

## Hayek on *The Road to Serfdom*

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### **Abstract**

*The Road to Serfdom*'s lessons are as fresh and important today as they were in 1944. I discuss Hayek's views about *The Road to Serfdom* and explore the book's relevance to current conditions in high-income and developing nations. Politicians could spare their nations much turmoil and waste if they would concentrate on Hayek's principles for government action. Those who fail to understand the continuing relevance of Hayek's ideas do so at the peril of all of us.

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### **I. Introduction**

*The Road to Serfdom* is a shocking book. It was shocking when it was published in 1944 and it is still shocking today because it is so widely ignored by opinion leaders and especially by economists specializing in public policy. Yet its lessons are as fresh and important today as they were in 1944.

In 2013, I decided to reread the book, many years after I first studied it. I had barely started when an invitation to the 2014 Economic Freedom Institute Conference at Manhattanville College arrived. In this paper, I'll often refer to *The Road to Serfdom: Text and Documents—The Definitive Edition*, edited by Bruce Caldwell (2007). Caldwell has done a masterful job of adding notes that provide deeper insight into the book. His edition also contains the preface to the original edition, the foreword to the 1956 American paperback edition, and the preface to the 1976 edition. I have also relied on *Hayek on Hayek: An Autobiographical Dialogue*, edited by Stephen Kresge and Leif Wenar (1994). When footnoting Hayek's words, my references will be to Caldwell's edition to maintain the accuracy of the page references.

My paper has two parts. In the first, I discuss Hayek's views about *The Road to Serfdom*; in the second, I explore the book's relevance to current conditions in high-income and developing nations. I will use the word "liberal" in the Hayekian sense. American-style liberals will be "progressives"; however, I will throughout put the word in quotation marks, for I cannot bring myself to accept that many of the policies favored by "progressives" are in fact progressive. For one example—a number of others appear in the second part of the paper—Peter Schuck notes that "many farm subsidy programs, which originated in the days of the Dust Bowl and the New Deal, are now egregiously bad policy—distributively perverse and cost-ineffective—yet their congressional support makes them relatively invulnerable" (Schuck 2014, p. 176). To me, the willingness of many "progressives" to support such policies demonstrates that the word "progressive," which has a positive ring to it, has been hijacked.

I will quote Hayek extensively; it is not possible to improve on his articulate and forceful argument. As does Hayek, I want to emphasize the importance of language in the analysis. For example, the opposite of a "planned economy" is not an unplanned one but rather a market economy in which households and firms plan their affairs given the market constraints and opportunities they face. If raising issues of language seems pedantic at times, doing so is nonetheless extremely important given the linguistic slights of hand that so bedevil policy analysis.

Caldwell, in his introduction, emphasizes that "what one finds in this book, and in all of Hayek's work, is a clear recognition of the power of ideas. . . . those who fail to understand the origins of the ideas do so at their peril" (2007, pp. 32–33). And, needless to say, those who fail to understand the continuing relevance of Hayek's ideas do so at the peril of all of us.

## II. Hayek's Commentary

The original preface, which appeared in the British, Australian, and American editions, is only four paragraphs long. It follows the dedication, "To the socialists of all parties." Hayek goes on to note that the book "is certain to offend many people with whom I wish to live on friendly terms" (Caldwell 2007, p. 37). Hayek argues that socialist doctrines led to the horrors of Nazi Germany—extermination camps and all. Hitler's National Socialism was the logical conclusion of the socialism advocated by British and

American thinkers. “Progressives” could not imagine that the policies they favored could ever lead to totalitarian government. That was indeed a shocking claim. “Offend” is not quite the right word.

Caldwell notes,

The intelligentsia, particularly in the United States, greeted [the book’s] publication with condescension and, occasionally, vitriol. Then a diplomat in the British Embassy in Washington, Isaiah Berlin wrote to a friend in April 1945 that he was “still reading the awful Dr. Hayek.” The economist Gardiner Means did not have Berlin’s fortitude; after reading 50 pages he reported to William Benton of the Encyclopædia Britannica that he “couldn’t stomach any more.” The philosopher Rudolf Carnap, writing to Hayek’s friend Karl Popper, apparently could not muster even the stamina of Means: “I was somewhat surprised to see your acknowledgement of von Hayek. I have not read his book myself; it is much read and discussed in this country, but praised mostly by the protagonists of free enterprise and unrestricted capitalism, while all leftists regard him as a reactionary. (2007, p. 2)

From time to time, Hayek’s critics would sneer that he dropped the “von” in his name in an effort to hide from his privileged background. Such comments demonstrate simple ignorance. In Austria, both the titles and privileges of nobility were eliminated in 1919.<sup>1</sup>

Hayek sometimes said that he regretted publishing *The Road to Serfdom*. He considered the book a political tract and said he would have preferred to spend his time on economics. However, it is a book that could only have been written by a superb economist. We can safely regard his commentaries on how governments in democratic societies behave as a precursor of the public choice literature. His conviction favoring liberal government—“liberal” in the sense of nineteenth century writers—is not just a matter of his preference. Instead, it is a consequence of his predictions about how governments behave and about the inherent superiority of markets in using information.

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<sup>1</sup> As the Almanach de Saxe Gotha website explains, “The Adelsaufhebungsgesetz of 1919 (Law on the Abolition of Nobility) abolished nobility as well as all noble privileges and, other than those in Germany, noble titles and names. Thus, no citizen of Austria can have any noble titles or even particles such as *von* and *zu* in his or her name.”

Hayek's predictions are partly a reflection of his deep knowledge of public affairs in many countries and partly a matter of pursuing ideas to their logical conclusions on one topic after another. Hayek emphasizes that agreement in principle that government planning is needed will not ordinarily translate to majority support for any particular plan:

It may be the unanimously expressed will of the people that its parliament should prepare a comprehensive economic plan, yet neither the people nor its representatives need therefore be able to agree on any particular plan. The inability of democratic assemblies to carry out what seems to be a clear mandate of the people will inevitably cause dissatisfaction with democratic institutions. Parliaments come to be regarded as ineffective "talking shops," unable or incompetent to carry out the tasks for which they have been chosen. The conviction grows that if efficient planning is to be done, the direction must be "taken out of politics" and placed in the hands of experts—permanent officials or independent autonomous bodies. (Caldwell 2007, p. 104)

How sadly familiar this passage sounds to anyone who follows congressional policy debates. Politicians could spare their nations so much turmoil and waste if they would concentrate on Hayek's principles for government action:

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. The fundamental principle that in the ordering of our affairs we should make as much use as possible of the spontaneous forces of society, and resort as little as possible to coercion, is capable of an infinite variety of applications. There is, in particular, all the difference between deliberately creating a system within which competition will work as beneficially as possible and passively accepting institutions as they are. 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 of *laissez faire*. (Caldwell 2007, p. 71)

Hayek insists, therefore, that liberalism should be an activist agent of change. We should not accept the world as it is, but use competition and the rule of law to effect change. Restrictions on international trade violate the principle of fostering competition. In the modern welfare state, subsidies to particular firms and industries

do, also. Hayek emphasizes, “It is of the utmost importance to the argument of this book for the reader to keep in mind that the planning against which all our criticism is directed is solely the planning against competition—the planning which is to be substituted for competition.” (Caldwell 2007, p. 90)

In chapter 4, “The ‘Inevitability’ of Planning,” Hayek demolishes the arguments for planning. He observes that “aspiring monopolists regularly seek and frequently obtain the assistance of the power of the state to make their control effective” (Caldwell 2007, p. 93). And consider his analysis of the argument that modern, complex technology requires central planning:

This argument is based on a complete misapprehension of the working of competition. Far from being appropriate only to comparatively simple conditions, it is the very complexity of the division of labor under modern conditions which makes competition the only method by which such coordination can be adequately brought about. There would be no difficulty about efficient control or planning were conditions so simple that a single person or board could effectively survey all the relevant facts. It is only as the factors which have to be taken into account become so numerous that it is impossible to gain a synoptic view of them that decentralization becomes imperative. But, once decentralization is necessary, the problem of coordination arises—a coordination which leaves the separate agencies free to adjust their activities to the facts which only they can know and yet brings about a mutual adjustment of their respective plans. As decentralization has become necessary because nobody can consciously balance all the considerations bearing on the decisions of so many individuals, the coordination can clearly be effected not by “conscious control” but only by arrangements which convey to each agent the information he must possess in order effectively to adjust his decisions to those of others. And because all the details of the changes constantly affecting the conditions of demand and supply of the different commodities can never be fully known, or quickly enough be collected and disseminated, by any one center, what is required is some apparatus of registration which automatically records all the relevant effects of individual actions and whose indications are at the same time the resultant of, and the guide for, all the individual decisions.

This is precisely what the price system does under competition, and which no other system even promises to accomplish. It enables entrepreneurs, by watching the movement of comparatively few prices, as an engineer watches the hands of a few dials, to adjust their activities to those of their fellows (Caldwell 2007, p. 95).

This argument is developed at greater length in Hayek's 1945 paper in the *American Economic Review*, "The Use of Knowledge in Society." He hoped that his careful analysis of how the market uses information effectively, on a scale and in a scope that planners can never duplicate, would force his socialist readers to reevaluate the case for government ownership and direction. The argument seems so obviously true that I wonder even today how intelligent public policy experts can dispute it or fail to understand it.

Alas, Hayek failed, at least in the short run. British voters elected a landslide socialist majority to Parliament in July 1945, about sixteen months after *The Road to Serfdom* was published. Clement Attlee became prime minister, and the government began its program of nationalization. These were the people who would not, or could not, read "the awful Dr. Hayek." Of course, Hayek would not have expected his ideas to prove decisive quickly; in the second section of the paper, I explore whether his ideas have had much bearing on the ever-growing welfare state.

In his foreword to the 1956 American paperback edition, Hayek provides a vivid example of how the logic of planning leads to a place planners did not intend to go. He notes that the government's

Economic Survey for 1947 (which the Prime Minister presented to Parliament in February of that year) . . . [says that] "There is an essential difference between totalitarian and democratic planning. The former subordinates all individual desires and preferences to the demand of the State. For this purpose, it uses various methods of compulsion upon the individual which deprive him of his freedom of choice. Such methods may be necessary even in a democratic country during the extreme emergency of a great war. Thus the British people gave their war time Government the power to direct labour. But in normal times the people of a democratic country will not give up their freedom of choice to their Government. A democratic Government must therefore conduct its economic planning in a manner which preserves

the maximum possible freedom of choice to the individual citizen.” (Caldwell 2007, p. 47)

Then, Hayek notes that “the interesting point about this profession of laudable intentions is that six months later the same government found itself in peacetime forced to put the conscription of labor back on the statute book” (Caldwell 2007, p. 47).

In a footnote, Caldwell explains that Hayek was referring to the Control of Engagement Order of 1947. Caldwell, quoting Ivor Thomas, offers this description of the order:

Under this Order men between the ages of 18 and 50 and women between the ages of 18 and 40 may not be engaged except through an employment exchange of the Ministry of Labour, apart from certain exempted occupations. Workers in coal mining and agriculture are not permitted to leave those occupations. Other applicants at an employment exchange are offered jobs that in the Government’s view have the highest priority. If an applicant refuses to accept a job he can in the last resort be directed, and failure to obey the direction can be punished by fine or imprisonment. (2007, p. 47, n. 19)

Hayek goes on to comment: “It hardly diminishes the significance of this when it is pointed out that the power was in fact never used because, if it is known that the authorities have power to coerce, few will wait for actual coercion” (Caldwell 2007, p. 47). Hayek overplays his hand here because he fails to emphasize that in Britain, a public outcry would surely have arisen had the order been attempted. Governments in societies with free-speech traditions as long and as deep as those in the United Kingdom and the United States could not have suppressed the outrage.

In this sense, Hayek’s critics who emphasized that totalitarian government could never take hold in Britain and the United States were probably correct. But “socialist-lite” ideas—the welfare state—did take hold with a vengeance.

### **III. Socialism Today**

Hayek stated, in his foreword to the 1956 American paperback edition, “I recognize that the hot socialism against which [the book] was mainly directed—that organized movement toward a deliberate organization of economic life by the state as the chief owner of the means of production—is nearly dead in the Western world” (Caldwell 2007, p. 44). Milton Friedman, in his introduction to the 1994 edition of *The Road to Serfdom*, said that “a force checking

collectivism was simply its inefficiency. Government proved unable to manage enterprises, to organize resources to achieve stated objectives at reasonable cost. It became mired in bureaucratic confusion and inefficiency. Widespread disillusionment set in about the effectiveness of centralized government in administering programs” (Caldwell 2007, p. 261).

I wish it were so, or universally so. Socialism has had continuing appeal in many less developed countries. I was recently looking at the latest Wikipedia entry on the World Social Forum; it provided way too much evidence for my tastes of the appeal of socialism. The annual meetings of the WSF date from 2001, and are explicitly designed to conflict with the meetings of the World Economic Forum in Davos, Switzerland.

According to the WSF website (as of December 2016), the first and fourth of the fourteen principles of the organization’s charter are these:

- (1) The World Social Forum is an open meeting place for reflective thinking, democratic debate of ideas, formulation of proposals, free exchange of experiences and interlinking for effective action, by groups and movements of civil society that are opposed to neoliberalism and to domination of the world by capital and any form of imperialism, and are committed to building a planetary society directed towards fruitful relationships among Humankind and between it and the Earth.
- (4) The alternatives proposed at the World Social Forum stand in opposition to a process of globalization commanded by the large multinational corporations and by the governments and international institutions at the service of those corporations’ interests, with the complicity of national governments. They are designed to ensure that globalization in solidarity will prevail as a new stage in world history. This will respect universal human rights, and those of all citizens—men and women—of all nations and the environment and will rest on democratic international systems and institutions at the service of social justice, equality and the sovereignty of peoples.

The other twelve principles have a similar ring. They are explicitly anticapitalist and contain many high-sounding phrases of the sort Hayek discussed.

The WSF annual meeting draws tens of thousands of attendees. The forum is primarily South American but has participants from around the world. According to its Form 990 filed with the Internal Revenue Service for the October 1, 2002–September 30, 2003 tax year, the Ford Foundation contributed \$500,000 to the Brazilian Association of NGOs toward funding the WSF.

In its notes on the 2002 meeting, Wikipedia says that “members of the AFL-CIO and the SEIU were also very active. The Ford Foundation funded \$500,000 for the next meeting.” I wonder if the Ford Foundation has had any regrets about donating funds and lending its name—both products of the market system—to the World Social Forum.

Socialism is indeed alive and well, especially in South America. The movement is supported by many voters in those countries—Argentina, Venezuela, Bolivia, Ecuador, and others are depressing examples. This article is not the place for any degree of detail on this matter, but consider a few facts about Venezuela. I will focus on this country because it has been much in the news in recent years.

Hugo Chavez came to power in 1999. According to the online Encyclopædia Britannica, “During his first year in office, his approval rating reached 80 percent, and his platform—which advocated an end to corruption, increased spending on social programs, and redistribution of the country’s oil wealth—was widely applauded. While many Venezuelans had supported Chavez as an alternative to the corrupt two-party system that had ruled since 1958, others were alienated by his increasingly radical agenda. He formed intimate ties with Castro and stated his intent to take Venezuela down a path similar to Cuba’s. He continued to pass controversial laws by decree and moved to limit the independent press.”

When Chavez died in March 2013, a Bloomberg story covered a few more basics of his tenure as president of Venezuela. Here a few excerpts: “Returning to national politics in 1998, he ended a 40-year, two-party political system . . . . His coalition put education, health care and cheap access to basic foods at the forefront of its policies while Chavez made himself accessible to the country’s poorest citizens . . . . As prices for Venezuelan crude surged more than 10-fold, to about \$126 a barrel in 2008 from less than \$9 a barrel when he took office, Chavez began to pour money into social programs, helping to cut the poverty rate by half. He also froze gasoline and electricity tariffs . . . . He responded [to a 2002 coup attempt] by firing more than 18,000 employees of Petroleos de Venezuela SA, the state

oil company, and replacing its board . . . Chavez overhauled his economic policies after the [2002 general] strike by installing currency controls and price ceilings on basic goods such as corn meal, beef and milk. He started a nationalization drive that would give the state majority control of almost every industry, a move that sparked shortages of basic goods and inflation of more than 30 percent” (Devereux and Cancel 2013).

Today, Venezuela is an economic basket case. Store shelves are empty of many basic goods, and numerous factories are shuttered because they cannot obtain parts or raw materials. Why the mess? Here is the explanation of the socialist press, from the website SocialistWorker.org, in an article from February 2014:

With the government now led by Chavez’s deputy Nicolás Maduro, elements of the right wing, backed by many of the country’s oligarchs and powerful governments like the U.S., are attempting to destabilize Venezuela and bring down Chavismo, just as they have tried and failed to do in the past, through coups, economic sabotage and election challenges. Also like the past, the poor and working class have sided with the government against the right—but with growing cynicism and demoralization about the corruption of the heirs of Chavez. . . . Caracas, where this series of events began, is a divided city. Its eastern part is middle class and prosperous; to the west, the population is poorer. The political divide reflects exactly the social division.

Leopoldo Lopez, who has been a leader of this new phase of violent opposition to the government of Nicolas Maduro, was mayor of one of the eastern districts. Together with another prominent right-wing anti-chavista, María Corina Machado, he had issued a call for an open public meeting the previous Sunday to demand the fall of the government. Youth Day, on Wednesday, February 12, provided an opportunity to bring out students to march, demonstrate and occupy the streets.

The majority of the burning barricades, however, were built in middle-class areas. And the students building them came from either the private universities or the state university, which had largely excluded poorer students in recent times. There was almost nothing happening in the poorer areas to the west.

But in more recent days, the class character of the demonstrations has become clearer. The government's new bus system—offering clean and safe travel at low prices—has been attacked; 50 of these “Metro Buses” were torched in one day alone. . . .

The shortages are explained partly by speculation on the part of capitalists—just as happened in Chile in 1972—and partly by the rising cost of imports, which make up a growing proportion of what is consumed in Venezuela. And that means not luxuries, but food, basic technology, even gas.

All of this is an expression of an economic crisis vigorously denied by the government, but obvious to everyone else. Inflation is caused by the declining value of the bolivar, Venezuela's currency, itself the result of economic paralysis. The truth is that production of anything other than oil has ground to a virtual halt. The car industry employs 80,000 workers, yet since the beginning of 2014, it has produced 200 vehicles—what would normally be produced in half a day.

How is it possible that a country with the world's largest proven reserves of oil and possibly of gas, too, should now be deeply in debt to China and unable to finance the industrial development that Chavez promised in his first economic plan?

The answer is political, rather than economic. The explanation is corruption on an almost unimaginable scale, combined with inefficiency and a total absence of any kind of economic strategy.” (Gonzalez 2014)

I could go on, but how familiar this sounds to a student of Hayek's work. The socialist press is blaming the right wing and, of course, the United States for recent events. Interestingly, Chavez himself escapes criticism. The problem is the “heirs of Chavez”—it is the Maduro government that is said to be corrupt and inept.

Chavez died in office in 2013, leaving the economy a mess. Despite his soaring socialist rhetoric of equality and reform, on Transparency International's Corruption Perceptions Index 2013, which ranks 177 countries, Venezuela was 160. In 2003, it was 104 of 133. Further, on the World Bank's 2014 Doing Business Index, which ranks 189 countries on the ease of doing business in a country given its regulatory environment, Venezuela was 181 out of 189. In the 2006 report—the first one for which countries have an overall

ranking as opposed to a ranking only on particular dimensions—Venezuela was 120 of 155.

It is important to recognize that many social indicators did improve substantially during the Chavez years. Measures of the population's education and health status improved and the poverty rate fell. It is most unfortunate that these improvements did not occur under a liberal government, emphasizing the rule of law and competitive market organization of the economy. That direction for Venezuela would have provided the base for long-run improvement. As it is, the country could suffer years of economic turmoil and, perhaps, a coup installing a harsh new military government. The socialist critique will then be that the military acted in the service of the capitalists. Very depressing.

Despite Hayek's analysis and warnings and Friedman's optimism, socialism is indeed alive today in the less developed world, especially in South America.

#### **IV. Hayek and the Welfare State**

Hayek did not object in principle to government policies we have come to call the “welfare state,” provided that such policies are consistent with a competitive economy and the rule of law. His position at the time of *The Road to Serfdom* is succinctly stated in a 1945 radio interview; the transcript appears in part three of *Hayek on Hayek* (Kresge and Wenar 1994). The interview is a one-hour conversation among Hayek and two University of Chicago professors, Maynard C. Krueger, assistant professor of economics, and Charles E. Merriam, professor emeritus of political science. A few excerpts follow.

MR. KRUEGER: Would you give us a bill of particulars of the sort of planning you are not attacking?

MR. HAYEK: There is the whole design of the legal framework within which competition works—the law of contract, the law of property, the general provisions to prevent fraud and deception. All these are entirely desirable activities, but let me more positively define planning against competition. Whenever the government is asked to decide how much of a thing is to be produced, who is to be allowed to produce it, who is to be excluded from producing it, who is to have that privilege and this privilege—that is a kind of social system which is an alternative to the competitive system and which cannot be combined with it and which has

been advocated for a hundred years at least by the great majority of socialists and which has gained great influence. I oppose it. It is against this kind of planning, exclusively, that I am arguing.

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. It is one of these regulations which creates equal conditions throughout the system. But, of course, if it goes beyond the point where it accords with the general situation of the country, it may indeed interfere very much. If today you dictate that nobody is to work more than four hours, it may completely upset the competitive system. . . . 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. 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 longer the price mechanism which will guide people between industries and trades. (Kresge and Wenar 1994, pp. 111–12)

In the preface to the 1976 edition, Hayek says:

But the socialism of which we speak is not a party matter, and the questions which we are discussing have little to do with the questions at dispute between political parties. It does not affect our problem that some groups may want less socialism than others; that some want socialism mainly in the interest of one group and others in that of another. The important point is that, if we take the people whose views influence developments, they are now in the democracies in some measure all socialists. . . . Scarcely anybody doubts that we must continue to move toward socialism, and most people are merely trying to deflect this movement in the interest of a particular class or group. (Caldwell 2007, p. 59)

Hayek wrote these words more than thirty years after the end of World War II. By that time, all the countries devastated by the war had largely recovered, and there was no sign that they were moving in the direction of totalitarian government. Yet, I read Hayek as saying that the onward march of the welfare state, sector by sector and issue by issue, was taking society in the wrong direction.

A recent entry on Wikipedia: “Progressivism as a political philosophy holds that societal problems can best be addressed by having government impose solutions to social problems like poverty, violence, ‘corporate greed,’ and racism, rather than leaving the economy and society up to the free market and individual actions and choices. The contemporary political conception of progressivism in the culture of the Western world emerged from the vast social changes brought about by industrialization in the Western world in the late 19th century, particularly out of the view that progress was being stifled by vast economic inequality between the rich and the poor, minimally regulated *laissez-faire* capitalism with out-of-control monopolistic corporations, intense and often violent conflict between workers and capitalists, and a need for measures to address these problems.”

What hath “progressivism” wrought? I cannot do better than to quote from Peter Schuck’s 2014 book, *Why Government Fails So Often: And How It Can Do Better*. Here is his summary at the end of chapter 2, titled “Success, Failure, and In Between.”

In conclusion, policy success or failure is not simply in the eye of the beholder. We have seen that good policy assessment rests upon a number of well-established, relatively uncontroversial criteria that are certified in analytic methodology and routinely used in government practice. Although the application of these criteria to particular policies might be contested, it turns out that the results of such assessments are also remarkably consistent—and consistently negative. [Clifford] Winston, who as noted in chapter 1 claims to have read all of the studies, finds,

Notwithstanding the potential for methodological disputes to arise when microeconomic policies are evaluated, my assessment of the empirical evidence reveals a surprising degree of consensus about the paucity of major policy successes in correcting a market failure efficiently. In contrast to the sharp divisions that characterize debates over the efficacy of macroeconomic

policy interventions, I found only a handful of empirical studies that disagree about whether a particular government policy had enhanced efficiency by substantially correcting a market failure . . . . Generally, my fundamental conclusions are not influenced by studies that use a particular methodology. In fact, researchers who used vastly different techniques to assess specific policies often reached very similar conclusions.

Nor is Winston alone in this conclusion. Derek Bok's careful review of the evidence concurs: "Again and again, in field after field, the operative legislation is burdened by unrealistic objectives, inadequate funding, clumsy implementing machinery, and poor targeting of funds. The costs in terms of waste, frustrated expectations, and harmful side effects are virtually incalculable." (Schuck 2014, pp. 62–62)

The tone of Schuck's book is that of a conscientious reformer, who apparently believes that if we understand the reasons for government failure, we can retain government as a progressive force while cleaning up government programs that are, in fact, anything but progressive. However, Schuck says that

[Political scientist Steven] Kelman's optimism is excessive and misguided. He vastly underestimates the barriers to more effective government; some are remediable . . . but many are too structural for significant improvement. He assumes that government is responsible for producing environmental and other social gains; we shall see, however, that the government's causal role in producing some gains—relative to other factors—is often debatable, and that some outcomes are not gains at all but have made matters worse . . . . His assertion that both government and markets can fail is true but misleading as it implies a false equivalence: failed products quickly exit the market; failed programs, like diamonds, are forever. . . . Were Kelman to review—as a hard-eyed analyst, not a dewy-eyed idealist—the mountain of empirical evidence presented in part 2 on the ineffectiveness of program after program, he would probably have to abandon his optimism; there simply is too little basis for it, except perhaps for straightforward redistributions like Social Security and a few other areas like voting rights (Schuck 2014, pp. 25–26).

What I find puzzling about Schuck's analysis is that he apparently believes that government performance can be materially improved and yet also offers statements such as the example just quoted. He believes that "the root causes of this endemic policy failure are structural and thus largely inescapable under present policy-making conditions" (Schuck 2014, p. 30).

Schuck's chapter 12 is devoted to "Remedies: Lowering Government's Failure Rate." The issue is pressing because the "dismal record is not confined to a limited policy space or only a few policy instruments. To the contrary, the failed programs discussed in this book cover a vast range of domestic policies, as well as all of the specific policy tools discussed in chapter 3: grants, contracts, insurance, subsidies, regulation, and the rest. Nor are these failures marginal or insignificant. In fact, they include some of our largest, most durable, most visible, and most fiercely defended programs. Together, they account for a substantial share of total nondefense discretionary spending" (Schuck 2014, p. 371). Schuck's analysis is a policy wonk's catalog of things that could be done to improve policy.

Schuck's chapter 5, "Incentives and Collective Irrationality," contains many insights from the public choice literature. Politicians are motivated by the self-interest of election and reelection. Voters have minimal reason to vote and on the whole are appallingly uninformed. Governments systematically hide the costs of programs, especially by putting costs off to the future.

Schuck says that "Hayek's analysis of the dynamics of information in complex societies remains true and profoundly important" (2014, p. 168). But then, it seems that he doesn't really understand the point. He writes, "Markets are fueled by self-interest, which is one reason why many Americans mistrust them. For centuries, critics have viewed this as a moral problem, identifying self-interest with materialistic excess, exploitation, and absence of the gentler virtues. Many public intellectuals and religious people claim that market-driven commercialism crowds out more communitarian, moral, and aesthetic values" (Schuck 2014, p. 28). Schuck does refer to Adam Smith later in this paragraph, but he fails to emphasize the importance of voluntary coordination of economic activity and efficient use of information that markets promote.

Putting aside the fact that people support particular programs from their self-interest in the promised government benefits and tax preferences, the pervasive association of market activity in socialist and "progressive" ideology with unsavory self-interest is part of the

modern culture promoting growth in government. Why does Schuck let stand a phrase such as “markets are fueled by self-interest”? Such phrases should everywhere be challenged as reflecting a lack of understanding of the gains to both buyer and seller from voluntary exchange.

Schuck reports evidence on the low esteem in which voters hold government:

In both 1997 and 2010, a Princeton Survey Research Associates/Pew survey reported that only 2 percent of respondents believed that the federal government does an “excellent job” in running its programs; 74 percent of respondents said that it did only a “fair” or “poor job.” In 2011, 79 percent said they were “frustrated” or “angry” with the federal government. (In 2007, before the recession, that total was 74 percent.) (2014, p. 2)

Unfortunately, public disillusionment with government because of its poor performance has not been wide enough. The problem has been that “progressives” have implemented the welfare state in ways—primarily subsidies and regulation—that have limited or destroyed competition. Despite the rantings of his critics, Hayek was clear. “Nor is the preservation of competition incompatible with an extensive system of social services—so long as the organization of these services is not designed in such a way as to make competition ineffective over wide fields” (Caldwell 2007, p. 87).

Unfortunately, government programs introduced after World War II have often been incompatible with maintenance of competition. Voters believe that many of these programs do not work well and waste taxpayer resources.

Schuck addresses the question as to why citizens have so little confidence in government:

The most straightforward answer is that the federal government does in fact perform poorly in a vast range of domestic programs. (As explained below, this book focuses exclusively on federal domestic programs.) This is amply demonstrated by the large body of evidence compiled by the nation’s leading social science analysts and public administration scholars, evidence that I prefigure later in this chapter and in detail in part 2. A competitive party system and an attentive, critical media get the word out on these failures, and the public naturally takes notice. (2014, pp. 4–5)

Hayek would have applauded Peter Schuck's work. But he would have asked, "Peter, after all that, how can you still count yourself a 'progressive'? Moreover, you cite two fine op-ed articles by historian Niall Ferguson, but not his two important recent books, *Civilization: The West and the Rest* (Ferguson 2011) and *The Great Degeneration: How Institutions Decay and Economies Die* (Ferguson 2012)." And I would ask the same of all our "progressive" economist colleagues.

## V. Final Note

Hayek finishes his preface to the 1976 edition with these words:

I have long resented being more widely known by what I regarded as a pamphlet for the time than by my strictly scientific work. After reexamining what I wrote then in the light of some thirty years' further study of the problems then raised, I no longer do so. Though the book may contain much that I could not, when I wrote it, have convincingly demonstrated, it was a genuine effort to find the truth which I believe has produced insights that will help even those who disagree with me to avoid grave dangers. (Caldwell 2007, p. 56)

*The Road to Serfdom* is much more than a pamphlet. And rather than being "for the time," it is a book for all time.

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