

Hayek – Road to Serfdom – Summary

A medieval serf worked 3 days for his lord. If you aggregate all the taxes you pay, not just income taxes, you work 4 days for the government. Is this what you want in your life? The Road to Serfdom by Friedrich von Hayek stands in opposition to the idea of a partnership between government and business in state capitalism.

It is an important book today because now economists and politicians are debating how to solve the high unemployment and long-term disequilibrium in the financial markets. Government monetary and fiscal policy seem ineffective.

The answer in Hayek's book is less government. If politicians try to influence the economy, it will result in a loss of freedom and prosperity for the poor and the rich. The Government bureaucracy gains a power like the feudal lord once did. Once this system is in place, the process is almost irreversible. It comes in increments so you do not notice it.

Hayek is a classical liberal, which means he is essentially libertarian. It is not intended to be a new Religion, but rather simply a development of Western philosophy and an extension of enlightenment ideals, the same ideas on which the United States was founded and which the founding fathers hoped to protect.

How does a freeman become a serf?

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

Hayek wrote the book near the end of WWII when the world was fighting German fascism. Back in 1944, many people around the planet believed that socialism is the road to freedom and equality. Friedrich Hayek begged to differ. As far as he was concerned, socialism was not that different from fascism.

Most of the intellectuals at the time believed that Nazism arose as a reaction of the upper classes against the socialism of the lower classes. However, both Nazism and socialism can exist only when the state has total control of the means of production and propaganda. And that's the most frightening part.

You see, Hayek believed that after the First World War, in an attempt to respond to the monetary crisis, the social democrats in Germany increased the state control of the economy and inadvertently paved the way for Hitler. Hayek noticed that Western economies, at the time, were not much different than the economy of Germany between the wars. Most of the

Western countries alleviated the effects of the Great Depression using Keynesian methods. That meant that the governments started bailing out the private companies by spending money they didn't have.

And it also meant that the people, whether in US or UK, started believing their governments more.

"We," wrote Hayek, "have in effect undertaken to dispense with the forces which produced unforeseen results and to replace the impersonal and anonymous mechanism of the market by collective and 'conscious' direction of all social forces to deliberately chosen goals."

Road to Serfdom Chapters

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Road to Serfdom Summary

The first part of the book deals with *planning and democracy* and *planning and the rule of law*. In these chapters Hayek's thesis is that in order for people to plan the economy they need to be empowered. They need power over other men. Without this legal power then, government planning would be ineffective. The obstacle is democracy.

The central idea in the part of the book is a comparison between centralized power and decentralized power. With government centralizing power and canceling individual liberty in the process they can achieve their aim of planning. However, Hayek, believe the only protection against abuse is decentralization. It is not only a theoretical argument but also observed in reality. There is a political trade-off here between government and individual liberty.

Think about how much power an employer has over a man. If you think this is unfair or unjust compare it to a bureaucrat who has the law and can take all liberties from an individual if needed. An unskilled worker in a free country like the US or the UK has a better life than an engineer or manager in communist Russia. There is no comparison.

If a worker in a free society wants to change his job, place or work, upgrade his skills it is all up to him. This is all based on the idea of private property and personal freedom. That is in a competing society property and production is distributed across society as a whole rather than governed by a central authority. Government abuse of power exceeds individual abuse of power.

When there is a centralization of power in the hand of government it is about economic power. Economic power is the way the government controls people. The political economy of this country is something close to serfdom.

The Abandoned road – History of freedom and its abandonment for government control

Individualism means (as Adam Smith believed) that the individuals are free to develop their own skills and talents and use them wherever they like. It has its roots in Christianity (although Hayek was an agnostic), is connected to the renaissance and then the enlightenment. **Hayek believed the transfer of power from the state to the individual became the basis of western civilization.**

The theme over the last 1000 years of civilization was freeing people from the shackles of serfdom, Kingdoms, and dictators and giving the power to individual choice.

- Growth of science was a result of the growth of individual freedom.
- Material comfort and scientific advancement accelerated exponentially when impediments to individual freedom were removed.
- No one can doubt that empowering the individual had positive unintended consequences when you look at the evolution of society through the 19th and 20th century. It would not be wise to replace with this collectivism and state control again.

Unconscious and unintended effects of aggregate individual action were superior to central planning. Again compare the USA and the UK to communist Russia, fascist Italy and national socialism of Germany. These systems forced the supervision of your life.

The National Socialists of Germany were against individualism, capitalism, democracy and classical liberalism. The transition came slowly in Germany as at first people believed that socialism (economic control and guidance by the government) could be mixed with democracy and freedom would not be lost. Some people believe this today in the USA and UK.

In Road to Serfdom Hayek opposed central planning for two reasons:

1. Central planning was significantly less efficient than free capitalism in terms of development and resource allocation.
2. The method of control ultimately was dependent on force.

Hayek did leave open some doors for public goods and limiting abuse of employers, however, the point was government needs to be proactive in its protection of competition, rather than planning ways around it or finding a middle ground which will slide into socialism or the road to serfdom.

The Great Utopia

The grand idea is socialism and democracy can be combined. This is the great utopia Hayek referred to. However, if you trace the origins of socialism it was a reaction of the ideals of the enlightenment and the French revolution.

Tocqueville wrote “socialism makes people a mere agent, a number...Democracy seeks equality through freedom, while socialism seeks equality through restraint and servitude”.

A planned economy Hayek believed will never produce as much output, creativity, and happiness as a free economic system. To debate that a planned economy is more efficient is absurd.

The world went full cycle:

- from a great economic crisis
- to the solution of – trust in government to solve the problems of this crisis
- to the concentration of power on part of the government through the message crisis
- laws that are passed to legitimize economic control over people lives
- loss of personal freedom

This is why Hayek’s writing was more writing for everyone rather than some verbose economic treatise. The best writers are those who can explain complex ideas simply.

Hayek went on to write how the idea that an economy could be controlled is more absurd than any military plan of action. Economies are so complex and to control prices and flow of money

from the private sector to the public sector is virtually impossible. Even if an individual agency succeeded the plan a whole often fails.

A key point is like all the pieces of this, the planning moves up the pyramid, at the top you need even more authoritarian control, in order to try to implement the plan successfully. This results in people “being treated like cattle” If you want an economy helped by the government do not think it is as benign as a warm fussy social economy.

The implication for today’s economy is even at the agency level planning needs power or dictatorship to work. It could come in the form of a housing czar or a financial banking regulation czar or national health care board, but it needs a concentration of power. This is what Hayek warned against.

Hayek believed even if in a democratic form, to carry out government policies, you need to sacrifice personal freedoms. There can be no compromises with democracy and socialism. This is the grand lie of a social utopia. Social programs mean the destruction of freedom. This has been the great lesson of the 20th century. People have to be aware of the cost and read history.

Hayek wrote that a system of government that was socialistic and therefore totalitarian would be different in the US and UK than had been in Italy and German. In fact in the US and UK, people would not seek out extreme leadership, but it would be leaning towards control. It would be a more subtle transition in increments.

Hayek’s view on how a leader gains election support

It is in increments that liberty is lost. politicians gain the support of the naive or people who want a ready-made system or values and solutions. It is this package deal that can easily be sold. The leader usually focuses on the negative and jealous of those who are better off. The leader will comment on how bad things are and how the rich and greedy have messed things up. The leader needs mass support so he appeals to the lowest common denominator in people, that is it is the fault of the wealthy. He contrasts between ‘us’ and ‘them’.

The leader makes an appeal for the ‘good of the whole’ to sacrifice the ‘them’ who are guilty and have brought about this crisis which the leader is going to fix.

From here Hayek goes into details of totalitarianism and the lack of morals the followers have. Hayek talks about individuals in power disregarding the rights of the old or sick, collectivism means the end of the truth. The ends justify the means.

The way totalitarians make people believe their way is the best is to try to convey that the state-controlled economy is something they always believed in but did not have proper voice or recognition.

Hayek believed that liberty was the main thing that is destroyed first. It is destroyed in the name of some greater good or freedom or right promised by the government. In fact,

politicians create something called “collective freedom”. That is broad freedom give to policymakers and planners but the rights of the individuals are sacrificed. The government planners make decisions for the people about economics.

Any tendency to criticize the action of the government is suppressed or shouted down. Even people who are not into politics could be suspect as every action and thought needs to be seen as guided for some social purpose. Even the theory of relativity was seen as an attack on traditional values in Germany. Each country has its own version of political correctness.

The idea of planning is in contrast to the ideals of America and Great Britain, that is self-reliance and individual responsibility as opposed to transferring responsibility.

Freedom, security and the poor

Hayek believed that once society has reached a certain level there is no reason society can not help people with the basics. This is the security to survive in a minimum life and way. This can be done without endangering general freedom.

However, beyond in the US and the UK groups organizes and lobby to try to control competition and prices for the argument of stabilization. People try to grant security to one group, with disservice coming to another. Through the political process one group is granted security over another. From this, a great deal of the competitiveness of the market and society is reduced and society as a whole suffered.

There is a broad measure to get security guaranteed to them by the state or government with restructuring measures being applied to the rest of the population.

In societies, like western democracies, people are too ready to give up their freedom for security. The high price for which freedom came is easily traded for a government promise of greater economic freedom.

Political leaders must learn that the trade-off between security and freedom is illusionary. Once freedom is sacrificed security is lost.

A better civilization based on a classical liberal ideal

Only with the courage to uphold the ideals of liberty can a society move forward. This can be done with an awareness of the past and the mistakes of the past. How many people have suffered under a planned economy? A policy of freedom for the individual person is the only way a society can progress. This is the political economy.

Key Lessons from “The Road to Serfdom”

1. Socialism and Nazism Are Both Threats to Individual Freedom

Even though they were fierce enemies on the world's stage of the 20th century, to Hayek, socialism and Nazism were pretty much the same; and, much more importantly, they were both enemies of humanity in general. Both defended collective values before individualistic and in doing that, they were preparing the path to a complete elimination of liberty.

2. The State Is the Ultimate Monopoly

One of the worst things people fear in a free market economy is the possibility of a monopoly because, in that case you're at the mercy of a single entity. However, what should you do in the case when the monopoly is not a company — but the whole state?

As Hayek writes: "while the last resort of a competitive economy is the bailiff, the ultimate sanction of a planned economy is the hangman."

3. But the State Has to Do At Least Something

Hayek's words are often taken to mean that libertarian society — one in which the role of the government is virtually non-existent — is the best possible society. However, it's important to note that he thinks that there's no such thing as a society without some state control.

In fact, here's a sentence taken straight out of his book: "in no system that could be rationally defended would the state just do nothing."

Hayek was not anti-government or anarchist. He just believed in the least government possible. The government could play a role in the regulation of work and monetary policy as well as the transmission of information. So like Adam Smith, there is a role for the government.

Hayek's book *The Road to Serfdom* is not a manual for complete free market laissez-faire capitalism, but rather more a warning against government planning, the concentration of power (and a limitation on liberty) as democracies, even the US and the UK could be transformed into socialism or worst.

Hayek Quotes

The important point is that, if we take the people whose views influence developments, they are now in this country in some measure all socialists. It is no longer fashionable to emphasize that “we are all socialists now”, this is so merely because the fact is too obvious. Scarcely anybody doubts that we must continue to move towards socialism.

The successful politician owes his power to the fact that he moves within the accepted framework of thought, that he thinks and talks conventionally. It would be almost a contradiction in terms for a politician to be a leader in the field of ideas. His task in a democracy is to find out what the opinions held by the largest number are, not to give currency to new opinions which may become the majority view in some distant future.

Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends.

Probably it is true enough that the great majority are rarely capable of thinking independently, that on most questions they accept views which they find ready-made, and that they will be equally content if born or coaxed into one set of (beliefs)

Our freedom of choice in a competitive society rests on the fact that, if one person refuses to satisfy our wishes, we can turn to another. But if we face a monopolist we are at his absolute mercy.

Although we had been warned by some of the greatest political thinkers of the nineteenth century, by Tocqueville and Lord Acton, that socialism means slavery, we have steadily moved in the direction of socialism.

To act on behalf of a group seems to free people of many of the moral restraints which control their behaviour as individuals within the group.