinions and two of them will be held by Keynes!”

Vtip vládných úředníků o Keynesovi: „Kde je pět ekonómov, tam je šesť protichodných názorov a dva z nich zastáva Keynes!“

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Dear children,

Here is a selection from the pictures taken at the celebration of mother's birthday. What a pity you were not here!

It is even more of a pity that I shall not see you though I shall be in London on the day before Anna's birthday. I must fly to New York on the 10th and have nearly arranged to stop over at London for 36 hours to attend the British Academy Dinner on the 9th. But I shall telephone on the 9th to learn how you are all doing.

Love

F. Hayek