

## HAYEK'S ROAD TO SERFDOM

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The work of Hayek, in contrast with the Marxist-Socialist-Interventionist-Galbraithian paradigm that held sway in the mid-20th century, appears as a beacon for free enterprise amidst a sea of totalitarianism. When considered in comparison to the writings against which he contended, Hayek's was a lonely voice, crying in the wilderness for freedom; he stood, like the Dutch boy, with his finger in the dike of onrushing statism.<sup>1</sup>

But if one weighs his output against that of free enterprise advocates who came later,<sup>2</sup> or, better yet, against an ideal of laissez-faire capitalism, then one must categorize Hayek as lukewarm, at best, in his support of this system.<sup>3</sup> This is a rather surprising thesis, even a paradoxical one, in view of the fact that 1994 was the 50th anniversary of Hayek's *Road to Serfdom*,<sup>4</sup> a book widely (and accurately!) credited with turning away from socialism the political thinking of an entire generation.<sup>5</sup> It is

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<sup>1</sup>This may be a bit too strong, since there were other voices, alongside that of Hayek, who championed much the same philosophy, and did it more consistently. Preeminent amongst these must of course be Mises. For a study of the American "Old Right" tradition, see Justin Raimondo, *Reclaiming the American Right* (Burlingame Calif.: Center for Libertarian Studies, 1993).

<sup>2</sup>Cf. Murray N. Rothbard, "Law, Property Rights, and Air Pollution," *Cato Journal* 2, no. 1 (Spring 1982), reprinted in Walter Block, ed., *Economics and the Environment: A Reconciliation* (Vancouver: Fraser Institute, 1990); Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism: Economics, Politics and Ethics* (Boston: Kluwer, 1989); Hans-Hermann Hoppe, *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy* (Boston: Kluwer, 1993).

<sup>3</sup>John Gray, "F.A. Hayek on Liberty and Tradition," *Journal of Libertarian Studies* 4, no. 2 (Spring 1980): 119-37; Arthur M. Diamond, "F.A. Hayek on Constructivism and Ethics," *Journal of Libertarian Studies* 4, no. 4 (Fall 1980): 353-66; Roger Arnold, "Hayek and Institutional Evolution," *Journal of Libertarian Studies* 4, no. 4 (Fall 1980): 341-52.

<sup>4</sup>Friedrich A. Hayek, *The Road To Serfdom* (Chicago: University of Chicago Press, 1944).

<sup>5</sup>Perhaps, though, the fact that Keynes lavishly praised this book should have given us pause for thought. See Diamond, "F.A. Hayek on Constructivism and Ethics," p. 353.

therefore incumbent upon an author, such as myself, who makes such a claim, to offer evidence in support of it.<sup>6</sup> Let us consider the record.

### *ROAD TO SERFDOM*

It cannot be denied that this book was a war cry against central planning. However, in making the case against socialism, Hayek was led into making all sort of compromises with what otherwise appeared to be his own philosophical perspective—so much so, that if a system was erected on the basis of them, it would not differ too sharply from what this author explicitly opposed.

First of all, one searches in vain for a *principle*, such as the non-aggression axiom of libertarianism,<sup>7</sup> which would serve as a rudder with which to steer the ship of political-economic philosophy. As a matter of fact, Hayek specifically renounces the *possibility* of a principle: “There is nothing in the basic principles of liberalism to make it a stationary creed; there are no hard-and-fast rules fixed once and for all.” Not only is there no principle, he specifically singles out free enterprise as precisely the *wrong* path: “Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle

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<sup>6</sup>I write this paper with not a few misgivings. Hayek was always exceedingly kind to me, both personally and in writing; for example, see his forward to Walter Block, *Defending the Undefendable* (New York: Fox and Wilkes, [1976] 1991). In criticizing him now, part of me feels as if I am “biting the hand that fed me.” The reason I finally decided to take pen to hand on this topic is that I feel I owe Hayek my best thoughts; it would seem a dishonesty, and a renunciation of the scholarship for which he stood all of his life, to “pull punches” out of considerations of friendship. We all, that is, the best of us, encourage our students to be critical about our own viewpoints, Hayek no less than anyone else. It is in this spirit, then, that I take up the arduous task of criticism.

For a contrasting view of Hayek, see Peter J. Boettke, “Hayek’s *The Road to Serfdom* Revisited: Government Failure in the Argument Against Socialism,” *Eastern Economic Journal* 21, No. 1 (Winter 1995): 7–26; and also Peter J. Boettke, “The Theory of Spontaneous Order and Cultural Evolution in the Social Theory of F.A. Hayek,” *Cultural Dynamics* 3, np. 1 (1990): 61–83.

<sup>7</sup>Cf. Murray N. Rothbard, *The Ethics of Liberty* (Atlantic Highlands, N.J.: Humanities Press 1982); Hoppe, *A Theory of Socialism and Capitalism*; Hoppe, *Economics and Ethics*; Anthony de Jasay, *The State* (Oxford: Basil Blackwell, 1985).

of laissez faire."<sup>8</sup> Lacking such an axiom<sup>9</sup> or postulate, Hayek needlessly weakens his case for the market.<sup>10</sup>

At one point, perhaps unconsciously, he even adopts the mindset of precisely the people he is ostensibly criticizing. He states:

The attitude of the liberal toward society is like that of the gardener who tends a plant and, in order to create the conditions most favorable to its growth, must know as much as possible about its structure and the way it functions.<sup>11</sup>

But what is this if not the central-planning mentality? People are like chess pieces, to be moved around the board at the behest of the relatively all-knowing chess master. It seems to have escaped Hayek that his goals may be different than theirs. This may well be the perspective taken on by a Hayek-type liberal, but things are very different for the classical liberal, the one who advocates economic freedom. For the latter, people are not at all like vegetables, or inanimate chess pieces. On the contrary, they are adult human beings with goals and desires of their own, which must be respected.

## MONEY

Now to specifics. Hayek calls for exceptions to the rule of laissez-faire capitalism with regard to "handling of the monetary system." Later, he reiterates this Keynesian point: "There is . . . the supremely important problem of combating general fluctuations of economic activity and the recurrent waves

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<sup>8</sup>Hayek, *The Road to Serfdom*, p. 17.

<sup>9</sup>We consider below, and reject, the hard-and-fast principle adumbrated in Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: Henry Regnery, 1960), pp. 397–411.

<sup>10</sup>Take, for example, his reiteration (*The Road to Serfdom*, pp. 3, 5, 8) that it is "largely people of good will" who are responsible for the slide into socialism in North America and western Europe. As a rhetorical device, this is unexceptionable. How better to convince a largely hostile audience of the error of their ways than by first complimenting them? But a strong case can be made for the very opposite contention. Cf. Helmut Schoeck, *Envy: A Theory of Social Behavior* (New York: Harcourt Brace & World, 1966); and Walter Block, "Socialist Psychology: Values and Motivations," *Cultural Dynamics* 5, no. 3 (1992): 260–86.

<sup>11</sup>Hayek, *The Road to Serfdom*, p. 18.

of large-scale unemployment which accompany them.”<sup>12</sup>

But why should the macro monetary and fiscal systems be given over to the tender mercies of the government? There is good and sufficient reason to believe that state control has led at different times to the very destabilization, inflation, depression and self-aggrandizement that Hayek incorrectly assumes is a result of the operation of the market.<sup>13</sup> Can it be said that these two cited works post-dated *The Road to Serfdom*, and that as a result Hayek could be excused for not being aware of them? Not a bit of it, for Mises made many of the same points, and this work was published long before the publication of Hayek’s.<sup>14</sup> Mises was Hayek’s mentor and teacher; Hayek could not possibly have been ignorant of this tome. Furthermore, Hayek’s own writings demonstrated precisely how government monetary policy leads to temporal misallocations of investment (e.g., to depressions).<sup>15</sup> Paradoxically, our author has himself made significant contributions to the Austrian theory of the business cycle, which convincingly demonstrates the imprudence of granting to the state expansionary monetary power. The Hayek of 1944, then, stands condemned by the Hayek of 1931 and 1933.

### HOURS OF WORK

In chapter 3 of *The Road to Serfdom*, Hayek makes further concessions to socialism. He starts off this discussion ominously by warning against “a dogmatic laissez-faire attitude.” And what roles does he assign the state? One of them is “. . . to limit working hours.”<sup>16</sup>

But this is a violation of basic rights. Surely consenting adults have a right to contract with one another for a mutually

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<sup>12</sup>Hayek, *The Road to Serfdom*, p. 18.

<sup>13</sup>Milton Friedman and Anna J. Schwartz, *A Monetary History of the U.S., 1867–1960* (New York: National Bureau of Economic Research, 1963); Murray N. Rothbard, *America’s Great Depression* (Kansas City: Sheed and Ward, 1975).

<sup>14</sup>Ludwig von Mises, *The Theory of Money and Credit* (New York: The Foundation for Economic Education, [1912] 1971).

<sup>15</sup>Friedrich A. Hayek, *Monetary Theory and the Trade Cycle* (New York: Kelley, [1933] 1966); Friedrich A. Hayek, *Prices and Production* (London: Routledge, 1931).

<sup>16</sup>Hayek, *The Road to Serfdom*, p. 37.

agreeable work week. If this amounts to 50, or 100, or even 150 hours per week, it should be no one else's business.

Further, this socialist policy is a recipe for disaster. Interventionists of all stripes try to take credit for the decline in the length of the work day. In their view, rapacious capitalists would never have allowed labor output to decline to a daily eight hours had this decision been left up them. Were it not for the benevolent effects of compulsory legislation, this could not have occurred. Had the government not mandated this situation, we would still, even nowadays, be working 14-hour days. But logic and common sense are incompatible with this thesis. The reason we work fewer hours than our great-great-grandfathers is that improved technology and skills have so enhanced productivity that we have taken part of the increase in the form of enhanced leisure. There is compelling evidence that legal enactments in and of themselves cannot bring about any such state of affairs. Suppose, then, that the government had limited the work week to 40 hours, but did this in a century when, because of extreme poverty, labor typically lasted twice that duration. Instead of increasing leisure, such an enactment would amount to a death warrant for millions of people who were unable to keep body and soul together in so few hours. How, then, to account for the "success" of hours legislation? After all, nothing like this occurred in our history. The answer is simple: as productivity boosts allowed us to work for fewer hours, the government declared that the new levels would be required by law. Some observers, such as Hayek, were misled by this state of affairs into thinking that the law actually *caused* the fall in work effort. In fact, labor legislation only took credit for a situation which was already occurring anyway, and would have continued to occur even in the absence of such legislation.

### WELFARE FOR ALL

Continues our author, "nor is the preservation of competition incompatible with an extensive system of social services."<sup>17</sup> Later he states:

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<sup>17</sup>Hayek, *The Road to Serfdom*, p. 37.

There is no reason why in a society which has reached the general level of wealth which ours has attained . . . security against severe physical privation the certainty of a given minimum of sustenance . . . should not be guaranteed to all without endangering general freedom. . . . There can be no doubt that some minimum of food, shelter and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody.<sup>18</sup>

But this is highly problematic, again, both on moral and pragmatic grounds. With regard to the former, the only justified transfer of funds between one citizen and another is based on voluntarism. That is, if a church, or the Salvation Army, or the Shriners gives money to the poor, it is based on non-compulsory contributions. In contrast, a system of social services, let alone “an extensive” one, can only be financed through the force implicit in the tax-subsidy system.

As for the effects, they have been little short of disastrous.<sup>19</sup> Disrespect for law and order, teenage pregnancy, crime, the break-up of the family, and even the failure of the family to form in the first place, have all been the results of this policy. To be sure, the worst excesses of the welfare system were not at all apparent at the time of Hayek’s writing. However, he is widely thought of as an advocate of capitalism, and this is but one more in a long list of counter-examples to that thesis.

As for Hayek’s contention that we can engage in activities of this sort on a massive scale without endangering freedom, there is little reason to be optimistic. With large-scale welfare has come the welfare-rights movement; the rent-seeking society we have become as a result has endangered freedom if only because of the sheer size of governmental budgets. As state expenditure has catapulted its way toward 50% of the G.N.P., it has become a real question as to whether we still live in the free society.

## MARKETS

But this by no means even begins to scratch the surface of the

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<sup>18</sup>Hayek, *The Road to Serfdom*, p. 120.

<sup>19</sup>See Charles Murray, *Losing Ground: American Social Policy from 1950 to 1980* (New York: Basic Books, 1984).

tasks to which Hayek assigns government. He states, "The functioning of . . . competition . . . requires adequate organization of certain institutions like . . . markets, and channels of information."<sup>20</sup> Unfortunately, this is somewhat vague. Does he mean that stock markets, bond markets, commodities markets, futures markets, flea markets, and other institutions dedicated to promoting buying and selling are somehow unable to be organized privately? If so, this is nonsense. If not, it is exceedingly difficult to discern to what this might apply. Similarly for information channels: what, pray tell, does this imply? That the private sector cannot run schools, newspapers, libraries, computers, radio and television? All of these services have at one time or place been organized privately. To be sure, governments have also subjected these to their own monopoly control. But our guide to liberalism offers us no reasons for supposing that these are best left to the tender mercies of the state. If this is not what Hayek had in mind, the operational definition of channels of information is somewhat obscure.

With regard to the economics of knowledge and information, Hayek equates "fraud and deception" with "exploitation of ignorance."<sup>21</sup> But there is all the world of difference between the two. Fraud and deception are equivalent to theft. If you agree to purchase 5 pounds of potatoes from me for \$1.29, and I agree to sell them to you for this amount, but in the event I put 5 pounds of worthless rocks in the bag, then I have in effect stolen the money from you. On the other hand, suppose you are ignorant of prevailing prices, and agree to buy these potatoes from me for \$1,000. Then, I can accurately be said to have exploited your ignorance of market conditions. But have I stolen from you? Not if knowledge is an economic good. And if it is not, it would surely be improper for me to charge you for imparting any of it, such as giving you a piano lesson, teaching you mathematics, or consulting with you as an economist. The implication of this Hayekian point would be a maximum fixed price of zero for the sale of information; surely this is a recipe for a shortage of supply. The detail missed by this economist is that this is precisely how markets operate. A market is one vast arena

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<sup>20</sup>Hayek, *The Road to Serfdom*, p. 38.

<sup>21</sup>Hayek, *The Road to Serfdom*, p. 39.

which exploits ignorance by taking advantage of it, that is to say, by profiting from it. In doing so, of course, the market promotes knowledge, and thus abolishes ignorance. If a whole community is unenlightened as to the true price of potatoes, the community will pay speculators to divert this foodstuff to them, of course at high exploitative prices. But in so doing, the community and the speculators will *reduce* the very ignorance involved in the initial transaction, thereby driving *down* the terms of trade in subsequent transactions.

### NEIGHBORHOOD EFFECTS

Then, too, there is a concept that has led astray more than a few otherwise astute economists: externalities. In Hayek's view,

There are, finally, undoubted fields where no legal arrangements can create the main condition on which the usefulness of the system of competition and private property depends: namely, that the owner benefits from all the useful services rendered by his property and suffers for all the damages caused to others by its use. Where, for example, it is impracticable to make the enjoyment of certain services dependent on the payment of a price, competition will not produce the services; and the price system becomes similarly ineffective when the damage caused to others by certain uses of property cannot be effectively charged to the owner of that property.<sup>22</sup>

To put this into more modern jargon, the argument is that if there are external economies, or positive external benefits, free ridership will at the very least lead to an under-allocation of resources into the industry, and in the extreme case to no provision whatsoever. That is, if the entrepreneur cannot be paid for all of his good works, he will soon come to realize that it is an error to provide them in the first place. Moreover, if there are external diseconomies, namely, if people can ruin the property of others without being forced to pay for these damages, again

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<sup>22</sup>Hayek, *The Road to Serfdom*, p. 38. In *Individualism and Economic Order* (Chicago: Regnery, 1972), p. 111, Hayek states: "In a modern community [there are] a considerable number of services which are needed, such as sanitary and health measures, and which could not possibly be provided by the market for the obvious reason that no price can be charged to the beneficiaries or, rather, that it is not possible to confine the benefits to those who are willing or able to pay for them."

there will be a misallocation of resources: too much will go into such activities, and not enough into others. In either of these cases, if economic welfare is to be maximized, the state must step in to rectify these imbalances. Laissez-faire capitalism is heir to both of these so-called market failures and must be reined in by government.

These doctrines have been subjected to refutation elsewhere<sup>23</sup> so there is no need to rehearse these arguments in their entirety; a brief summary may suffice.

Take external economies first. One difficulty is that this argument is a veritable Pandora's box. Once open, it is (logically) impossible to close again. If Hayek could claim for his other advocacies of government intervention that they were at least limited in scope compared to the breadth accorded the state by his intellectual enemies the central planners, no such defense is available to him in this case. For the externality argument will justify practically any and all government activity. Yes, national defense and picturesque parks give off external economies, but so do window flower boxes, the use of soap, and smiling at each other. Thus, if it is justified for government to intervene in the first set of cases, then it is equally justified for the government to intervene in the second. However, if the state offers subsidies to people for taking baths, planting flower boxes, purchasing orthodontia services, and using breath mints, then there is little or nothing from which it can be precluded. One test of the logical coherence of an argument is its generalizability. This one obviously fails—if only in that it proves too much, far too much.<sup>24</sup>

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<sup>23</sup>Walter Block, "The Justification of Taxation in the Public Finance Literature: A Critique of Atkinson and Stiglitz, Due, Musgrave and Shoup," *Journal of Public Finance and Public Choice*, no. 3 (Fall 1989): 141–58; Walter Block, "Canadian Public Finance Texts Cannot Justify Government Taxation: A Critique of Auld & Miller; Musgrave, Musgrave & Bird; McCready; and Wolf," *Canadian Public Administration* 36, no. 1 (Fall 1993): 225–62; Jeffrey Hummel, "National Goods vs. Public Goods: Defense, Disarmament and Free Riders," *Review of Austrian Economics* 4 (1990): 88–122; Hoppe, *A Theory of Socialism and Capitalism*; Hoppe, *Economics and Ethics*; Murray N. Rothbard, *Power and Market* (Kansas City: Sheed Andrews and McMeel, 1977); Ronald H. Coase, "The Lighthouse in Economics," *Journal of Law and Economics* 17 (1974): 357–76.

<sup>24</sup>Wearing clothes, eating food, playing the piano, taking recreation, and living in a house are all instances of benefiting others without being able to charge them for

Then, too, there is the problem of subjectivity: “one man’s meat is another’s poison.” If it cannot be denied that national defense is an external economy for most ordinary people, then it also cannot be *disproven* that it is an external *diseconomy* for the pacifist and the person who favors our enemy over this country. How, without resort to invalid interpersonal comparisons of utility, can we unambiguously conclude that these things really promote external *benefits*?

And even if we stipulate, for the sake of argument, that there really *are* free riders gaining from the investments of others, there are still ways to internalize the externality. We announce to the Soviets, or the Cubans, or the Bosnians, or whoever are the bad guys at a given time, that Joe Blow has not contributed to the defense fund, and that he is therefore fair game.<sup>25</sup> This ought to get them to think twice about trying to free ride on the defense expenditures of others. As for the case of parks, the increase in the real estate values of the surrounding areas *can* be captured by the entrepreneur in question. After all, he is the only one who knows beforehand its precise location. Surely he can buy up enough options so as to capture a significant portion of this increased value.<sup>26</sup>

Now consider external diseconomies. These subdivide into two further categories, pecuniary externalities and real ones. In the former case, a business locates across the street from a competitor, depriving him of some of his customers. Because of the advent of the new firm, the old one suffers financially. But should the “victim” have a case in law against the “perpetrator?” Of course not. For should this be allowed, the whole idea of free markets and competition would be nipped in the bud. From an ethical perspective, the newcomer has not

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conferring these advantages. For if someone didn’t indulge in food, clothing or shelter, he would die, and thus be unable to be part of civilization, which helps us all. If I play the piano, my neighbors enjoy the “free” concerts. If I play handball, all those who see it are immeasurably enriched by the experience. Yet, clods that they are, they would object strenuously if I billed them for my efforts.

<sup>25</sup>Perhaps we could give a bumper sticker or name tag to all those who have paid, so as to lower transactions costs.

<sup>26</sup>Of course, it cannot be denied that he will not attain all of it. Therefore, there will be some inefficiency compared to the situation in which he could. But this still does not justify government action even on economic welfare grounds without the implicit premise that government management of parks will be perfect.

violated any right of the original firm, since it did not own the customer. Rather, the commercial relationship, in the absence of a long term contract, is a voluntary one; it can be canceled—on either side—for any reason whatsoever (such as a better competing offer, as in this case) or for no reason at all.

The second type is more serious. Here, the injured party suffers from smoke inhalation, or soot particles on his property, or from excessive noise or from chemical inundations. Stopping such acts should be the very essence of law, as it is in the case of other trespasses against person or property, such as murder, rape, theft, assault and battery, etc.

Here, Hayek maintains that

there are, finally, undoubted fields where no legal arrangements can create the main condition on which the usefulness of the system of competition and private property depends: namely, that the owner benefits from all the useful services rendered by his property and suffers for all the damages caused to others by its use.<sup>27</sup>

But this is mistaken. It is simply not true that no legal arrangements can force the owner to suffer for all the damages caused to others by the use of his private property. There is a legal arrangement dedicated to that very purpose. It is called the system of private-property rights and laissez-faire capitalism. Contrary to Hayek, there is no market failure here. Rather, this is a case of government failure, namely, government's failure to promote property rights through the penalization, fining, and incarceration of those who violate such rights. The state has indeed passed laws against trespass; if I personally drive across your lawn, or dump my garbage on it, there is little doubt that I will be stopped. However, if I first incinerate the identical garbage, and then dump it on your lawn in the form of soot particles, I may not be stopped, since for many years the law has turned a blind eye to this violation.<sup>28</sup>

Mises stands as a corrective to Hayek in this regard. Mises

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<sup>27</sup>Hayek, *The Road to Serfdom*, p. 38.

<sup>28</sup>Morton J. Horwitz, *The Transformation of American Law: 1780–1860* (Cambridge, Mass.: Harvard University Press, 1977); Rothbard, "Law, Property Rights, and Air Pollution."

states:

When in the past in many countries the owners of factories and railroads were not held liable for the damages which the conduct of their enterprises inflicted on the property and health of neighbors, patrons, employees and other people through smoke, soot, noise, water pollution, and accidents caused by defective or inappropriate equipment, the idea was that one should not undermine the progress of industrialization and the development of transportation facilities.<sup>29</sup>

And again:

It is true that where a considerable part of the costs incurred are external costs from the point of view of the acting individuals or firms, the economic calculation established by them is manifestly defective and their results deceptive. *But this is not the outcome of alleged deficiencies inherent in the system of private ownership of the means of production.* It is on the contrary a consequence of loopholes left in this system.<sup>30</sup>

## HEALTH AND ACCIDENT INSURANCE

Bill and Hillary Clinton are surely missing a bet in their initiative to socialize the American health care industry by not prominently citing Hayek in this regard. They can truly claim that *even* Hayek, arch defender of free markets, agrees with them. States this so-called advocate of capitalism:

Nor is there any reason why the state should not assist the individuals in providing for those common hazards of life against which, because of their uncertainty, few individuals can make adequate provision. Where, as in the case of

<sup>29</sup>Ludwig von Mises, *Human Action* (Chicago: Regnery, 1966), p. 655. Actually, Mises would have been better off excluding from his list of victims both patrons and employees. Both of these are contractually related to the polluting firm. Thus, for them, these costs are not external; rather, they are internal and voluntary, in that these people, in making their commercial arrangement with the polluter, thereby agree to take these costs into consideration. The economics of this is simple. Suppose there are two firms equal in every way except that one pollutes and the other does not. Then the former will have to pay higher wages than the latter to attract a work force. This additional amount serves as the compensation for pollution; it converts a victim into a contractual partner.

<sup>30</sup>Mises, *Human Action*, pp. 657–58 (emphasis added).

sickness and accident, neither the desire to avoid such calamities nor the efforts to overcome their consequences are as a rule weakened by the provision of assistance—where, in short, we deal with genuinely insurable risks—the case for the state's helping to organize a comprehensive system of social insurance is very strong.<sup>31</sup>

Again, there is first and foremost the moral argument. It is nothing else than theft to force people to give their money over to purposes desired by others. If the gunman (truly) replies to objections from outraged victims that he is giving the proceeds of the robbery over to those who are in need of medical insurance, such Robin Hoodism still amounts to stealing.<sup>32</sup>

But the economic case in opposition is no less cogent. Hayek claims, in effect, that there is no moral hazard involved in health or accident insurance. But this is problematic, as the demand curve for medical services, as is the case of all demand curves, slopes in a downward direction. People will demand more physician and hospital care at a zero (at an insured) price than they will at a market-clearing rate. That is to say, they will use more if they are insured than if they are not. This is why every socialized-medicine scheme ever proposed has ended up costing far more than contemplated. The beauty of free enterprise is that private companies *compete* with one another in an effort to eliminate such behavior. Through a series of techniques such as deductibles, surveys, and lower rates for those who do not smoke or overeat, a private insurance industry allows customers to pool such risks. Under capitalism, those firms which are inept at this form of consumer protection are forced into bankruptcy. *This* is the advantage of the market vis-a-vis the state.

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<sup>31</sup>Hayek, *The Road to Serfdom*, pp. 120–21.

<sup>32</sup>The fact that this coercive transfer occurs under the guise of democracy changes this claim not one whit. Why should mere majority rule justify anything? After all, Hitler came to power in this manner, and the U.S. government which supported slavery for a century, and Jim Crow legislation for decades, was also a product of this system. Ballot counting is no guarantee of right conduct. Tyranny of the majority is perhaps a more accurate description. Nor can this be denied by the subterfuge of claiming that all members of a democracy *agree* to be bound by majority vote. There is no proof of any such contention since, typically, no one or very few people signed the constitution, as brilliantly demonstrated by Lysander Spooner in his classic work *No Treason: The Government of No Authority* (Larkspur, Colorado: Pine Tree Press, [1870] 1966).

### Hayek claims

to the same category belongs also the increase of security through the state's rendering assistance to the victims of such "acts of God" as earthquakes and floods. Whenever communal action can mitigate disasters against which the individual can neither attempt to guard himself nor make provision for the consequences, such communal action should undoubtedly be taken.<sup>33</sup>

But there are problems here, too. First, there is nothing wrong with so-called communal action if this is interpreted as voluntary charity. Basic welfare economics tells us that both parties gain from such relationships. The donor gains, otherwise he would not contribute; the recipient gains, otherwise he would not accept the gift. However, the case of the tax-subsidy system, which Hayek clearly favors, is very different. Since at least one side of this transaction is coercive, we are not entitled to deduce a welfare gain. Moreover, it is simply incorrect to assert that the victim cannot attempt to guard himself from floods or earthquakes or other acts of God. Certainly, he can reduce the probability of earthquakes by moving out of southern California. Flood risk may be mitigated by locating far away from the Mississippi River or from the sea shore. Californians, and people in low-lying areas adjacent to bodies of water, should certainly be free to choose to live there. But why should the rest of us be forced to pay for their locational decision?

## RENT CONTROL

Hayek joins the broad consensus of the rest of the economics profession in condemning rent control.<sup>34</sup> Indeed, his analysis is forthright and absolute: "If this account seems to boil down to a catalogue of iniquities to be laid at the door of rent control, that is no mere coincidence, but inevitable." However, when it comes to *lifting* rent controls, it is as if an entirely different person—a

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<sup>33</sup>Hayek, *The Road to Serfdom*, p. 121.

<sup>34</sup>Friedrich A. Hayek, "The Repercussions of Rent Restrictions," *Rent Control: Myths and Realities*, Walter Block, ed. (Vancouver: Fraser Institute, 1981), p. 182; cf. Bruno S. Frey, Werner W. Pommerehne, Friedrich Schneider, and Guy Gilbert "Consensus and Dissension Among Economists: An Empirical Inquiry," *American Economic Review* 74, no. 5 (December 1984): 986–94.

socialist—took over the Hayekian pen.

Let us allow Hayek to speak for himself on this issue:

A conviction that an open market is *per se* the most desirable condition is of course far from an assertion that the immediate abolition of rent control as things are is the most effective method of achieving it. . . .

Were controls to be lifted suddenly, these changes would inevitably take place on such a scale that the market would be utterly disorganized, with all the resulting dangers. . . . This pressure (excess demand) would be aggravated by the absence of a ceiling on rents. Attempts would undoubtedly be made to push rents up to grotesque levels, and in the initial confusion they would probably succeed.<sup>35</sup>

Instead of immediate decontrol, our author proposes a much more gradual process: forbidding tenants from transmitting their controlled rights to their children, encouraging the already free sector of the housing market, initially decontrolling rents in only large scale dwellings. In order to ameliorate the plight of tenants even so gradually removed from rent control statutes, Hayek would “require landlords to give long notice periods, while allowing tenants to give shorter ones.”<sup>36</sup>

Although it sounds moderate and reasonable, this policy prescription will not withstand careful analysis. It is akin to staunchly opposing slavery while nevertheless withholding consent from a plan to *free* the slaves immediately. Yes, to free the slave *immediately* will without question create confusion. Better to phase it out gradually, over a period of years? To ask this question is to answer it. For how could it be justified, if one had the power to end this curious institution, to instead continue it, whether for years, months, weeks, days, hours, minutes or even *seconds*? One would almost be guilty of aiding and abetting slavery if one who had the power to end it declined to do so.<sup>37</sup> A similar argument applies to the Hayekian position on rent

<sup>35</sup>Hayek, “The Repercussions of Rent Restrictions,” p. 183.

<sup>36</sup>Hayek, “The Repercussions of Rent Restrictions,” pp. 184, 185.

<sup>37</sup>Not quite, however, since under the libertarian code of law no positive acts of aid are required; one is constrained only to refrain from initiations of force. Mere refusal to “press a button” freeing all the slaves cannot be construed as coercive.

control. Even though he explicitly attacks this law, he holds back from advocating its immediate demise.

Not only is his ethical sense wanting in this regard, his economic analysis suffers this flaw as well. He fears more than anything else the rise of rents to “grotesque levels” if decontrol occurs too quickly. Why? It must be because in most cases the controlled rents are but a small fraction of what they would be if they were free, and he worries that a sudden move from one to the other will play havoc with the economy. To be sure, new supplies will dampen any incipient price increase, but because of the nature of the accommodation, this cannot occur for a number of years. It is to hold off rent increases until this new supply comes on stream that our author wishes to go slow on decontrol. This concern is unjustified, however; Hayek ignores the space misallocation effect.

As rent control artificially lowers rents, it also artificially misallocates space. Under rent control, people with large apartments who no longer need them have little incentive to vacate. For example, an older woman whose husband has died and whose adult children have moved out will remain anyway, closing off the rooms she no longer needs, rather than move into a smaller, higher-priced housing unit in the free sector. But if controls are suddenly ended, this consideration no longer applies. Now, other things equal, rents will once again be roughly proportional to unit size. When our older woman moves out of her 12-room dwelling and takes on one of only 3 rooms, it is as if 9 rooms have been created at the snap of a finger. If so, an additional supply of housing is *immediately* created. Long before new dwelling space can be built, it *still* comes on stream in the very short run. This is one reason why we need not dread astronomical rent rises, even upon instantaneous decontrol.

### SAVING THE MARKET

There is a long history of intellectual attempts to defend the practice of “saving the market” or “promoting competition” by urging government intervention to this end. Hayek, unfortunately, joins this tradition in calling for the state to “make competition as effective and beneficial as possible -- and to supplement it where, and only where, it cannot be made

effective."<sup>38</sup>

To be sure, he tries to distance his position from that of the socialists by making the following distinction:

What I mean by "competitive order" is almost the opposite of what is often called "ordered competition." The purpose of a competitive order is to make competition work; that of so-called "ordered competition," almost always to restrict the effectiveness of competition.<sup>39</sup>

But this is a distinction without a real difference. In *both* cases the government will not leave the marketplace to its own devices; in *both* cases the public sector is impinging on the private; in *both* cases the proponents of these schemes, Hayek as well as the avowed central planners, *say* they are urging intervention in order to improve things.

The Hayekian position is tantamount to asking the fox to guard the chicken coop, or trying to put out a fire by pouring oil on it. Foxes and chickens, oil and water, have different and contradictory underlying principles. It is to the advantage of the fox to attack; of the chicken to defend (or be defended by the farmer). Oil feeds a fire, water puts it out. In like manner, the market and government are also organized upon different incompatible principles. In the former case, mutual agreement is the watchword; in the latter, the use of force. Now it would be one thing if Hayek were to limit his defense of state action to: ". . . prevention of violence and fraud . . . (and) the protection of certain rights, such as property and the enforcement of contracts. . . ." <sup>40</sup> A case can conceivably be made that here the two institutions are complementary, not incompatible. But Hayek goes much further than this. Let us consider yet another example.

## ANTI-TRUST

According to Hayek,

We cannot regard "freedom of contract" as a real answer to our problems if we know that not all contracts ought to be

<sup>38</sup>Hayek, (1972), p. 110.

<sup>39</sup>Hayek (1972), p. 111.

<sup>40</sup>Hayek (1972), pp. 110–11.

made enforceable and in fact are bound to argue that contracts “in restraint of trade” ought not to be enforced.<sup>41</sup>

In the view of Hayek:

The price system will fulfill this function only if competition prevails, that is, if the individual producer has to adapt himself to price changes and cannot control them.<sup>42</sup>

In fact, Hayek goes so far as to call for “multiple damages” in the case of “contracts in restraint of trade.”<sup>43</sup>

And what is wrong with monopoly? It is coercive. He states:

A monopolist could exercise true coercion . . . if he were, say, the owner of a spring in an oasis. Let us say that other person settled there on the assumption that water would always be available at a reasonable price and then found, perhaps because a second spring dried up, that they had no choice but to do whatever the owner of the spring demanded if they were to survive; here would be a clear case of coercion.<sup>44</sup>

Rothbard’s refutation is definitive:

Yet, since the owner of the spring did not aggressively poison the competing springs, the owner is scarcely being ‘coercive’; in fact, he is supplying a vital service, and should have the right either to refuse a salve or to charge whatever the customers will pay. . . . Both actions are within his rights as a free man and a just property owner.<sup>45</sup>

Rothbard goes on to postulate the single doctor in the community who can successfully cure people from an epidemic. Is this monopolist to be forced by law not to take a vacation at that very point in time? Is he to be subjected to price controls for his services? As long as this physician did not *start* the epidemic, it would be slavery to compel him to serve sick people on any terms other than mutual agreement.

<sup>41</sup>Hayek, *Individualism and Economic Order*, p. 115.

<sup>42</sup>Hayek, *The Road to Serfdom*, p. 49.

<sup>43</sup>Friedrich A. Hayek, *Studies in Philosophy, Politics and Economics* (New York: Simon and Schuster, 1967), p. 177.

<sup>44</sup>Hayek, *The Constitution of Liberty*, pp. 397–411.

<sup>45</sup>Rothbard, “Law, Property Rights, and Air Pollution,” p. 221; see also Ronald Hamowy, “Law the liberal society: F.A. Hayek’s constitution of liberty,” *Journal of Libertarian Studies* 2, no. 4 (Winter 1978): 287–97.

The problem with the Hayekian economic analysis is that once again it runs smack dab into interpersonal comparisons of utility. It is all well and good to conclude from the *existence* of a trade that both parties to it gain at least in the *ex ante* sense. In the case of the purchase of potatoes for \$1.29 (and *also* for \$1,000, if that is the agreed upon sale price), each party values what the other is to give him more than what he is to give up, so both gain. But it is quite another matter to conclude from the *failure* of a trade to be consummated that one is exploiting the other, or that it *should* have taken place, or that economic welfare will be reduced *unless* it occurs. For in this latter case,<sup>46</sup> we *cannot* deduce that each party values what the other is to give him more than what he is to give up. On the contrary, we can only conclude that one person values what he now has more than what he would receive in the trade. Under these circumstances, can we assert that the trade would be mutually beneficial? No. If we demand that it take place anyway, in the name of “economic welfare,” we must maintain that the person who wants to trade will gain more from it than will be lost by the person who refuses to go along. But if this is not engaging in the logically illicit practice of interpersonal utility comparisons, then nothing is.

### AN ADDENDUM

In rereading the above material, I cannot help but be conscious of the fact that I am accusing no less than F.A. Hayek, world renowned for his advocacy of free markets, winner of the Nobel Prize in economics in 1974 for precisely this reason (amongst others), of actually being only at best a lukewarm supporter of this philosophy, and often actively supporting its very opposite. It is therefore incumbent upon me to tread carefully; to leave no stone unturned in an effort to ascertain whether these charges can really be true; to bend over backwards, even, in an attempt to support the opposite thesis of my own.

Unhappily for the mainstream view of Hayek as free enterpriser, further research shows even the more that his views

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<sup>46</sup>We assume that both parties are aware of the possibility of this trade, so that we can rule out ignorance.

toward the market can best be characterized as ambivalent. One way to tell if our protagonist was serious about the views he expressed in *The Road to Serfdom* is to compare that work with what he had to say about these issues 50 years later. Another way is to monitor his statements on these subjects one year after this book was published (e.g., in 1945). If Hayek takes much the same positions in 1944 and 1945, and then again in 1994, it is a fair bet that these reflect his true perspective; moreover, that these views expressed on capitalism reflect his life long thinking on these matters. Fortunately, Hayek reveals his thoughts in these latter two time periods. Unfortunately, they demonstrate even more that his adherence to the freedom philosophy is rather superficial.

What are the specifics? First, Hayek gives “a complete transcription of a radio broadcast among Hayek and two University of Chicago Professors on April 22, 1945,” both of whom were avowed socialists. In the course of this three-way discussion, Hayek offers his views on competition. He states:

[T]here are two basic and alternative methods of relying upon competition, which, if it is to be made effective, requires a good deal of government activity directed toward making it effective and toward supplementing it where it cannot be made effective.<sup>47</sup>

And again Hayek: “. . . so far as the government plans for competition or steps in where competition cannot possibly do the job, there is no objection.”<sup>48</sup> Later in the book, Hayek reinforces this point, when he is questioned by yet another interviewer:

Alex Leijonhufvud: “But the essential point is whether competition is provided or not, not whether the government is in this line of activities.”

Hayek: “Exactly.”<sup>49</sup>

What are we to make of all this?<sup>50</sup> There are, of course, two

<sup>47</sup>Friedrich A. Hayek, *Hayek on Hayek: An Autobiographical Dialogue*, Stephen Kresge and Leif Wenar, eds. (Chicago: University of Chicago Press, 1994), p. 111; the entire broadcast transcription begins on p. 108.

<sup>48</sup>Hayek, *Hayek on Hayek*, p. 123.

<sup>49</sup>Hayek, *Hayek on Hayek*, p. 149.

<sup>50</sup>Is there anything here that cannot be supported, here, and enthusiastically so, by

senses in which the word “competition” can be understood. First is the neoclassical–structuralist view, according to which we determine whether competition exists on the basis of how many competitors there are. If one, two or a few, or some dozens or so, there is, respectively, monopoly, duopoly, oligopoly and monopolistic competition. All of these are non-competitive and, hence, at least potentially grist for the Anti-Trust Division of the so-called Justice Department. Only if there are hundreds of thousands of competitors, each one accounting for but a small part of the industry, are perfectly competitive conditions approached. In sharp contrast to this mainstream perspective, the Austrians adopt the behaviorist model. Whether competition exists depends not one whit upon the number of competitors. Instead, this is determined solely on the basis of whether or not competition is legal.<sup>51</sup> For many years, IBM and ALCOA were the only entrants in their respective “industries.”<sup>52</sup> Yet, they were as competitive as it was possible to be, since the government would not jail or fine anyone who wished to compete against them. On the other hand, there are thousands of taxi cabs in New York City and only one U.S. Post Office delivering first class mail. Yet it is illegal to compete against either.<sup>53</sup> So both are monopolies, equally so, the vastly different number of competitors in each case notwithstanding.

How can we interpret Hayek in this regard? Strangely, for a supposed Austrian economist, he defends the mainstream view. He clearly has in mind the number of competitors and not

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President William Clinton? Or by Robert Reich? Or by Laura Tyson?

<sup>51</sup>See Murray N. Rothbard, *Man, Economy and State* (Los Angeles: Nash, 1962); also Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure* (New York: Wiley, 1982).

<sup>52</sup>There is a dispute between the two philosophies of competition over this concept. For the structuralists, there must be a clear and objective definition. If it is vague and amorphous, we cannot determine the number of competitors in an industry and thus their relative shares. Without being able to do this, the structuralist position falls apart, since their definition of competition requires objective numbers. The behaviorists, in contrast, maintain that “industry” cannot so easily, or at all, be objectified. There are no hard and fast lines between computers, aluminum, pianos, fish, bicycles and carrots, for example. Within certain ranges or limits, these goods can all compete with one another for the consumer's dollar.

<sup>53</sup>On taxis, see Walter Williams, *The State Against Blacks* (New York: McGraw-Hill, 1982).

whether entry is legal or not.<sup>54</sup> There is no other way to understand Hayek when he says that competition “. . . requires a good deal of government activity directed toward making it effective and toward supplementing it where it cannot be made effective.”<sup>55</sup> Contrary to Hayek, legalized entry doesn’t require anything at all of government; only that it refrain from imposing penalties on competing. How else are we to understand supplementing competition apart from subsidizing competitors, in order, presumably, to increase their numbers? What can it possibly mean that “competition cannot possibly do the job,”<sup>56</sup> other than that there are too few competitors for Hayek’s taste? Even a *zero* number of competitors (let alone one!) is compatible with the existence of competition in the praxeological sense. Right now, there are no firms (zero!) engaged in the business of transporting goods to and from Mars, nor of bringing green cheese down from the moon to the earth. Not a single entrepreneur has so far seen fit to enter either of these potentially profitable<sup>57</sup> and lucrative fields of endeavor. Thus, “competition cannot possibly do the job.” Are we to understand from Hayek that this apparent market failure justifies government action? It is difficult to understand him in any other way. There is a vestige of free-enterprise sentiment in Hayek when he allows that government need not provide a service if only private entrepreneurs do.<sup>58</sup> But this is very vestigial indeed, since he is on record as supporting state activity “whenever” (!) private companies are not forthcoming. Hayek claims to oppose central planning, but this is hard to reconcile with his views of government supplementing the market for its alleged failure to attain competition.

Let us now consider a rather long passage in the discussion

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<sup>54</sup>Sometimes this is characterized as “free entry” but this is a misnomer. Under real-world laissez-faire capitalism, entry is rarely “free” in that it typically costs something in the form of resources invested. But it is always free in the sense that government imposes no legal barriers against it. The concept “free entry” oftentimes (in neoclassical thought) leads to a conflation of these two very different senses of freedom; e.g., when it is objected that entry is really not free since it costs money to open a business.

<sup>55</sup>Hayek, *Hayek on Hayek*, p. 111.

<sup>56</sup>Hayek, *Hayek on Hayek*, p. 123.

<sup>57</sup>Well, perhaps some day, anyway.

<sup>58</sup>Hayek, *Hayek on Hayek*, p. 149.

Hayek had with the two socialist University of Chicago professors, Krueger and Merriam. I quote this at great length lest I be accused of falsely portraying Hayek's views:

Mr. Krueger: "What about limitation of working hours—a maximum-hours act? Is that compatible with your notions of proper planning?"

Mr. Hayek: "Yes, if it is not carried too far.<sup>59</sup> It is one of these regulations which creates *equal conditions* throughout the system.<sup>60</sup> But, of course, if it does beyond the point where it accords with the general situation of the country, it may indeed interfere very much. . . ."

Mr. Merriam: "Would any limitation on the hours of labor be objectionable in your judgment?"

Mr. Hayek: "Not 'any,' but they can be. There you have one of the instances where *my objection is not one of principle* but one of degree. It is one of the things which cannot be made to fit the question of the cost involved in that particular measure."

Mr. Krueger: "Is a minimum wage law permissible?"

Mr. Hayek: "*A general, flat minimum wage law for all industry is permissible*, but I do not think that it is a particularly wise method of achieving the end. I know much better methods of providing a minimum for everybody.<sup>61</sup> But once you turn from laying down a general minimum for all industry to decreeing particular and different minima for different industries, then, of course, you make the price mechanism inoperative, because it is no long the price mechanism which will guide people between industries and trades."<sup>62</sup>

Mr. Merriam: "What about the TVA?"

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<sup>59</sup>Even Clinton, et. al., do not wish to carry their interferences with the market "too far." On the contrary, they want only reasonable and moderate interferences with free enterprise.

<sup>60</sup>Since when does the free enterpriser advocate "equal conditions throughout the system?"

<sup>61</sup>The compulsory governmental program to transfer money from rich to poor which Hayek advocates is certainly incompatible with laissez-faire capitalism.

<sup>62</sup>And a flat minimum for all industries *will* allow the price mechanism to operate???

Mr. Hayek: "There is a great deal of the TVA to which no economist in repute, and certainly not the *laissez-faire* people,<sup>63</sup> will object. Flood control and building of dams are recognized functions of the government. I am under the impression that a good deal else has been tacked on to this scheme, which need not have been done by public enterprise. But the principle of flood control and the like's being provided by the government is an entirely legitimate and a necessary function of the government."<sup>64</sup>

Mr. Merriam: "Even if it involved a development of hydroelectric power, as the TVA does?"

Mr. Hayek: "That depends upon the circumstances. If the hydroelectric power really could not have been provided by private enterprise, *I have no objection.*"<sup>65</sup>

Mr. Merriam: "That is not a matter of logic but of practical adjustment."

Mr. Hayek: "The whole question of whether you can or cannot create competitive conditions is a question of fact."

Mr. Merriam: "Not of logic?"

Mr. Hayek: "All I am arguing about is that, where you can create a competitive condition, you ought to rely upon competition.

Mr. Krueger: "Is a comprehensive system of social insurance a violation of your definition of good planning?"

Mr. Hayek: "*Certainly not a system of social insurance as such*, not even with the government helping to organize it. The only point where the problem can arise is how far to

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<sup>63</sup>Moderate defenders of capitalism will, of course, support many government "contributions" to the economy, such as dams and flood control; but certainly this does not apply to those who call for *laissez-faire* capitalism.

<sup>64</sup>For an alternative view, one which explores the case for private rivers, and thus private dams and flood control, see Walter Block, "Institutions, Property Rights and Externalities: The Case of Water Quality," *Agriculture and Water Quality: Proceedings of an Interdisciplinary Symposium*, Murray H. Miller, J. E. FitzGibbon, Glenn C. Fox, R.W. Gillham, and H.R. Whiteley, eds. (Guelph: University of Guelph Press, 1992), pp. 191-208.

<sup>65</sup>Shades of the moon and Mars. Will Hayek really support government doing *anything* private enterprise declines to do? It would appear so. How about jumping off the proverbial roof?

make it *compulsory*<sup>66</sup> and how far, incidentally, it is used to strengthen the monopolistic actions of trade unions, because that is one way in which it may well eliminate competition."

Mr. Merriam: "You do not mean to say that you would be against any government social insurance, would you? You want to make it entirely optional?"

Mr. Hayek: "It might well be made optional, which is not in contradiction to its being government assisted,<sup>67</sup> but why it needs to be made compulsory I do not see in the least."<sup>68</sup>

Mr. Krueger: "One of the reasons was that a great many people, the population at large, was supposed to get it. That was the reason for making it compulsory. I think that everybody is pretty well agreed on that.

Mr. Hayek: "I do not know about that."

Mr. Krueger: "What do you think of a minimum guarantee of food, clothing and shelter to people? Is that a violation of your definition of proper planning?"

Mr. Hayek: "What do you mean by a 'minimum guarantee'? I have always said that I am in favor of a minimum income for every person in the country."<sup>69</sup>

Mr. Merriam: "You used that in your own book (*The Road to Serfdom*). What did you mean by it?"

Mr. Hayek: "I will restate it in my own way—I mean to secure a minimum income on which every one can fall back. You have it, of course, very largely in the form of unemployment insurance."

Mr. Merriam: "When Krueger used that term, you seemed disturbed."

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<sup>66</sup>Even Presidential candidate Barry Goldwater wanted to make social security voluntary.

<sup>67</sup>It most certainly is in contradiction to its being government assisted, since government obtains its funds through compulsory tax revenues.

<sup>68</sup>This sounds good, but is contradictory to Hayek's general philosophy. See below.

<sup>69</sup>Here is the contradiction to Hayek's statement above about making things voluntary. How can a program be voluntary if it applies to "every person in the country?" Does he really expect total unanimity? And why, pray tell, should it be just "every person in the country?" What about foreign aid? Shouldn't the rich countries be forced to help people in poor countries? Do rights end at national borders?

Mr. Hayek: "No, he turned it into a specific guarantee of particular things."

Mr. Krueger: "That was an exact quotation."

Mr. Merriam: "Of your book."

Mr. Krueger: "A minimum guarantee of food, clothing, and shelter. If that is permissible, then I am glad to hear you say so, because you do go considerably further than that. In the international field you want a power which can restrain the different nations from actions harmful to their neighbors. It seems to me that you do allow far more of public planning than most of the readers of your book in this country have assumed."<sup>70</sup>

I submit that these are not the views of a defender of the free-enterprise system. This is not to say that there were no sentiments compatible with capitalism expressed in this interview. For example, Hayek did come out foursquare against parity prices for farmers and tariffs.<sup>71</sup> But this is far too little and too late. The spectre of these two socialists pushing Hayek into socialist positions would be bad enough, but the truth of the matter is that they really didn't have to push too hard. Hayek was in effect their willing collaborator. There are no truer words than those of Krueger which ended this citation: Hayek is indeed way further to the left than many people had assumed. But this is precisely the thesis of the present essay.

Or am I being too harsh with the co-winner of the 1974 Nobel Prize in economics? After all, Hayek did most of his work during the years when socialism was in the ascendancy, morally, intellectually, and spiritually. Maybe his many compromises with socialism and central planning were the best that could be expected in this era.

This is a tempting hypothesis. After all, I take no pleasure in pointing out the clay feet here. For a long time, until I read him more carefully, I too considered Hayek one of the champions of free enterprise. Unfortunately, it will not suffice. There were many other authors writing at about the same time, several of

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<sup>70</sup>Hayek, *Hayek on Hayek*, pp. 112–14, emphasis added.

<sup>71</sup>Hayek, *Hayek on Hayek*, p. 115.

whom wrote even before Hayek, when the prospects for liberty were, if anything, even worse. Consider the works of Ayn Rand, Henry Hazlitt, Ludwig von Mises, Lysander Spooner, Leonard Read, Benjamin Tucker. These scholars made far fewer compromises with state intervention into the economy than Hayek. Thus, it is problematic to resort to the epoch in which he wrote as an explanation for Hayek's interventionistic views. The long and the short of it is that he was a rather weak and conflicted supporter of the market—one who for some reason was widely interpreted as a staunch and radical proponent of economic freedom.

### CONCLUSION

There is little doubt that Hayek deserves his reputation as a defender of economic freedom—but only compared to his contemporaries who, with only a few honorable exceptions, were almost totally immersed in interventionistic philosophy. However, when compared either to some ideal standard, or to numerous modern commentators, it is clear that Hayek falls short of a clear unambiguous advocate of the free marketplace.