Friedrich Hayek

UGS 303
Ideas of the Twentieth Century
Postwar Recovery
Friedrich Hayek
Freidrich Hayek (1899–1992)

- Born in Vienna, second cousin of Ludwig Wittgenstein
- Fought for Austria-Hungary on the Italian front in World War I
- Doctorates in law and in political science at University of Vienna
- Nobel Prize in Economics, 1974
Hayek

• Socialism is the centralized, conscious direction of social forces to consciously chosen ends

• The vision is of the collective good—the good of society as a whole

• The appeal—a society built on reason, on ethics
Socialism ≠ the Welfare State

• Socialism = Centralization of Decision-Making
• The Welfare State = support for the poor
• Socialism is marketed as generosity toward the poor
• But that’s independent of centralization
• It may even conflict with it—centralization works against those not in power
COMMUNISM: Commissars take your stuff and give it to other people. If you resist, the government arrests you.

SOCIALISM: Bureaucrats take your stuff and give it to other people. If you resist, the government arrests you.

DEMOCRATIC SOCIALISM: 51 percent of the voters take your stuff and give it to other people. If you resist, the government arrests you.
1. Argument from Respect
Kantian Critique

• If the state is prior to the individual, only the individuals working for the approved ends will be regarded as members of the community.

• People gain respect, and are regarded as having dignity, only as members working for common goal.

• So, socialism undercuts human respect and dignity.

• Focus on common good thus erases limits of power over individuals.
The Road to Serfdom

- “Socialism means slavery”
- Western civilization is built on “respect for the individual man qua man”
  - respect for choices in his own sphere
  - desirability of developing “individual gifts and bents”
John Stuart Mill

- John Stuart Mill: The good of society as a whole requires protection of individual liberty, individuality, spontaneity
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But socialism is the enemy of spontaneity, individuality, liberty: “socialism means slavery”
Paradox of the Anointed

- Those who see their task as substituting their own preferences for those of the people they lead have less concern and less information than the people, but also
  - lack their values, and
  - lack respect for them and their values—that’s why they’re trying to substitute their own judgment for that of the people
Paradox of the Anointed

• Socialism is built on disrespect

• “Although the professed aim of planning would be that man should cease to be a mere means, in fact—since it would be impossible to take account in the plan of individual likes and dislikes—the individual would more than ever become a mere means, to be used by the authority in the service of such abstractions as the ‘social welfare’ or ‘the good of the community.’”
“A society that does not recognize that each individual has values of his own, which he is entitled to follow, can have no respect for the dignity of the individual, and cannot really know freedom.”

-F. A. Hayek
Paradox of Progressivism

• Centralizing decision-making makes it more vulnerable, not less, to manipulation

• It also makes it more dangerous—"the most powerful monopolist conceivable"

• Agents become insulated from accountability but subject to influence by those whose power they are supposed to be balancing
Fairness?

"What our generation has forgotten is that 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. It is only because the control of the means of production is divided among many people acting independently that nobody has complete power over us, that we as individuals can decide what to do with ourselves."

"...if we wish to preserve a free society, it is essential that we recognize that the desirability of a particular object is not sufficient justification for the use of coercion."

- Friedrich August von Hayek (1899-1992)
Paradox of Planning

- “The more the state ‘plans,’ the more difficult planning becomes for the individual.”
- The state imposes its own judgments for those of the people
- It inevitably has to do so arbitrarily, unpredictably
Paradox of Planning

• Requires “deliberate discrimination”—rule of status over Rule of Law

• *Who* you know, not *what* you know

• “To produce the same result for different people, it is necessary to treat them differently.”
2. Argument from Information
Pluralism

- Tradeoffs (Hayek, Burke)
- Pluralism: There are many values—
  - liberty, social order, happiness, prosperity, health, pleasure, honor, morality, religion, strength, civility, peace, dignity, virtue
Pluralism

• Tradeoffs (Hayek, Burke)

• Pluralism: There are many values—

  • liberty, social order, happiness, prosperity, health, pleasure, honor, morality, religion, strength, civility, peace, dignity, virtue

  • “infinite number of good things”—”any one of them can be achieved only at the sacrifice of others”
Pluralism

- Pluralism: Goods differ in kind

- ‘Common good,’ ‘general welfare’ “have no sufficiently definite meaning to determine a particular course of action.”
Pluralism

- To direct by the common good would be to possess a complete scale of values—but no such scale exists
Pluralism

- Even if it did exist, it would be so complex that no human mind could grasp it.
Who Decides?

• Values can be compared only in people’s free choices among them

• Limited government needed to allow people to seek and put value on different goods

• “whether it shall be we who decide what is more, and what is less, important for us, or whether this is to be decided by the planner.”
• Comparing values:

• If the people decide, there are incentives to provide what the people want

• If someone else decides, there aren’t
Who, Whom?

• Central planning and allocation: Who directs whom? Who takes what from whom, and gives what to whom?

• Socialism transfers power from the individual to the State, to someone else

• Either choice and risk rest with the individual, or with someone else
Who?
Distributed Knowledge

- Government interferes wrongly and in the wrong place
- You know more about yourself than anyone else does
- Government cannot know enough to value different goods appropriately
Distributed Knowledge

- You care more about yourself than anyone else does
- Government cannot care enough to be trusted to act in your self-interest
Distributed Knowledge

• Economic calculation problem:

• Market forces incorporate vast amounts of information, preferences, etc., from many people; no person or agency can match that

• Complexity requires decentralization
Market Failure

- Market transactions normally make all parties better off
- Do markets sometimes fail? Yes.
- “Tragedy of the Commons”—what makes sense for each sometimes doesn’t make sense for all
Market and Government Failure

- But government can be expected to fail much more often
- “Tragedy of the Congress”— what makes sense for each decision-maker sometimes doesn’t make sense for all
Distributed Knowledge

• Government failure: That a better solution to a problem exists doesn’t mean that anyone does or even can know how to find it

• Government officials are less likely to find it than private individuals
“The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.”

- Friedrich Hayek, *The Fatal Conceit*
3. Principal/Agent Problem

- The agent’s job is to represent the interests of the principal
- The agent’s interests can diverge from the principal’s interests
- What keeps the agent focused on the principal’s interests?
Public Choice Theory

- Government officials have incentives to look out for their own interests, not for yours
Public Choice Theory

• Consider: government in the US spends more than $1 trillion annually on anti-poverty programs

• That’s $21,000 for every person below the poverty line, or $84,000 for a family of four!

• San Francisco spends more than $40,000 a year on homelessness for each homeless person, and wants to double that!
Why the Worst Rise to the Top

• Who? Who can get things done?

• The worst rise to the top: aggressive substitution of bureaucrat’s preferences for those of people makes an official rise

• “Socialism can be put into practice only by methods which most socialists disapprove.”
Why the Worst Rise to the Top

• Socialists often defend socialism despite its failures in practice

• “It hasn’t really been tried!” “If only the right people had been in charge!”

• But the “right people” will never be in charge
Why the Worst Rise to the Top

• Beyond the Peter Principle
• Lord Acton: “Power tends to corrupt, and absolute power corrupts absolutely.”

• “Despotic power is always accompanied by corruption of morality.”
Why the Worst Rise

- “There are strong reasons for believing that what to us appear the worst features of totalitarian systems are not accidental byproducts but phenomena which totalitarianism is certain to sooner or later produce.”
Why the Worst Rise

• “The practice of socialism is everywhere totalitarian.”

• “Just as the choice architect who sets out to plan economic life will soon be confronted with the alternative of either assuming dictatorial powers or abandoning his plans, so the totalitarian dictator would soon have to choose between disregard of ordinary morals and failure.”
Why the Worst Rise

- “It is for this reason that the unscrupulous and uninhibited are likely to be more ‘successful’ in a society tending toward totalitarianism.”

- “The "ethics" produced by collectivism will be altogether different from moral notions that have led to the demand for collectivism.”
Why the Worst Rise

- Need for a common scale leads to dominance of lowest common denominator

- “The second negative principle of selection: he will be able to obtain the support of all the docile and gullible, who have no strong convictions of their own but are prepared to accept a ready-made system of values if it is only drummed into their ears sufficiently loudly and frequently.”
Why the Worst Rise

• Easiest for people to agree on a negative program: scapegoats

• “It seems to be almost a law of human nature that it is easier for people to agree on a negative program — on the hatred of an enemy, on the envy of those better off than on any positive task.”
Why the Worst Rise to the Top

- In business, failure leads to bankruptcy and the loss of a job
- There are incentives to succeed
- In government, failure leads to expanded budgets and promotions
- There are incentives to fail!
Why the Worst Rise to the Top

• “From the two central features of every collectivist system, the need for a commonly accepted system of ends of the group and the all-overriding desire to give to the group the maximum of power to achieve these ends, grows a definite system of morals....

• The principle that the end justifies the means is in individualist ethics regarded as the denial of all morals. In collectivist ethics it becomes necessarily the supreme rule; there is literally nothing which the consistent collectivist must be prepared to do if it serves ‘the good of the whole,’ because the ‘good raison of the whole’ is to him only criterion of what ought to be done.”
Why the Worst Rise to the Top

• “Once you admit that the individual is merely a means to serve the ends of the higher entity called society or the nation, most of those features of totalitarian regimes which horrify us follow of necessity.”
Gleichschaltung

- *Coordination, making the same, bringing into line*

- Political correctness

- Socialism requires “the general acceptance of a common Weltanschauung, of a common set of values.”
WAR IS PEACE
FREEDOM IS SLAVERY
IGNORANCE IS STRENGTH.
No Limits

• “There can be no limit to what its citizen must be prepared to do, no act which his conscience must prevent him from committing, if it is necessary for an end which the community has set itself or which his superiors order him to achieve.”
Moral Results

• “From the collectivist standpoint intolerance and brutal suppression of dissent, the complete disregard of the life and happiness of the individual, are essential and unavoidable consequences of this basic premise.”
Moral Results

• “And as there will be need for actions which are bad in themselves, and which all those still influenced by traditional morals will be reluctant to perform, the readiness to do bad things becomes a path to promotion and power.”
Not an Accident
Whom?
Small Ruling Elite

• “Collectivism on a world scale seems to be unthinkable - except in the service of a small ruling elite.”
“In Praise of Chumps”

- “The thing about communism, at least to the uninitiated, is that it appears to be identical in all respects to a hereditary aristocracy. If one didn't know better, it would seem that the more communist a country, such as North Korea, the more it resembles a monarchy.

- Future generations may wonder how it was possible for sophisticated Western intellectuals to actually devote their lives to bringing about communism as if it were anything more than a swindle.”
Why the Worst Rise

• Whitaker Chambers:

• “Yet there is one experience which most sincere ex-Communists share, whether or not they go only part way to the end of the question it poses. The daughter of a former German diplomat in Moscow was trying to explain to me why her father, who, as an enlightened modern man, had been extremely pro-Communist, had become an implacable anti-Communist.”
Why the Worst Rise

- “‘He was immensely pro-Soviet,’ she said, and then...—one night—in Moscow—he heard screams. That’s all. Simply one night he heard screams.”
Why the Worst Rise

• “A child of Reason and the 20th century, she knew that there is a logic of the mind. She did not know that the soul has a logic that may be more compelling than the mind’s. She did not know at all that she had swept away the logic of the mind, the logic of history, the logic of politics, the myth of the 20th century, with five annihilating words: one night he heard screams.”
4. Paradox of Collectivism

• Collectivism is self-defeating

• “The tragedy of collectivist thought is that, while it starts out to make reason supreme, it ends by destroying reason because it misconceives the process on which reason depends.”

• Collectivism —> Lies
Corrupt Database

- “Above all never corrupt your own database. The most dangerous lie you can make up is the one you go on to believe yourself.” — Richard Fernandez, “The Phantom Legion”
5. Institutional Arguments
Paradox of Policy

• Reform replaces informal social patterns and informal decision-making with formal rules and policies

• Informal structures handle complexity and adapt to new circumstances, including shocks

• Formal structures are inflexible and vulnerable to shocks
Paradox of Formalization

- Small organizations do things informally, adapting to new situations as they arise.
- As organizations grow, they formalize more and more procedures—adopt more and more rules—to maintain consistency, handle unusual circumstances, and prevent confusion.
- But that makes them bureaucratic, inflexible, and vulnerable.
Emerging Structures

• Evolutionary model: Informal social structures evolve in response to circumstances

• They are diverse and loosely interrelated

• Harm to one part of the system doesn’t destroy the entire system
Formal Structures

• Design model: Formal structures result from top-down design

• They strive for uniformity and closely interrelated parts

• Shocks to one part of the system spread quickly to other parts

• Informal to formal: makes system more fragile!
CENTRAL BUREAUCRACY

OVER 2 BILLION WAITING TO BE SERVED