

THE POVERTY OF ECONOMISM: FREEDOM, CALCULATION, AND THE LAW

LA POBREZA DEL ECONOMICISMO: LIBERTAD, CÁLCULO Y LEY

MARK A. NOTTURNO

Interactivity Foundation, USA. notturmo@interactivityfoundation.org

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RESUMEN ABSTRACT

Karl Popper y Friedrich von Hayek son recordados como dos de los mayores defensores en el siglo XX, del concepto de sociedad abierta. Ambos nacieron en Viena. Ambos se sintieron atraídos hacia el socialismo en sus años mozos, y los dos escribieron críticas seminales contra el socialismo, que revelaban sus defectos fundamentales. También eran muy buenos amigos, que se ayudaron mutuamente en sus carreras, y generalmente se los consideró aliados filosóficos. Sin embargo, los puntos de vista de Hayek sobre la democracia, la racionalidad y el economicismo, eran fundamentalmente opuestos a los de Popper -e incluso quizás- a la sociedad abierta en sí.

El presente artículo, se centra en sus diferencias sobre el economicismo. Argumenta que la crítica popperiana al economicismo de Marx, también puede aplicarse a Hayek; que éste estaba "preparado" para aceptar el socialismo si pudiera ser tan eficiente y productivo como el mercado; que Popper no; y que es imposible realizar la idea de Hayek sobre la libertad por la misma razón que éste pensaba que el socialismo no podría tener éxito.

Karl Popper and Friedrich von Hayek are remembered as two of the 20th century's greatest proponents of open society. They both were born in Vienna. They both were attracted to socialism early in life. And they both wrote seminal critiques of socialism that revealed its fundamental flaws. They were also very close friends, helped each other in their careers, and were generally regarded as philosophical allies. But Hayek's views about democracy, rationality, and economicism are fundamentally at odds with Popper's -and perhaps even- with open society itself.

This paper focuses upon their differences about economicism. It argues that Popper's critique of Marx's economicism also applies to Hayek; that Hayek was 'prepared' to accept socialism if it could be as efficient and productive as the market; that Popper wasn't; and that it is impossible to realize Hayek's idea of freedom for the very same reason that Hayek thought socialism could not succeed.

PALABRAS CLAVE KEY WORDS

Problema del cálculo, economicismo, Hayek, ingeniería paso a paso, Popper, sociedad abierta, imperio de la ley.

Calculation problem, economicism, Hayek, piecemeal engineering, Popper, open society, rule of law.

“A policy of framing institutions to safeguard democracy must always proceed on the assumption that there may be anti-democratic tendencies latent among the ruled as well as among the rulers” (Karl R. Popper).

Introduction

Karl Popper and Friedrich von Hayek were two of the twentieth century's greatest proponents of open society —and their lives and intellectual careers, which spanned nearly the entire century, were similar in many ways. Both were born at the turn of the century in Franz Josef's Vienna. Both studied at the University of Vienna and were attracted to socialism as young men. Both immigrated to England and taught at the London School of Economics. Both wrote controversial books (Hayek (1944) Popper (1945)) that defended democracy and pointed out the unintended totalitarian consequences of socialism. And both of these books, published just one year apart from each other, attracted wide audiences and are still selling well nearly sixty years after they first appeared. These facts are not coincidental. Popper, though only three years his junior, always regarded Hayek as a 'father-figure'¹. He presented his critique of historicism first in Hayek's seminar in London. And Hayek, the first of the two to establish an international reputation, played an important role in finding publishers for Popper's work², in promoting Popper's ideas about science and open society, and in bringing Popper himself to the London School of Economics.

Popper felt that Hayek had saved his life by helping him to find a job and a publisher for his book (Popper, *Unended quest* 120). He included references to Hayek in many of his books and dedicated *Conjectures and refutations* to him. Hayek, for his part, also referred to Popper in his work. He tried for years to raise money to fund an institute to promote their work. And he told interviewers, late in life, that he and Popper were very close friends and that “to a very large extent I have agreed with him, although not always immediately”, —adding that “on the whole I agree with him more than with anybody else on philosophical matters” (Kresge & Wenar 51).

¹ Popper, in writing this, quickly added that he did not mean 'father-figure' in the Freudian sense.

² Popper's *Poverty of historicism* was first published in the journal “Economica”, which Hayek edited; and Hayek went to great pains to find a publisher for Popper's *The open society and its enemies*. Popper, insofar as this is concerned, wrote in its 'Acknowledgements' that the book would not have been published without Hayek's interest and support.

The road to serfdom and *The open society and its enemies* were vilified by 'left' leaning American academics when they first appeared³. That was over half a century ago. The war against socialism has since been won in the United States—at least for the moment—and 'open society' is now on the rise in many of the countries of the former Soviet Union and socialist bloc.

Hayek's ideas are now taught in many American universities, and several libertarian 'think tanks' in the Washington D.C. area proudly claim him as an intellectual founder. It is unfortunate, however, that these institutions do not pay more attention to Popper. I say this because Popper and Hayek differed in subtle ways—and in ways that are perhaps not so subtle—about democracy, rationality, and economism; because these issues are, or should be, fundamental to the libertarian cause; and because Popper's views about them are, in my view, decidedly preferable.

Hayek and Popper agreed that rationality has its limits, that authoritarian philosophies have distorted its meaning, and that the idea that social science can predict the course of history betrays a fundamental misunderstanding of the scientific method. They also agreed that democracy is not an end in itself but a means toward safeguarding freedom—and that it is not a foolproof means toward this end, but one that is easily manipulated by totalitarians. And they agreed, at a time when the idea did not seem as clear as it does today, that the market is more productive and efficient than central planning—and that socialism leads to fascism and totalitarianism, despite the good intentions of its proponents. These agreements mark broad strokes in the history of political and economic thought, and I hope that nothing I say in the course of this paper will be misinterpreted as denying this fact. Writ large upon the history of philosophy, Popper and Hayek have fought many of the same battles against many of the same enemies. But if I am right, then Hayek's views about democracy, rationality, and economism are fundamentally at odds with Popper's—and, perhaps, even—with open society itself.

³ Hayek, in his preface to the 1976 edition of the book, wrote that "just to indicate the character of a widespread reaction, I will mention merely that one well-known philosopher, who shall be nameless, wrote to another to reproach him for having lauded this scandalous book, which 'of course [he] had not read!'" The philosopher in question was Rudolf Carnap, then at the University of Chicago. The philosopher to whom Carnap wrote was Karl Popper. (See, in this connection, my 'Popper's Critique of Scientific Socialism, or Carnap and His Co-Workers' in my *Science and the open society: The future of Karl Popper's philosophy*).

Popper and Hayek differed about whether and to what extent our societies are well served by deliberate attempts at intervention. They also differed as to whether our democracies are better served by institutions that are designed to help us elect the best leaders, or by institutions designed to protect us against the leaders we elect. And they differed, perhaps most importantly, as to whether we should value freedom as a means to prosperity or prosperity as a means to freedom. These issues lie at the heart of liberal thought. And they have far reaching consequences. Indeed, Hayek, if I am right, designed reforms to our electoral system that would actually transform a democracy into what Popper would have regarded as a tyranny. I cannot do justice to these differences in this short paper. But I want, in what follows, to focus upon Hayek's economism, and upon his idea of freedom. If I am right, then Hayek, contrary to Popper, would have been prepared to accept totalitarianism if it could be shown to be as efficient and productive as the market. And if I am right, then it is impossible to realize Hayek's idea of freedom for the very same reason that he thought socialism cannot succeed.

Tyranny and the democratic state

I suspect that the idea that Hayek proposed reforms to our electoral system that would transform a democracy into what Popper would have regarded as a tyranny may sound strange to many readers. But it illustrates the differences between Popper and Hayek so well that I want to briefly explain it before turning to Hayek's economism.

Popper thought that Plato had set western political philosophy off on the wrong foot by making the question 'Who should rule?' its primary problem. He said that it is nearly impossible, once we pose this question, not to offer some utopian answer, such as 'the best' or 'the wisest' — and that the more pressing political problem, in any event, is how to get rid of our rulers when they turn out to be not as good or as wise as we had hoped them to be. Popper thought that we need to distinguish between two and only two forms of government insofar as this is concerned: between democracies, which possess institutions, such as elections, that allow us to dismiss our rulers without violent revolution — and tyrannies, which do not (Popper, *The open society* 161). And he argued that 'the criterion of a democracy' is whether or not "the rulers—that is to say, the government— can be dismissed by the ruled without bloodshed" (Ibid. 161).

Hayek, on the other hand, thought that our democracies are compromised by a felt need on the part of elected officials to pander to the desires of their constituencies in order to ensure their own reelections. He thought that we could solve this problem by electing our representatives for a period of fifteen years, without possibility of reelection. And he proposed that our electoral conventions should be revised so that legislatures would be composed of representatives elected, in effect, for life by members of their own age groups, who would vote once and only once in their lifetimes at the age of forty-five (Hayek, *New studies* 160-1).

Hayek characterized his proposal as 'utopian'; and there are at least two utopian features that sharply distinguish it from the way in which Popper thought about democracy. The first is that it is motivated almost entirely by the problem 'Who should Rule?' This might not be obvious at first glance, since the proposal is an attempt to solve the problem of officials pandering to their electorates. But Hayek's idea would not even be a tentative solution to this problem, were it not for his assumption that an electorate voting at the age of forty-five, and voting only for candidates in its own age group, is more likely than otherwise to elect the best and wisest leaders.

Hayek, indeed, argued for this assumption by saying that people are more likely to know who is best qualified to lead within their own age group, and that people at the age of forty-five are both experienced enough and mature enough to make such judgments. This preoccupation with finding a way to get the best rulers may seem innocuous. But it leads directly to a second utopian feature of Hayek's proposal that is far more dangerous. For if we can really design a system that enables us to get the best and wisest leaders, then there would be no reason whatsoever to think about how to get rid of them if something goes wrong. And Hayek's proposal, in any event, leaves us with no institutional method for getting rid of them. For the members of the electorate in Hayek's system would vote once and only once in their lifetimes. This means that they would have an opportunity to vote their rulers into office, but no opportunity to vote them out.

But Popper, as we have seen, thought that democracies are distinguished from tyrannies by the existence of institutions that enable us to get rid of our rulers without violence and bloodshed. And this means that Hayek's proposal, in lieu of other institutional arrangements that would enable us to get rid of our elected officials (and Hayek, so far as I can see, offers none), would transform a democracy into a system that Popper would regard as a tyranny.

I think that it is reasonably clear that Hayek intended his proposal to yield an improvement of democracy. And I do not know whether or to what extent Hayek accepted Popper's criterion of democracy. But this is not the only issue about which they disagreed. And Hayek's economism seems to imply a willingness to accept tyranny on his own terms.

The poverty of economism⁴

Popper criticized Marx for his *historicism*, which he described as the belief that the course of history is predetermined by scientific laws. But he described Marx's historicism as 'economism', since:

Marx, in opposition to Hegel, contended that the clue to history, even to the history of ideas, is to be found in the development of the relations between man and his natural environment, the material world; that is to say, in his economic life, and not in his spiritual life. (Popper, *The open society* 104)

I do not know whether Marx ever used the term 'economism' himself⁵. But Popper used it to describe,

the claim that the economic organization of society, the organization of our exchange of matter with nature, is fundamental for all social institutions and especially for their historical development. (Ibid. 106)

He said that economism "is perfectly sound, so long as we take the term 'fundamental' in an ordinary vague sense, not laying too much stress upon it" (Ibid. 106)⁶. But he criticized Marx for overemphasizing it, and for trying to reduce all thoughts and ideas to economic conditions (Ibid. 107). He said that "the general importance of Marx's economism can hardly be overrated", but that "it is very easy to overrate the importance of the

⁴ 'The poverty of economism' alludes to Popper's *The poverty of historicism*, which alludes to Marx's *The poverty of philosophy*, which alludes to Proudhon's *The philosophy of poverty*. I use it to underscore the fact that Popper thought that Marx's historicism took the form of economism.

⁵ Lenin, who did use the term, criticized the Marxist school of 'economism'. But he had something very different in mind: the view, namely, that socialist revolution in underdeveloped Russia was premature and that Russian Marxists should restrict their activities to helping workers secure better economic conditions. The term has a derogatory connotation — so that thinkers are less likely to declare themselves proponents of economism than they are to be accused of it.

⁶ Italics by the author.

economic conditions in any particular case” (Popper, *The open society* 107). It is important, however, to understand that economism is not peculiar to Marx, and that it is entirely consistent with a market approach to economics. In this discussion, I will use ‘economism’ to describe any theory or attitude that attributes decisive or conclusive importance to economic considerations in making policy decisions⁷. It is the view that our policy decisions should be ultimately based upon their expected economic consequences. And it is, in the present context, the view that we should not value freedom as an end in itself, but primarily as a means to prosperity.

Economism, thus understood, is not a theory in economics, but the *philosophical* stance that economic facts, interests, and goals are the facts, values, and goals that matter most. This stance, however, is often bolstered by the claim that the study of economics is a *science*, and that its theories and predictions have the cognitive authority that only a science can have. The most obvious proponents of economism are economic reductionists who believe that all facts, values, interests, and goals can ultimately be defined in economic terms — or, in other words, that economic facts, values, interests, and goals are the *only* ones that really exist.

Marx is probably the best known and most influential proponent of this view, and the prevalence of economism in contemporary thought is undoubtedly due to his influence. But if I am right, then Hayek retained elements in his own thinking that are economic as well.

Thus, Hayek argued that scientific study has shown that socialist economic programs and aims are both empirically and logically mistaken, and he said that the fact that the socialists were wrong about the economic *facts* was crucial to his critique of socialism. Hayek also argued that scientific study has shown that socialist programs —and, in particular, central planning— *cannot* succeed in achieving their aims. But what is, perhaps, more to the point is that Hayek held that freedom is important first and foremost for its economic consequences. Whereas Popper thought that it was wrong to base the rejection of tyranny on economic arguments, Hayek was apparently ‘prepared’ to sacrifice individual freedom, if his analysis of the economic consequences of socialism proved wrong.

⁷ This definition is taken from *Webster's third new international dictionary*. It is interesting that no entry for ‘economism’ appears in *The Oxford English dictionary*.

Freedom or efficiency?

Popper and Hayek were both attracted to socialism as young men, and both, late in life, stated the conditions under which they would accept it. Hayek thus writes, in the opening pages of his last book, *The Fatal conceit*, that:

I am prepared to admit that if socialist analyses of the operation of the existing economic order, and of possible alternatives, were factually correct, we might be obliged to ensure that the distribution of incomes conform to certain moral principles, and that this distribution might be possible only by giving a central authority the power to direct the use of available resources, and might presuppose the abolition of individual ownership of means of production. If it were for instance true that central direction of the means of production could effect a collective product of at least the same magnitude as that which we now produce, it would indeed prove a grave moral problem how this could be done justly. This, however, is not the position in which we find ourselves. (Hayek, *The fatal* 6-7)

And Popper, in an often delivered lecture called “Open society and the democratic state”, expressed the opposite view as follows:

I believe that a free market-economy is more efficient than a centrally planned economy. Yet I hold that it is wrong to base the rejection of tyranny on economic arguments. Even if it were true that a centrally planned state economy is superior to that of the free market, I should oppose the centrally planned economy. I should oppose it because of the likelihood that it would increase the power of the state to the point of tyranny. It is not the inefficiency of communism, against which we should fight, but its inhumanity and its inherent hostility to liberty. We should not sell our freedom for a mess of pottage, or for the promise that we shall obtain the highest possible productivity and efficiency — not even if we could be sure that we can purchase efficiency at the price of liberty. (Popper, *Archives* Box 6)

These counterfactual considerations were not intended —and should not be interpreted— as arguments for socialism. Hayek did not think that socialism could ever be as efficient and productive as the market. And Popper did not think that socialists would resist the temptation to use an increase in state power to curtail freedom. But the difference in their conditions for accepting socialism is striking.

Popper and Hayek both criticized socialism for being less efficient than capitalism and for leading to totalitarianism. But Popper said that he would oppose central planning even if it were more efficient than the market, and Hayek said that he would be prepared to accept it if it could be shown to be at least as productive. Their positions regarding economism, as illustrated in the two passages quoted above, are thus diametrically opposed to each other⁸.

Here, someone might object that Hayek, in the passage that I have quoted, stated the conditions under which he would be willing to accept *central planning*, and not the conditions under which he would be willing to accept *totalitarianism*. But the issue becomes clear once we remember that Hayek thought that centralized planning *logically* entails totalitarianism. And while it is clear that he regarded socialism as both factually and logically impossible, he offered no reason to think that we could—even in this counterfactual situation that he regards as impossible—give the state power to redistribute incomes without simultaneously sacrificing freedom. His argument, on the contrary, would seem to suggest that the totalitarianism that he thinks central planning entails would be acceptable—and that we might actually be *obliged* to set it in motion, despite the “grave moral problem how this could be done justly”—provided only that we “could effect a collective product of at least the same magnitude as that which we now produce”

⁸ I read the passage from Hayek, of course, as saying that we might be obliged to ensure a more equal distribution of incomes if, for example, central planning could be shown to be at least as efficient and productive as the market. Some friends of Hayek, however, have suggested that his reference to ‘certain moral principles’ would rule this interpretation out, since he regarded socialism as immoral. But it seems clear, against this proposed interpretation, that Hayek recognized that some socialists argue for a more equal distribution of income on the basis of what *they*, at least, perceive to be moral principles—and that he criticized them, at least in part, for trying to replace a moral system that had spontaneously evolved through the extended order with one of their own design. He thus writes, in the same context, that: “The demands of socialism are not moral conclusions derived from the traditions that formed the extended order that made civilization possible. Rather, they endeavor to overthrow these traditions by a rationally designed moral system whose appeal depends on the instinctual appeal of its promised consequences” (Hayek, *The fatal conceit* 7).

But quite aside from this, I submit that the passage that we are considering would be unintelligible if we were to assume that it meant anything other than that Hayek was prepared to admit that we might be obliged to adopt socialism *if his economic analysis were mistaken*. For he says, after all, that the distribution of incomes that he has in mind—the one that would conform to ‘certain moral principles’—“might be possible only by giving a central authority the power to direct the use of available resources, and might presuppose the abolition of individual ownership of means of production” (Ibid. 6). But it is difficult to see why an unequal distribution of goods would require central planning and the abolition of private property. And Hayek, in any event, argued that the equal distribution of incomes would require just such measures. There would, finally, be no reason, on the interpretation that I am rejecting, why he should say that “it would indeed prove a grave moral problem how this could be done justly”. But on the interpretation I propose, the reason is obvious. It is that he regards socialism as immoral.

by doing so. It is precisely this suggestion, and the economism upon which it is based, that Popper rejects when he says that “it is wrong to base the rejection of tyranny on economic arguments”, and that “we should not sell our freedom for a mess of pottage, or for the promise that we shall obtain the highest possible productivity and efficiency — not even if we could be sure that we can purchase efficiency at the price of liberty”.

These arguments presuppose different values —the acceptance or rejection of economism— and the fact that Popper and Hayek agreed that planning is both economically inefficient and a cause of totalitarianism is no reason to ignore it. For what is at issue here is the relative value of freedom and efficiency. It is a matter of priority, or what comes first.

The question, in a nutshell, is whether we should value freedom because freedom is valuable, or because it is profitable. It is the question whether we should regard freedom as an end in itself that is valuable for its own sake, or as a means to economic prosperity that we may dispense with if and when it no longer achieves its end.

There is an irony here that should not be ignored.

Popper wrote in his autobiography that he would still be a socialist if socialism could be combined with human freedom (Popper, *Unended quest* 36)⁹. But he did not think that the two were *logically* incompatible, or that tyranny was a *necessary* consequence of planning. Popper also thought that the market is more efficient than a planned economy. But he thought that this was a matter of fact, as opposed to a logical truth, and said that he would continue to oppose a planned economy even if it were more efficient than the market.

Popper argued that planning requires that we invest a great deal of power in the state; that the greater the power, the greater the likelihood of its abuse; and that the likelihood of avoiding tyranny was thus very slim. And he found corroboration for his conclusion in the fact that the socialists he knew regarded planning as both simple and a cure-all — and were thus generally unprepared for its problems.

⁹ Popper told me, toward the end of his life, that he would still call himself a socialist “were it not for the power problem”.

Hayek, on the other hand, thought that planning *entails* totalitarianism. He argued that its redistribution of wealth would necessitate coercive action on the part of the state that conflicts with the very idea of individual freedom. Yet Hayek said that he was ‘prepared’ to accept planning—and, by implication, coercion and the sacrifice of freedom that it entails—if it could only be shown to be at least as productive as the market.

Here, someone might object that my argument places too much weight upon an isolated counterfactual hypothesis, especially since Hayek regarded its antecedent—that planning can be as efficient and productive as the market—as false. My own sense, however, is that Hayek’s economism is not isolated at all, but is actually built into his idea of individual freedom. In what follows, I will first trace Hayek’s ideas of individual freedom and coercion to his economism. I will then argue that Hayek’s idea of freedom suffers from the same ‘economic’ considerations that he brought to bear against planning, and that the ‘economic’ considerations that he brought to bear against planning have since been superseded by developments in technology.

Individual, political, inner, and economic freedom

Hayek wrote that “‘freedom’ refers solely to a relation of men to other men, and the only infringement on it is coercion by men” (Hayek, *The constitution* 12). He thought that we should not, for this reason, confuse freedom with power, or with the alternatives that may enhance our choice of action within a situation. He thus drew a sharp distinction between ‘individual freedom’, which is freedom from coercion and “independence of the arbitrary will of another” (Ibid. 12), and ‘political freedom’, which allows for “the participation of men in the choice of their government, in the process of legislation, and in the control of administration” (Ibid. 13).

Political freedom may be desirable for its own reasons. But Hayek thought that “a free people in this sense is not necessarily a people of free men; nor need one share in this collective freedom to be free as an individual” (Ibid. 13). Individual freedom, by contrast, “presupposes that the individual has some assured private sphere, that there is some set of circumstances in his environment with which others cannot interfere” (Ibid. 13)—so that we are free as individuals to the extent to

which we can follow our own plans and intentions toward ends of our own choice, *as opposed to having to submit to necessities created by others to make us do what they want us to do* (Ibid. 13).

Hayek thought that this kind of freedom, is based upon five basic legal rights: (1) legal status as a protected member of the community; (2) immunity from arbitrary arrest; (3) the right to work at whatever one desires to do; (4) the right to movement according to one's own choice; and (5) the right to own property (Ibid. 20). And he warned that the confusion of individual freedom with freedom as power inevitably leads us to identify it with wealth (Ibid. 17).

Hayek also drew a distinction between individual freedom and what he called 'inner' or 'subjective' or 'metaphysical' freedom. Inner freedom

refers to the extent to which a person is guided in his actions by his own considered will, by his reason or lasting conviction, rather than by momentary impulse or circumstance. (Ibid. 15)

It is closely related to individual freedom, but it depends upon a person's strength of will and not upon whether or not he is coerced by others — though Hayek acknowledged that "they are clearly not without connection", since:

The same conditions which to some constitute coercion will be to others merely ordinary difficulties which have to be overcome, depending on the strength of will of the people involved. (Hayek, *The constitution* 15)

'Economic freedom' is another matter. Hayek did not like the term because he thought that it had been co-opted by the socialists for their own illiberal purposes.¹⁰ He wrote that "political freedom is meaningless without economic freedom" and that economic freedom is "the prerequisite for any other freedom" (Hayek, *The road* 100). But he used the term in an ironic sense, which he underscored by adding that the economic freedom to which he referred was utterly different

¹⁰ This, incidentally, also holds true of 'political freedom'. In *The road to serfdom* Hayek writes that, "to the great apostles of political freedom the word meant freedom from coercion, freedom from the arbitrary power of other men, release from the ties which left the individual no choice but obedience to the orders of a superior to whom he was attached" (Hayek, *The road* 25). And this, of course, seems more closely aligned with what he called 'individual freedom' in *The constitution of liberty*.

from the socialists' use of the term. Freedom in the socialists' sense — the “economic freedom” without which the political freedom already gained was ‘not worth having’” (Hayek, *The road* 25)— is “merely another name for power or wealth” (Ibid. 26). The economic freedom that Hayek said is necessary for any other freedom is just the individual freedom that he associated with the five basic rights mentioned above.

Hayek argued that central planning destroys individual freedom, not political freedom — and that the destruction of individual freedom, not political freedom, is what results in totalitarianism. Political freedom —or democracy— may be meaningless without economic freedom, but it is possible nonetheless. And Hayek not only thought that democracy's ‘political freedom’¹¹ is compatible with totalitarianism, he argued that ‘totalitarian democracy’ is what ‘social’ democracy —as opposed to ‘liberal’ democracy— actually entails (Hayek, *The constitution* 55-6).

Popper agreed that democracy cannot guarantee freedom, and that it is more likely to devolve into tyranny in states that do not already have strong traditions of liberty (Popper, *Archives*). But he also thought, contrary to Hayek, that democracy is “the basis of everything else”. For,

without democratic control, there can be no earthly reason why any government should not use its political and economic power for purposes very different from the protection of the freedom of its citizens. (Popper, *The open society* 127)

The case for individual freedom

Hayek wrote that:

The case for individual freedom rests chiefly on the recognition of the inevitable ignorance of us all concerning a great many of the factors on which the achievement of our ends and welfare depends. (Hayek, *The constitution* 29)

¹¹ I have written ‘political freedom’ here in quotes, because Hayek did not regard it, in and of itself, as real freedom at all. Hayek thought that political freedom is real freedom only when accompanied by individual freedom, which insures the right to own property. This, I think, is a consequence of his idea that economic freedom is a prerequisite for any other freedom.

“What is important is not what freedom I personally would like to exercise but what freedom some person may need in order to do things beneficial to society” (Hayek, *The constitution* 32). And “if the result of individual liberty did not demonstrate that some manners of living are more successful than others, much of the case for it would vanish” (Ibid. 85).

Individual freedom, in other words, is valuable for its economic consequences —because it makes the extended spontaneous order of the market possible, and because the market, by utilizing knowledge that is dispersed among individuals, enables us to solve the so-called ‘calculation problem’, which thus makes possible the economic prosperity that, in turn, enables the survival of large numbers of human beings.

This is why planning conflicts with freedom. Hayek recognized that economic knowledge is dispersed amongst the members of a society; that it is simply too complex for any single mind or central committee of minds to comprehend; and that the market is first and foremost an *epistemological* tool that enables buyers and sellers to signal to each other, via the relative and changing prices of the goods that are offered for sale, the facts about supply and demand. He then argued that the socialists’ attempt to run an economy without a market was doomed to fail, since it would unwittingly deprive them of the very information that they would need for successful planning.

The rule of law

Earlier I said that Hayek’s idea of freedom is based upon legal rights. We are free, according to Hayek, because we are bound by laws that enable us to choose our actions with an understanding of their legal consequences — and, thus, with an assurance that they will not incur unexpected coercive responses from the state. So the rule of law, far from being an impediment to freedom, is actually its necessary condition. This emphasis upon the rule of law may, at first glance, seem entirely independent of economic considerations. It may also seem entirely compatible with the aims of socialism. Hayek, however, thought that the rule of law provides the criterion for determining whether or not an economic measure undertaken by government is compatible with a free system, and that it is actually incompatible with certain economic

aims of socialism, most notably distributive justice. Getting clear as to why he thought these things will give us yet another window on his economism.

Hayek wrote that the rule of law “means that government must never coerce an individual except in the enforcement of a known rule”. The rule of law thus “constitutes a limitation on the powers of all government, including the powers of the legislature” (Hayek, *The constitution* 205) and Hayek thought that many of the laws that have been written by legislatures are actually in violation of it. True laws, for Hayek, must be ‘known and certain’ (Ibid. 208) and they must apply equally to all people who are subject to them (Ibid. 209). He thus argued that government action in a free society must restrict itself to the enforcement of general laws, as opposed to specific commands, which do not apply to everyone and are designed to benefit particular individuals and groups.

Still, it may not be immediately clear why, or how, a proposal to legislate distributive justice—say by a law that “all legal residents of the United States over the age of 21 will be guaranteed a yearly income equivalent to \$50,000; in real 2001 U.S. dollars” — violates the rule of law. The proposed ‘law’ seems to be completely general in form and would thus apply equally to all legal residents of the United States. It does not seem to have the character of a specific command. Nor does it seem to benefit particular individuals or groups as opposed to others. It could, if enacted by the appropriate legislative authorities, be made just as ‘known and certain’ as any other law. Hayek, however, thinks that the rule of law requires more than mere legality, or conformity to the law; and more than even constitutionalism, or the requirement that laws passed by a state are not in violation of its written constitution. The rule of law, over and above this, “requires that all laws conform to certain principles” (Hayek, *The constitution* 205).

It is important, for this reason, to distinguish between laws and the rule of law. The rule of law “is not a rule of the law but a rule concerning what the law ought to be, a meta-legal doctrine or a political ideal” (Ibid. 206). It is not an actual law itself, but a meta-legal principle that provides a normative guide for the conception of proper laws.

This meta-legal principle is the principle of liberalism, interpreted by Hayek to mean

a policy which deliberately adopts competition, the market, and prices as its ordering principle and uses the legal framework enforced by the state to make competition as effective and beneficial as possible. (Hayek, *Individualism* 110)

Hayek thus wrote that “it is of the essence of the rule of law that the private citizen and his property should not in this sense be means at the disposal of government” (Hayek, *The constitution* 214).

Here, it should be clear why Hayek thought that any legislation that would guarantee a set fixed income to all individuals in a society would violate the rule of law. For Hayek held that there can be no hope of guaranteeing fixed incomes unless we replace the market ordering principle with central planning — and that this, by its very nature, would be a violation of the principle of liberalism. It should, moreover, also be clear that Hayek’s appeal to the principle of liberalism in characterizing the rule of law —and, thus, in characterizing individual freedom— is not only fully consistent with economism but is actually driven by it in at least two different ways.

First, the purpose of the law is to carve out an ‘assured private sphere’ that makes free choice of action possible. This is what laws are supposed to do, and it is the reason why they must be general and well-known. Commands given to individuals and groups to perform specific actions may be arbitrary and unexpected. They do not apply to everyone and the consequences for violating them may be unexpected and arbitrary as well. They thus fail to provide a legal framework in which individuals can deliberate and act with the assurance that their actions will not incur unexpected coercive responses from the state. This legal framework is a large part of what Hayek means by an ‘assured private sphere’. But Hayek also regarded private property as an essential prerequisite for such a private sphere. For without the recognition of private property, the individual will not be able to carry out his own plans of action, and hence will not be free.

The second way in which the rule of law is driven by economic considerations becomes clear when we consider its role in placing limitations upon the powers of government, including the legislature.

Hayek thought that the laws in a free society must be written in conformity with the rule of law. This, as we have just seen, means that

they must be general and well-known. It also means that the state must never coerce an individual except to enforce a true law. ‘Government’, Hayek wrote, “must not use its power of coercion to reserve for itself activities which have nothing to do with the enforcement of the general rules of law” (Hayek, *The constitution* 223).

But Hayek thought that legislatures can and do enact all sorts of ‘policy’ rules—which may be both general and well-known—that do not qualify as ‘true laws’. And his judgments as to whether a particular piece of legislature constitutes a true law, as opposed to a rule of policy, typically turn upon whether or not he thinks that the enforcement of the measure would constitute a legitimate use of state coercion. The circularity of reasoning here may be unavoidable. But the point to be made is that Hayek typically uses the economic consequences that a given measure has for the market as a touchstone for determining whether or not it is truly coercive.

Coercion

Hayek defined ‘individual freedom’ as absence of arbitrary coercion, and he said that his definition of ‘freedom’ would ultimately depend upon his definition of ‘coercion’. So the question ‘What is coercion?’ is the heart of the problem. Hayek wrote that:

By “coercion” we mean such control of the environment or circumstances of a person by another that, in order to avoid greater evil, he is forced to act not according to a coherent plan of his own but to serve the ends of another. (Hayek, *The constitution* 20-1)

Coercion is thus something that one human being does to another. This seems intuitive enough. But further analysis of Hayek’s definition shows that it is both too broad and too narrow, and that coercion is far too subjective an idea to bear the weight that Hayek has placed upon it.

Here, the fact that coercion is something that one human being does to another is important. For it occurs, according to Hayek: only if our options are controlled *by other human beings*. So if our options are not controlled by other human beings—if we are merely playing the hand that God has dealt—then we are not coerced. This means that whether or not a person is coerced will depend upon whether or not his circumstances

are controlled by another person. And *this* means that there may well be situations in which we are forced, *but not coerced*, to do something that we do not want to do in order to avoid what we perceive to be a greater evil. But this is not all. For coercion occurs, according to Hayek only when “one man’s actions are made to serve another man’s will, not for his own but for the other’s purpose” (Hayek, *The constitution* 133). And here, the “not for his own but for the other’s purpose” is equally important. Without this clause every act of employment would be an act of coercion. But if my actions are made to serve your will both for your purposes and for my own—if I do your will in order to put bread on my table— then my actions are not coerced. Finally, the fact that it is *actions* that are coerced is crucial. For action, according to Hayek, implies choice, and we cannot be coerced unless we can choose. Indeed, one might say that it is the *choice* between alternative actions that is or is not coerced.

I can still choose how to act even if someone has a gun to my head. But if my behavior is physically forced—if, for example, you physically force my finger to pull the trigger on a gun— then I have not been coerced in Hayek’s sense. For I have no choice and, thus, have not acted if my behavior is physically forced. And if I have not acted, then my actions have not been coerced. It is, however, easy to see how this definition can lead to problems. Many people, contrary to Hayek, would regard cases in which people physically force others to do things against their will as paradigmatic examples of coercion. And it certainly seems strange, when we combine it with Hayek’s claim that the *only* infringement upon freedom is coercion by men (Hayek, *The constitution* 12), to say that we are not coerced in such cases. For surely you infringe upon my freedom if you physically force my finger to move in ways in which I do not want it to move.

Considerations such as these suggest that Hayek’s definition of ‘coercion’ is too narrow. But other considerations suggest that it is also too broad. We coerce people when we force them to act in such a way as to do our will. But if a person is really to *act*, then he must also be able to choose. And if he is able to choose, then he must have options. But if a person has options, then he can always choose *not* to serve our will. And if he can choose not to serve our will—as he must be able to do, on Hayek’s account, if he is really coerced— then what, exactly, does it mean to say that he has been *forced*, let alone that *we* have forced him, to serve our ends *instead* of his own?

Here, Hayek's idea that "coercion occurs when one man's actions are made to serve another man's will, not, for his own but for the other's purpose" is especially problematic. For even if I choose to do your will only in order to avoid a more painful consequence, am I not still serving my own purpose as well? Hayek says that coercion implies,

that I still choose but that my mind is made someone else's tool 'because the alternatives before me have been so manipulated that the conduct that the coercer wants me to choose becomes for me the least painful one'. (Hayek, *The constitution* 133)

This is no doubt true. But it seems to open up a Pandora's Box of epistemological problems about how to determine whether or not a person's actions, beliefs, and choices have actually been coerced. Hayek says that "coercion implies the threat of inflicting harm and the intention thereby to bring about certain conduct" (Ibid. 134).

But he also says that "whether or not attempts to coerce a particular person will be successful depends in a large measure on that person's inner strength", that "the threat of assassination may have less power to turn one man from his aim than the threat of some minor inconvenience in the case of another" (Ibid. 138), and that a weak or very sensitive person may be coerced by a disapproving glance to do what he would not otherwise do. Hayek, in discussing these examples, says that we are concerned with coercion that is likely to affect the normal, average person. But the relativity of coercion, once it is introduced, would seem to render coercion an entirely subjective concept.

Hayek, of course, recognized the problem. But he said that it "does not mean that we ought not to try to prevent all the more severe forms of coercion, or that we ought not to define liberty as the absence of such coercion" (Ibid. 139). He tried, instead, to objectify the notion by talking about the 'normal, average person', and 'degrees of coercion', and its 'more severe forms'. But the subjectivity of coercion nonetheless infects Hayek's entire discussion of freedom. And it is easy to see why. For judgments about which forms of coercion are more severe and which forms are likely to affect the 'normal, average' person will most likely be as subjective as the concept of coercion itself. Using these judgments as touchstones to determine whether or to what extent another individual has been coerced—and, hence, whether or to what extent he

is free— would pose problems even if they were rigorously and entirely consistent. But these problems will only be magnified if the judgments seem arbitrary and inconsistent. And this, unfortunately, is often the case with Hayek. The higher our standards for what counts as coercion, the lower they are for what it takes to be free. And it sometimes seems as if Hayek uses a sliding scale according to which a given action can be coercive or non-coercive depending upon whether or not he approves of it.

Hayek thus argues, on the one hand, that:

The individual provider of employment cannot normally exercise coercion, any more than can the supplier of a particular commodity or service. So long as he can remove only one opportunity among many to earn a living, so long as he can do no more than cease to pay certain people who cannot hope to earn as much elsewhere as they had done under him, he cannot coerce, though he may cause pain. (Hayek, *The constitution* 136)

But he also argues, on the other hand, that labor unions are able to coerce the providers of employment, even though “the coercion which unions have been permitted to exercise contrary to all principles of freedom under the law is primarily the coercion of fellow workers” (Ibid. 269).

So the fact that a worker may seek employment elsewhere means that a provider of employment cannot coerce his employees to accept his conditions—despite the facts that the employer may cause pain and his employee may not be able to find comparable conditions anywhere else. But a labor union can coerce both its members and their employer—despite the fact that the workers can seek employment, and the employers other workers, somewhere else.

The subjectivity of coercion is just the tip of the iceberg. Another, and perhaps more important, problem is the relationship between freedom and power.

Freedom, power, and ‘true coercion’

Hayek, as we have already seen, drew a sharp distinction between freedom and power. He said that confusing the two “inevitably leads to the identification of liberty with wealth” (Hayek, *The constitution* 17), and then to demands for its redistribution - or ‘social justice’. He thought that freedom and power are two desirable things, but that they are also two entirely different things:

Whether or not I am my own master and can follow my own choice and whether the possibilities from which I must choose are many or few are two entirely different questions. The courtier living in the lap of luxury but at the beck and call of his prince may be much less free than a poor peasant or artisan, less able to live his own life and to choose his own opportunities for usefulness. Similarly, the general in charge of an army or the director of a large construction project may wield enormous powers which in some respects may be quite uncontrollable, and yet may well be less free, more liable to have to change all his intentions and plans at a word from a superior, less able to change his own life or to decide what to him is most important, than the poorest farmer or shepherd. (Ibid. 17)

But it is not at all clear that these examples actually support the distinction between freedom and power. For the restrictions on the freedom of the general result from his having a superior with even greater power than he has. And while the courtier may be living in the lap of luxury, the lap in which he is living is not his own. He has neither independent wealth nor independent power — and he would most probably not be courtier to a prince if he did, let alone be living at his constant beck and call.

The issue becomes more complicated, and more interesting, when Hayek tries to distinguish between power and coercion. Hayek wrote that:

It is not power as such —the capacity to achieve what one wants- that is bad, but only the power to coerce, to force other men to serve one’s will by the threat of inflicting harm. There is no evil in the power wielded by the director of some great enterprise in which men have willingly united of their own will and for their own purposes. It is part of the strength of civilized society that, by such voluntary

combination of effort under a unified direction, men can enormously increase their collective power.

It is not power in the sense of an extension of our capacities which corrupts, but the subjection of other human wills to ours, the use of other men against their will for our purposes. (Hayek, *The constitution* 134-5)

Here, Hayek begins by saying that it is not power as such that is bad, but only the power to coerce. But he then says that it is not power but coercion that *corrupts*. And this is an entirely different matter.

Hayek is not saying that *all* uses of coercive power are bad, but that *only* uses of *coercive* power are bad. But the fact remains that wrongful coercion is *itself* a corrupt use of power. I attempt to coerce others when I threaten to inflict harm upon them in order to force them to serve my will. I need not actually have the power to inflict harm for my attempt to work. They need only believe that I have it. But the power to inflict harm no doubt provides me with an opportunity to coerce others. And if I have this power, and use it in this way, then I have already been corrupted by it.

There may be no evil in power *per se*. But to speak of 'the power to coerce' as if it was somehow different from 'power as such' is misleading if it suggests that we need not worry about power as such. It is not that the power to coerce corrupts but power as such does not. And it is not that coercion is a different kind of power. The power to coerce is power pure and simple. It becomes coercive when *we use it* to force other people to serve our will instead of their own. And someone who uses his power in order to coerce others has already been corrupted by it. I do not want to deny that successful attempts at coercion may make one more corrupt than he already is — or to suggest that one must actually be able to inflict harm in order to coerce others. For one may often coerce through bluffs that he cannot fulfill. And a manipulator may, in this way, all too easily progress to a monster. But power as such may corrupt simply by tempting a person to use it to coerce others in order to get his own way.

Popper, contrary to Hayek, knew that *all* power tends to corrupt. This, in fact, was a large part of his critique of Marx's economism. He wrote that Marx and his followers were both inconsistent and mistaken to exaggerate the role of economic power in relation to political and physical power:

Their argument runs: he who has the money has the power; for if necessary, he can buy guns and even gangsters. But this is a roundabout argument. In fact, it contains an admission that the man who has the gun has the power. And if he who has the gun becomes aware of this, then it may not be long before he has the gun and the money. (Popper, *The open society* 127)

Hayek, no doubt, agreed. He wrote that:

True coercion occurs when armed bands of conquerors make the subject people toil for them, when organized gangsters extort a levy for “protection”, when the knower of an evil secret blackmails his victim, and, of course, when the state threatens to inflict punishment and to employ physical force to make us obey its commands. (Hayek, *The constitution* 137)

But Popper did not deny, and did not want to deny, that economic power is dangerous and corrupting. He thought that the poverty of Marx’s economism is that it saw economic power everywhere and regarded it as more fundamental than physical power and the power of the state. But this is because “all power, and political power at least as much as economic power, is dangerous” (Popper, *The open society* 129) and because Marx had underestimated the role that democracy, or what the Marxists denigrated as ‘merely formal freedom’, could play in controlling it. Popper thus argued that an unrestrained capitalism that “develops institutions for the control of guns and gangsters but not of the power of money is liable to come under the influence of this power” (Ibid. 129). And what emerged was a critique of economism that portrays economic power as dangerous, but as *no more* dangerous than either political power or the physical and psychological forces upon which they are ultimately based.

There is more at stake here than the definitions of ‘individual freedom’ and ‘true coercion’. Whether or not a particular action is a threat to our freedom will depend, on Hayek’s account, upon whether or not it is truly coercive. But Hayek thought that the primary function of government is to protect the individual against arbitrary coercion. And if this is true, then what hangs in the balance are the kinds of coercion that its citizens can legitimately expect their government to redress.

True coercion, according to Hayek, will require ‘very exceptional circumstances’ (Hayek, *The Constitution* 135). For,

so long as the services of a particular person are not crucial to my existence or the preservation of what I most value, the conditions he exacts for rendering these services cannot properly be called “coercion”. (Ibid. 136)

And,

unless a monopolist is in a position to withhold an indispensable supply, he cannot exercise coercion, however unpleasant his demands may be for those who rely on his services. (Ibid. 136)

But even a ‘normal, average person’ might regard circumstances less exceptional than these coercive.

Popper criticized the nineteenth century apologists of unrestrained capitalism who appealed to the idea of freedom—and the slogan ‘equal and free competition for all’—to cynically and hypocritically defend the coercion of workers that Marx described as ‘exploitation’:

Marx lived, especially in his younger years, in a period of the most shameless and cruel exploitation. And this shameless exploitation was cynically defended by hypocritical apologists who appealed to the principle of human freedom, to the right of man to determine his own fate, and to enter freely into any contract he considers favourable to his interests.

Using the slogan ‘equal and free competition for all’, the unrestrained capitalism of this period resisted successfully all labour legislation until the year 1833, and its practical execution for many years more. The consequence was a life of desolation and misery which can hardly be imagined in our day. (Popper, *The open society* 122)

I do not want to suggest that Hayek himself was either cynical or hypocritical in his account of freedom. But Popper thought that an employer can intimidate, and exploit, and, in a word, *coerce* his employees even under very normal circumstances. He also thought that we should try to find a *political* solution to the problem:

Even if the state protects its citizens from being bullied by physical violence (as it does, in principle, under the system of

unrestrained capitalism), it may defeat our ends by its failure to protect them from the misuse of economic power. In such a state, the economically strong is still free to bully one who is economically weak, and to rob him of his freedom. Under these circumstances, unlimited economic freedom can be just as self-defeating as unlimited physical freedom, and economic power may be nearly as dangerous as physical violence; for those who possess a surplus of food can force those who are starving into a 'freely' accepted servitude, without using violence. And assuming that the state limits its activities to the suppression of violence (and to the protection of property), a minority which is economically strong may in this way exploit the majority of those who are economically weak.

If this analysis is correct, then the nature of the remedy is clear. It must be a *political* remedy—a remedy similar to the one which we use against physical violence. (Popper, *The open society* 124-5)¹²

Here, the idea that those who possess a surplus of food can force those who are starving into a 'freely' accepted servitude is really the crux of the matter. A Socrates or a Gandhi might have the inner strength to freely choose starvation over servitude. But a 'normal, average person' does not. Such 'freely' accepted servitude, for him, is more typically coercion. And the fact that freedom, if left unconstrained, can lead to servitude was no surprise to Popper. It was, on the contrary, part and parcel of what he called 'the paradox of freedom'.

The paradoxes of freedom

Popper believed that we should try to maximize the freedom of each within the limits imposed by the freedom of all — and that such maximization of freedom actually requires its limitation. This idea, which Hayek shared, was an attempt to solve what he called 'the paradox of freedom'.

¹² Popper, in a footnote to this passage, acknowledged that his analysis would not be correct if there were perfect competition between the buyers of labor on the labor market. But he rejected the assumption of perfect competition as unrealistic.

The paradox of freedom, simply put, is the idea that freedom without restraints enables the strong to bully the weak, and ultimately leads to tyranny as the strong try to rob the weak of their freedom¹³.

Popper traced the paradox of freedom to Plato's belief that "the probable outcome of too much freedom is only too much slavery in the individual and the state" (Plato 564 a.).

Plato wrote that "the climax of popular liberty" is attained "when the purchased slaves, male and female, are no less free than the owners who paid for them" (Ibid. 563 b.). And he used this idea to argue that we should eschew general freedom and democracy, saying that "tyranny develops out of no other constitution than democracy—from the height of liberty, I take it, the fiercest extreme of servitude" (Ibid. 564 a.). Popper agreed that unrestrained freedom leads to its destruction. But the paradox, he thought, shows only why freedom and democracy should not be left unrestrained. The state, he said, "should limit freedom to a certain extent, so that everyone's freedom is protected by law" (Popper, *The open society* 124). The issue between Popper and Hayek is 'To what extent?'

The question 'To what extent?' has at least two dimensions here: whether such restrictions should apply to our *economic* freedoms and, if so, under what conditions. The first seems clear enough. Popper acknowledged that these restrictions to our freedoms were originally meant to apply to the realm of brute force and physical intimidation, but he argued that they should now also be applied to the economic realm and that unrestrained capitalism should give way to *economic interventionism* (Ibid. 125).

Hayek apparently agreed that we should be able to restrict freedom in the economic realm, for he would otherwise be unable to regard a socialist state monopoly in employment, or the pressures that labor

¹³ Open society is associated with freedom, tolerance, and democracy. But Popper thought that each of these ideas, left uncontrolled, could lead to paradox. The paradox of democracy is closely related to the paradox of freedom. It is the possibility that the majority may decide that a tyrant should rule, or that a group of electors may vote to suspend its own privilege to vote. And the two are also related to the paradox of tolerance, which Popper used to illustrate with the story of the tolerant tribe that extended its tolerance even to the den of man-eating tigers that lived close by. The tigers were happy to be tolerated, but the tribe and its tolerance slowly disappeared. The idea behind these paradoxes is that an excess of freedom, tolerance, or democracy can destroy, respectively, freedom, tolerance, and democracy.

unions exert upon workers, as unacceptably coercive¹⁴. But they seem to disagree when it comes to the conditions under which such restrictions should be made.

Popper argued that the state should restrict the freedom of employers for the simple reason that employers need not resort to actual threats of physical violence in order to coerce those who are starving to accept their conditions. But Hayek argued that an individual employer *cannot* normally coerce workers to accept his conditions so long as he is but one employer among many. Still, one might think that this does not quite answer the question ‘To what extent?’ For what does Hayek mean by ‘normally’? And what does he mean by ‘many’?

Popper, as we have seen, acknowledged that we might not need economic interventionism if there were perfect competition among the buyers of labor in the labor market. And Hayek argued that a monopoly in this market would produce “unlimited powers of coercion”, quoting Trotsky’s observation that “in a country where the sole employer is the state, opposition means death by slow starvation” (Hayek, *The constitution* 137).

So one might want to ask how many potential employers must there be for a worker to be free from such coercion, and whether or not Hayek would regard the choice that Popper poses between work and starvation as normal.

But there need be no doubt about Hayek’s position here, or that it stands in stark contrast to Popper’s. For Hayek, in arguing that withholding a benefit is coercive only when there is a monopoly of an essential service, wrote that:

Even if the threat of starvation to me and perhaps to my family impels me to accept a distasteful job at a very low wage, even if I am “at the mercy” of the only man willing to employ me, I am not coerced by him or anybody else. (Ibid. 139)

¹⁴ I do not, of course, want to equate these two things. I think that a socialist state monopoly on employment can be coercive precisely because it is a state monopoly. Labor unions can also be coercive, but they are significantly different and I do not see why *Hayek* should—or, indeed, how he *can*—regard them as coercive. For even when they are able to achieve a monopoly within a certain field, a worker can always ‘freely’ choose not to work in that field.

This passage—which occurs in the paragraph that immediately follows his quotation of Trotsky—, is stunning. One may, of course, read it as an encomium to freedom—intended, perhaps, to bolster the flagging spirits and ‘inner strength’ of those who feel trapped inside miserable ‘dead-end’ jobs from which they cannot escape. And reading it this way might even inspire some people to try to change their lives.

But it is also possible to see a somewhat different paradox of freedom in it—a paradox pertaining not to the consequences of unlimited freedom, but to Hayek’s very different analyses of what many would regard as somewhat similar cases. For it is difficult, when all is said and done, to understand why we should not regard normal, average people who find themselves in such situations as coerced. And it is also difficult to understand how Hayek can reconcile his claim that they are not with his idea that workers in a socialist state are coerced because opposition to the state means starvation.

Freedom, calculation, and the law

Earlier I said that Hayek’s notion of individual freedom is based upon the rule of law, and that it is impossible to realize it for the very same reason Hayek thought that socialism cannot succeed. Hayek said that his critique of socialism depended upon the economic facts—and upon the fact that our economic knowledge is dispersed amongst the members of a society and far too complex for any one mind, or central committee of minds, to understand.

Hayek said that the market is first and foremost an epistemological tool, and that socialism, by depriving itself of this tool, had condemned itself to failure. But Hayek did not notice that a very similar problem, if not the very same problem, applies to his notion of individual freedom. For the legal codes of really existing states are dispersed in libraries and far too complex for any single mind or committee of minds to understand. Here, one need only think of the Internal Revenue Code—which is, of course, just one small part of US federal law—to recognize the fact. So even though the laws that bind us may be entirely general and publicly accessible, they do not seem capable of providing us with that ‘assured private sphere’ that Hayek thought was necessary for individual freedom.

For we simply cannot foresee the legal consequences of all of our actions clearly enough to be able to plan our lives in such a way as to avoid the possibility of unexpected state coercion. And if our freedom as individuals really depends upon our ability to plan our lives in this way, then we would have little choice but to conclude that we are not really free.

The recognition that market prices, and the competitive system upon which they are based, are epistemological tools was a brilliant insight¹⁵. But Hayek may have been too quick to think that we would never be able to create better ones. He wrote that competition in the realm of commodities means that “as much will be produced as we know to bring about by any known method” — casually adding that “it will of course not be as much as we might produce if all the knowledge anybody possessed or can acquire were commanded by some one agency, and fed into a computer”, but immediately dismissing the idea, saying,

we do injustice to the achievement of the market if we judge it, as it were, from above, by comparing it with an ideal standard which we have no known way of achieving.
(Hayek, *New studies* 185)

It is stunning to think that Hayek wrote these words in 1968. For the fact of the matter is that we have, since 1968, developed another epistemological tool that is potentially as well-equipped to carry out the signaling function of the market — if not actually better equipped to do so even now.

I am talking, of course, about the personal computer and our electronic information technologies, which have given rise to the internet. What Hayek said was certainly true in 1968, when the information technologies that would be necessary for socialist calculation were still just a utopian dream. But the idea that we might, very soon, while sitting in our own living rooms, type out, on a monthly or weekly or even daily basis, exactly what we need to survive, and in what quantities, and with what priority no longer seems so far-fetched at all. I do not, myself, regard

¹⁵ Hayek attributes the insight to Ludwig von Mises: “The distinction of having first formulated the central problem of socialist economics in such a form as to make it impossible that it should ever again disappear from the discussion belongs to the Austrian economist Professor Ludwig von Mises. In an article on *Economic Calculation in a Socialist Community*, which appeared in the spring of 1920, he demonstrated that the possibility of rational calculation in our present economic system was based on the fact that prices expressed in money provided the essential condition which made such reckoning possible” (Hayek, *Collectivist economic* 33).

this as a reason to embrace socialism. But I do think that it should give market proponents of economism pause for thought.

Hayek thought that individual freedom is valuable for its economic consequences, and that its economic consequences are valuable for human survival. We have, since Darwin, grown accustomed to thinking that valuing something for the sake of survival is as close as one ever gets to valuing it for its own sake. But this was not the reason why those who cried 'Give me liberty or give me death' valued it. And it was not the reason why Socrates chose to drink the hemlock. The appeal of economism is that it gives a clear rationale for freedom, and one to which 'the normal, average person' can relate. But this rationale is cold comfort to anyone who has to choose between freedom and survival. And the poverty of economism is that the value that it places upon freedom ultimately depends upon empirical facts — upon whether the market is more efficient than central planning, and more able to sustain the existence of human beings 'in large numbers' than other economic arrangements — whose truth, like that of all empirical facts, is, Hayek notwithstanding, contingent upon particular circumstances that may change over time.

This, in a nutshell, means that those who value freedom primarily for its economic consequences may come to repudiate it if and when they feel that the economic benefits of freedom are no longer so obvious, or if and when they discover how to acquire those economic benefits in other ways.

Our information technologies may help to solve the calculation problem. But they will not obviously protect us against tyranny. Nor will they help us to carve out an 'assured, private sphere'. This is not simply because our laws are far too complex for any computer to understand. The fact of the matter is that our judicial process relies not so much upon calculation as judgment. Our laws may be written in books, but they must be interpreted by judges and juries. And it is all too well-known that judges and juries may render decisions that the parties to a dispute might never expect. Indeed, my own sense is that our freedom consists less in our ability to calculate the legal consequences of our actions, than in the fact that we can write our own laws—including our laws for writing laws—and rewrite them whenever we see fit. It consists, in other words, in our ability to practice what Popper called 'piecemeal engineering'.

Rationality as piecemeal engineering

Adam Smith taught that actions motivated by self-interest can benefit society, and Hayek that attempts to benefit society can easily backfire. This idea—that the consequences of our actions may be different from, and even opposed to, the intentions that motivated them—may be the single most important contribution that Economics has made to our understanding of the social world. Hayek took it to mean that we should refrain whenever possible at deliberate attempts at economic intervention. Popper also taught that our actions may have unintended and undesired consequences. He thus thought that the socialists' desire to help the poor and to eliminate unemployment was one of the best motives of his time. But he also thought that their *collectivism* is a threat to freedom. Popper described "the problem of the unintended consequences of our actions" as "the fundamental problem of the social scientist" (Popper, *The myth* 128) and said that "*the main task of the theoretical social sciences... is to trace the unintended social repercussions of intentional human actions*" (Popper, *Conjectures* 342)¹⁶. But he disagreed with Hayek about whether and to what extent the fact that our actions have unintended and undesired consequences should lead us to eschew deliberate and conscious attempts at intervention. This is the problem of rationality.

Popper wrote to Hayek, early on, that he agreed "entirely that we cannot 'plan' civilization, and especially the growth of reason" (Popper, *Letter to Hayek*), and that social institutions and 'formations' such as language and the market are 'grown', as opposed to consciously invented. He said that "it would be infinitely better to leave them untouched rather than to tamper with them in a collectivist manner" (Ibid.). But he also said that he saw no reason to regard such institutions as 'sacrosanct' or immune to change.

On the contrary, Popper told Hayek that:

It makes a tremendous difference whether one merely emphasizes that interventionism is bad, or whether one emphasizes that we have only the choice between various forms of interventionism, and advocates one that is based on a conscious liberal and humanitarian policy. (Ibid.)

¹⁶ Popper's italics.

He said that “anything that looks like a general attack on interventionism makes this union impossible, for it is rightly felt, by socialists, as an impossible and undesirable wish to return to *laissez faire*”, and that:

This is why an explicit recognition of the need for some interventionism is not only necessary in the interest of clarity, but also in the interest of that union in the camp of freedom which is necessary if collectivism is to be avoided. (Ibid.)

And he underscored the point with regard to unemployment, saying:

I do not think that mass unemployment is simply due to a clumsy interventionism (even though it might be aggravated by it), and I feel that it is just as necessary to emphasize the need of rational interference with “formations” for the avoidance of unemployment as it is to emphasize the danger of collectivism. In fact, it is my conviction, at present at least, that, if we do not *at the same time* emphasize both, and if we present the matter too much as an alternative between scientific rationalism and a humility which considers these formations as sacrosanct, then *freedom will be lost*. (Popper, *Letter to Hayek*)

Popper thought that Hayek had failed to emphasize the need for intervention, and that the emphasis that he placed upon the fact that socialist ideals often produce the opposite of what they are striving for might too easily be interpreted as a new apology for *laissez faire*, and might, in the end, lead to ‘an even greater tragedy’ – namely:

that our own ideals may also produce the opposite of what we have been striving for, by failing to win the confidence of those misguided idealists who press (together with less idealistic pressure groups) for collectivism. (Ibid.)

Economism and totalitarianism

If what I am saying is true, then Hayek’s rejection of socialism was based upon his economism. It was based, more specifically, upon his idea that considerations such as efficiency and productivity are ultimately decisive for the choice of an economic system, together with his idea that an economic system without a market lacks an indispensable

epistemological tool for determining what goods are needed and desired in a society. But Hayek also argued that socialism entails totalitarianism. He wrote in *Freedom and the economic system* that:

The ultimate decision for and against socialism cannot rest on purely economic grounds, and cannot be based merely on the determination of whether a greater or smaller output of society is likely to be obtained under the alternative systems in question. The aims of socialism as well as the costs of its achievements are mainly in the moral sphere. The conflict is one of ideals other than merely material welfare, and the difficulty is that these conflicting ideals still live together in the breasts of most people without their being aware of the conflict. It is on considerations like those discussed here that we shall have to base our final choice. (15-6)

And he developed this argument, which seems at odds with his later statement that we might be obliged to institute planning if his economic analysis is mistaken, in *The road to serfdom*.

Hayek was no doubt referring to the socialists' and capitalists' competing ideals of freedom when he said that the decision for or against socialism must ultimately be based on the resolution of competing moral ideals. And this might suggest that he was, contrary to what I have been arguing, just as opposed to economism as Popper — were it not for that fact that I have already traced his concept of freedom and his judgments regarding coercion to his underlying economism.

I have, however, yet to explain the role that his argument that socialism entails totalitarianism plays in his work.

Hayek dedicated *The road to serfdom* to 'The Socialists of all Parties'. "It took shape", he tells us, "as a warning to the socialist intelligentsia of England" (Hayek, *The road*) that freedom is in conflict with the socialist means that they proposed to realize it. But Hayek was no longer a socialist when he wrote these words. And I would like to suggest that he based his own rejection of socialism on the calculation argument, but rightfully thought that many socialists would not regard it as decisive because they valued freedom more than economic prosperity and were convinced that capitalism poses a serious if not an insurmountable threat to it.

If I am right, then Hayek offered *Freedom and the economic system* and *The road to serfdom* —both of which point to the problem of calculating economic need without a market while attempting to show that central planning, contrary to the aims and ideals of socialism, unwittingly leads to totalitarianism— as arguments to persuade those who would still be willing to support socialism, even if it is less efficient and productive than the market, because they thought that it would enhance their freedom.

But what about the claim, that socialism entails totalitarianism?

The road to serfdom did little to persuade the socialists to whom it was addressed¹⁷. It is difficult, moreover, to see how socialists who valued freedom could possibly have been persuaded by it — any more than capitalists who valued freedom could have been persuaded by Marx's idea that freedom demands the destruction of the market.

For when all is said and done, Hayek's version of economism, like its Marxist cousin, reduces the concept of freedom to an underlying economic reality. Their ideals of freedom are different. But Marx and Hayek both argue that freedom logically requires the right economics.

I think that Hayek was right to say that the socialists used 'economic freedom' as another name for economic power, and to try drawing a distinction between the two. But I also think that Marx was free to use 'economic freedom' to refer to economic power — and that socialists have as much right to use it to refer to the equal distribution of wealth as we have to use it to refer to the market. These arguments ultimately turn upon alleged facts about the meanings of words. They thus depend upon a linguistic approach to philosophy that Popper criticized throughout his life and did his best in his own work to avoid.

Hayek, by adopting this approach, could argue for a stronger conclusion than Popper would ever have proposed. He could say that planning not only poses a threat to freedom, but that the two are *logically* incompatible and cannot possibly co-exist.

¹⁷ Hayek wrote to Popper on 10 July 1944, that its success is not yet among the liberals but "almost exclusively among the conservatives" (*Hayek to Popper*, 10 July 1944). And he tells us, in a foreword added to a 50's edition of the book, that: "...in America the kind of people to whom this book was mainly addressed seem to have rejected it out of hand as a malicious and disingenuous attack on their finest ideals; they appear never to have paused to examine its argument. The language used and the emotion shown in some of the more adverse criticism the book received was indeed rather extraordinary. But scarcely less surprising to me was the enthusiastic welcome accorded to the book by many whom I never expected to read a volume of this type — and from many more of whom I still doubt whether in fact they ever read it" (Hayek, *The road*).

He could, in this way, argue that freedom is actually *precluded* by planning and *predicated* upon an extended order of economic cooperation that is for the most part spontaneous and undesigned. But if the conclusion he drew was stronger, the argument he used was not. For it is convincing, in the end, only to those who are ready to accept his definitions of these terms.

Hayek's arguments work only by insisting that we understand 'freedom' in a certain way — where the truth is that each of us will typically, and rightly, understand it in the way that best protects his own freedom. Marxists no doubt equated freedom with economic power. But Hayek, if I am right, does essentially the same thing. Some people want economic power to buy bread and butter. Others want it to buy shares in Microsoft. But I do not think that it clarifies anything when we pretend that 'freedom' means freedom when we use it to purchase one of these things, and power when we use it to purchase the other. And regardless of whether we are Marxists or free marketeers, when we equate freedom with economic power, we lose sight of what our economic power was supposed to protect in the first place.

The poverty of economism revisited

Proudhon was content to live in poverty, so long as it did not restrict his freedom. He proclaimed himself an 'anarchist', by which he meant an opponent of authoritarian government. And he is famous for having said that 'Property is theft', by which he meant to criticize exploitation. But Proudhon also criticized communism, saying that it, as much as 'unreformed property', would destroy human freedom by depriving an individual of the right to control what he had made.

Marx praised Proudhon's i.e., *What is Property?* calling it 'the first decisive, vigorous, and scientific examination' of the institution. But he wrote his *Poverty of philosophy* in bitter criticism of Proudhon's *Philosophy of poverty*. And his criticism resulted in an equally bitter split between the so-called 'libertarian' and 'authoritarian' versions of socialism.

There can really be little doubt that Marx was aiming at freedom. But there is no doubt at all that he missed his goal. Marx criticized capitalism for its exploitation of its workers. But he and Lenin thought that freedom would somehow depend upon centralization, and upon a 'dictatorship

of the proletariat'. It is easy enough to see a problem in the idea that freedom depends upon dictatorship. Trotsky, we are told, predicted it early on. He is reported to have said that "these methods lead, as we shall yet see, to this: the party organization is substituted for the party, the Central Committee is substituted for the party organization, and finally the 'dictator' is substituted for the Central Committee".

But 'the majority' of Marxists somehow believed that a dictatorship would be acceptable so long as it was a dictatorship of the workers, by the workers, and for the workers. And so it is easy today to forget that there ever was such a thing as a libertarian version of socialism, and that even Marxists thought of themselves as fighting for freedom. Economic power, however, will always be economic power. And there is now a well-known joke that is told by 'capitalists' and Marxists alike. "Capitalism", it begins, "is a corrupt economic system in which man is exploited by his fellow man". "And with communism", it continues, "It is exactly the other way around".

Some proponents of economism tried to run a state without a market. Others would like to run a market without a state. But it is also easy enough to see the problems with unregulated capitalism. The fundamental problem is its tendency toward monopoly—or a 'dictatorship of the bourgeoisie'—which can restrict our freedom just as much as planning by the state. But there is also fraud, collusion, insider trading, and simple theft. Indeed, the 'free market', as it really exists, has as much to do with the invisible pocket as it does with the invisible hand. We can always say that this is a perversion of the free market. But the truth is that the free market is a perversion of reality. And just as the Soviets had to face up to their 'really existing socialism', the West will sooner or later have to face up to its 'really existing markets'. For it is fairly clear, despite all that talk about *laissez-faire*, that the 'freedom' of these markets depends largely upon their regulation by the state.

And this, too, is the poverty of economism. It begins by telling us that freedom depends upon economics, so that we must first have the right economics, and the right economic science, in order to consider ourselves free. It then chastises us, when the 'right economics' fails to produce freedom, for not having implemented it in its purified form. It reminds us, when even the purified form doesn't work, that having the right economics is a necessary but not a sufficient condition for freedom. And it then chides us, if pushed a just a little bit further, for not understanding that it's all just an idealization, and perhaps not even necessary at all.

My own sense is that power —economic or otherwise— is not so much a component of freedom as a way of protecting it. A free society may want to protect itself with a strong military. And this is one of the reasons why we want a strong economy. But the power that protects our freedom should not be confused with our freedom itself. There is no such thing as a purely defensive weapon. And any power that is capable of protecting our freedom is also capable of destroying it. The truth is that all power tends toward totalitarianism and is thus a danger to our freedom — and that we see this danger most clearly when the power that someone else refers to as his ‘freedom’ is used to prevent us from achieving our own economic and non-economic ends.

Popper argued that planning requires the accumulation of power on the part of the state, and that power thus accumulated could all too easily be abused. But he did not think that such abuse was *necessary*. He argued, instead, that it was *more likely* to occur under socialism, because socialists have a kind of uncritical self-confidence and belief in their own infallibility, and that this infallibility makes it difficult for them to acknowledge their mistakes. He thought that the socialists naïve confidence would lead them to ignore indications that their economic programs were not working — and, in the end, to impose them by force ‘for their own good’ upon people who did not really want them and did not clearly benefit from them.

These are the reasons why he opposed economism in the 30’s and 40’s. And they are, I suggest, good reasons why we should oppose it today.

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