

On the Road Again

**Friedrich Hayek,
The Road to Serfdom**

Shalem Press, 1998.

Translated by Aharon Amir.

Introduction by Ofir Haivry.

200 pages, Hebrew.

Reviewed by Yehoshua Porath

Few in Israel are familiar with the writings of Friedrich Hayek, the Viennese economist whose critique of modern socialism laid the groundwork for the dramatic reemergence of classical liberalism over the past two decades. Yet Hayek's works, and in particular *The Road to Serfdom*, are of immediate relevance to Israel: As the country struggles to shed its Marxist economic heritage, a belief in government restraint and economic liberty has yet to take hold in an Israeli public that has long accepted confiscatory taxation, mammoth bureaucracy and rampant cronyism as a matter of course. Even if Hayek has been largely abused by Western conservatives (including *The Road to*

Serfdom's Hebrew editor, Ofir Haivry) who have painted him as a defender of all things traditional, Hayek's Hebrew debut will serve as a beacon for revolutionaries in Israel—a country where centralized planning is the only economic tradition known, and a belief in the free market the emerging wave of the future.

Friedrich August von Hayek was born into a family of Austrian nobility, which in earlier times had served the Hapsburg dynasty. Raised in a scholarly environment, he became a serious student of law, political theory and economics. Economics eventually became his chief area of concentration, but his work in the field, including that on monetary theory, always was built upon philosophical-ethical foundations. In Great Britain, where in 1931 he assumed the post of economics professor at the London School of Economics, and in the United States, where he taught at the University of Chicago during the 1950s, Hayek expounded the

principles that would be known as the Viennese school of economic thought, remaining ever faithful to eighteenth-century liberalism while developing its conceptual and analytical tools.

A tireless advocate of liberty, Hayek assailed the economic policies undertaken by Britain and other Western nations from the 1930s onward. The economic crisis which devastated capitalist economies around the world in 1929, coupled with the failure of liberal economists to find a cure for mass unemployment, had compelled Western governments to give the new theories of John Maynard Keynes a try. In sharp contrast to classical liberalism, Keynesian economics called upon government to “manage aggregate demand” by intervening massively in the economy. Hayek disagreed sharply with this idea; together with Arthur Cecil Pigou, the foremost liberal economist in Britain, Hayek argued that Keynes’ proposals would increase aggregate demand and production only in the short run: Beyond that, however, artificially inflating demand through deficit financing would necessarily lead to spiraling inflation.

The siege conditions of World War II dramatically accelerated the centralization of Britain’s economy, much as World War I had for that of Germany. Under the leadership of Winston Churchill, but with the active collaboration of the Labor Party, the British

government directed the economy via administrative decrees, targeting production in support of the war effort; workers were assigned to vital industries, and consumers became accustomed to a limited selection of goods, sold at fixed prices. This policy entailed significant restrictions on personal liberty: Manufacturers could no longer decide what they would produce or at what price it would be sold, workers could not choose their places of employment, consumers could not choose how to spend their money. Yet out of concern for the war effort, the people of Britain accepted these policies, despite the infringement upon their basic freedoms.

The popularity of these policies during the war allowed Labor to call for continuing them after the war’s end—a proposal which, in Hayek’s view, would imperil liberty and economic efficiency if put into practice. He wrote *The Road to Serfdom* as the war was drawing to a close, in the hope of persuading the public to stay off the path of peacetime centralization, a path which, he maintained, could lead the country towards a totalitarianism not unlike what had gripped both Germany and Russia.

This objective set the tone for *The Road to Serfdom*, a sophisticated polemic which has been highly influential since it first appeared in 1944.

It calls for a return to the basic idea of economic liberalism—a free and competitive market, with the government essentially relegated to the role of watchdog. *The Road to Serfdom* presents no real theoretical innovations, offering instead a reiteration of the liberal economic principles dating back to Adam Smith: That governments are incapable of planning production so that it will meet the varied demands of millions of people; that the state lacks adequate information regarding consumers' wishes, information which the market alone supplies to manufacturers; that government is no substitute for the marketplace's thousands of manufacturers, who must constantly make decisions in real time; and so forth. In recent decades, these beliefs have become the consensus, earning the allegiance of even those who had been their sharpest critics. At least with respect to the productive sector of economic and social life, the principle of free-market policymaking is now almost universally accepted.

Yet *The Road to Serfdom* goes beyond economics. Its emphasis is on the moral and political ramifications of the planned economy. Hayek argues that the government's accretion of physical and fiscal power at the expense of the citizenry opens the door for threats to liberty, and not just economic liberty. He argues forcefully that in the absence of economic freedom, there

is no future for political freedom or that at the very least, political freedom will be in constant jeopardy.

But like any good polemic, *The Road to Serfdom* underplays that which fails to support its case. In all likelihood, Keynesian theory would never have attained such wide acceptance were it not for the unprecedented financial crisis and massive unemployment of the 1930s. Yet the book contains not one reference to this, nor even to the larger historical context giving rise to the labor movement and socialism in Europe. The rapid industrialization in Great Britain, and soon experienced in other Western countries as well, spawned an ever-growing urban working class. Once the liberals had won the struggle for universal suffrage, it was a foregone conclusion that workers organized into trade unions would strive to translate their collective power into political strength by setting up political parties. These would always seek ways to improve the workers' status and redress the unequal allocation of revenues. The result was a grassroots socialism that was neither totalitarian in spirit nor Leninist in its methods.

Yet in Hayek's view, all the "collectivists" were more or less identical: The communists, the social democrats, the fascists, the Nazis, and even Ferdinand Lassalle and Johann Fichte—anyone who ascribed any degree of importance

to government action in the economic realm. To back up such a claim, Hayek was careful to remind us that many of the leaders and theoreticians of fascism were former socialists. And indeed, Mussolini was, as were Georges Sorel and Jacques Doriot. Even Werner Sombart, the famous German economist who supported state intervention in the economy in accordance with the teachings of Friedrich List, gradually changed his views and late in life began to favor Nazism.

Yet a much larger number of fascists and Nazis were never socialist activists. Among the leaders of Nazi Germany, few if any attained prominence as a Socialist or Communist Party activist before becoming active Nazis. Friedrich Naumann, who fathered the theory of “social imperialism” during the first two decades of the twentieth century, did combine German nationalism and imperialism with demands for social legislation. Yet he was no socialist, and if he was a “former Marxist,” as Hayek dubs him, this was evidently in his youth, before he began formulating his theory and publishing his books. Even the socialist connection of Paul Lensch, who was a parliamentary delegate of Germany’s Social Democrat Party, is tenuous. Before World War I he belonged to the left wing of the Social Democrats, yet once the war was under way he joined their right-wing

nationalist branch and, ultimately, he left the party. In other words, in order to become a spokesman for German nationalism, he had to withdraw from the Socialist Party. Does he really demonstrate a necessary connection between democratic socialism and totalitarian collectivism?

Ofir Haivry, who wrote the introduction to *The Road to Serfdom*’s Hebrew edition, exacerbates the book’s shortcomings. Haivry cites two fairly general statements by Hayek, in praise of tradition and the wisdom of the ages, to make even grander a claim than did Hayek: That classic liberalism and free-market economics are the quintessential expression of “the Western tradition.” Quite the reverse is true, of course. In *The Wealth of Nations*, Adam Smith introduced a theory that was anything but traditional. Until the seventeenth century, Western economic theory had been Christian-paternalist in nature, based on concepts of a “moral economy” and a “fair price” which the ruler was responsible for implementing. Then, together with the rise of strong absolutist monarchies, mercantilism made its appearance, championing state intervention in foreign trade in order to expand exports and reduce imports. Under this practice governments hoarded precious metals, which formed the basis for the

economic, political and military power of kings. Adam Smith published his book in order to prove, above all else, the futility of mercantilism and the case for freedom.

The best proof of the revolutionary character of economic liberalism is to be found in the thirty-year struggle to repeal Britain's Corn Laws—protective import duties which served the interests of large landowners—which began soon after their enactment in 1815 at the conclusion of the Napoleonic wars. For much of this period Richard Cobden, William Cobbett and John Bright—champions of liberal economics who transformed the British Whig Party into the modern Liberal Party—led the radical liberals in supporting the repeal of the Corn Laws. It was the defenders of tradition, the members of the Conservative Party, who sought to maintain the status quo. Then, in the mid-1840s, Sir Robert Peel, who was prime minister and the leader of the Conservative Party, together with fellow party member William Gladstone, then minister of finance, concluded that the decades-long demand to repeal the tariffs was indeed justified. Because of their subsequent call for abolishing the Corn Laws—that is, their embrace of liberal economics—Peel and Gladstone were forced out of the Conservative Party. Far from being a manifestation of loyalty to tradition or respect for

traditional values, classic liberalism was revolutionary as both theory and policy.

Nor can the Conservative Party be rightly described as the “last bastion of the classical liberal view” after the Second World War, as Haivry asserts. The Conservatives had always supported aristocratic paternalism and government intervention to serve the interests of the landed aristocracy; they also favored certain types of social legislation. Only under the leadership of Margaret Thatcher in the 1970s and 1980s was the party transformed into a classic liberal power and the standard-bearer of the nineteenth-century liberal tradition. This was a sea change from its traditional position.

Haivry relies on another historical example to amplify Hayek's vitriol against Labor. Hayek saw the Labor Party as a threat to the liberal character of the British regime. In retrospect, we know that Labor's commitment to democracy and individual freedoms ran deep—despite its blunders in nationalizing important sectors of the economy. Yet at the time Winston Churchill, who responded enthusiastically to the publication of *The Road to Serfdom*, eagerly militated Hayek's arguments against Labor during the elections in July 1945, soon after the war had ended. Haivry recounts how the Conservative Party even helped with the printing of subsequent editions of Hayek's book, by

contributing paper from the party's election quota. What he fails to mention is that Churchill cooked his own goose: His electoral chances were severely harmed when he tried to translate Hayek's intellectual claims into crude political terms, admonishing British voters that a "Gestapo-like regime" would prevail over Britain were Labor to win the election. Of course it was Churchill, not Hayek, who was to blame for this noxious formulation—yet Hayek himself made no small contribution to it by failing to distinguish social democracy from Bolshevism.

Haivry goes so far as to enlist George Orwell into the select club—of which Hayek and Karl Popper are prominent members—that crusaded against the "movement of good intentions," inveighing against collectivism and arguing on behalf of individual freedom. Yet Haivry neglects to point out that Orwell was a lifelong, card-carrying leftist. He fought in the Republican ranks in the Spanish Civil War, advocated far-reaching socialist changes in Britain (*The Road to Wigan Pier* was a milestone in this struggle), was an active member of the Labor Party and contributed regularly to the *New Statesman* and the *Tribune*, the journals of educated leftist circles.

In short, Haivry paints a portrait of Hayek that is far truer to American neo-conservatism than to his original

British context. That the neo-cons have endowed Hayek with a respect for tradition is the result of their failure to grasp the revolutionary nature of classic liberalism—compounded by their desire to combine a liberal economic view with a traditional cultural and religious outlook. This approach does a disservice to Hayek's monumental work in developing liberal economic theory and conveying its message to his professional peers, and to the public at large.

The Hebrew edition, translated deftly by Aharon Amir, suffers from a number of serious errors appearing in its biographical glossary, appended to the text as an aid to the reader unfamiliar with the many political and intellectual figures to whom Hayek refers. For example, in the glossary Houston Stewart Chamberlain, a father of modern racism, is referred to as an "English thinker." True, Chamberlain was born to an English father (prompting Hayek himself to refer to him as English). Yet from his childhood he was educated in Germany, adopted it as his homeland, became a German citizen and married a German woman (the daughter of Richard Wagner). All his writings he composed in German.

Yet none of the foregoing is meant to detract from the importance of *The Road to Serfdom*, or from the benefits its translation will confer upon the

reading public in Israel. One may only hope that readers will be able to distinguish the wheat from the chaff, the profound and compelling arguments for the superiority of free-market economics over central planning, from Hayek's misguided polemic which fails to distinguish totalitarians from social democrats. For even if these latter erred in nationalizing sectors of the economy, they did advance the social interests of the people by ensuring them the basic elements of human well-being, while remaining ever faithful to democracy and human liberty.

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David S. Landes,
The Wealth and Poverty of Nations:
Why Some Are So Rich
and Some So Poor
W. W. Norton, 1998.
650 pages.

Reviewed by Yitzhak Klein

David Landes, Harvard's preeminent economic historian, has dedicated much of his career to forwarding the unfashionable idea that Western civilization has brought

about a dramatic, unambiguously positive change to the entire world. In so doing, Landes has made himself the bane of cultural relativists, who for the past generation have asserted that anything the West achieved was Not Important, or, if it was important, that other civilizations Did It First, or Just As Well. Landes' latest volley, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor*, is as ambitious as its title implies. It builds upon much of his previous work in an effort to settle the debate once and for all by developing a comprehensive historical account of the political, social and cultural factors that came together to destine Europe for supremacy. Were it not for the lack of a compelling theory behind his extensive historical narrative, he might well have succeeded.

This is not a new battle for Landes. His campaign on behalf of the merits of Western capitalism dates back to 1964, when he published in the *Cambridge Economic History of Europe* a three-hundred-page essay on the history of European industry and technology. This work, which told the story only up to the threshold of World War I, set the stage for a more complete treatment in his 1968 book *The Unbound Prometheus*. This title alone reveals how deeply