

## Book Review<sup>1</sup>

### Friedrich A. von Hayek: “*The Road to Serfdom*”

Reviewed by: Prof. Dr. Asad Zaman

#### Editor's Note

*The Road to Serfdom is the book written by the famous economist F. A. Hayek (1899-1992), the recipient of the US President's Medal of Freedom in 1991 and co-winner of the Nobel Memorial Prize in Economics in 1974. A classic work in political philosophy, intellectual and cultural history and economics, The Road to Serfdom has inspired and infuriated politicians, scholars, and general readers for over six decades. However, the book has been criticised as well on the ground that unfettered markets have undermined the social order and that economic breakdown had paved the way for the emergence of dictatorship. The present review is also a critique on the book taking evidence from the history that the facilitator's role of the State requires the rulers / regulators to take remedial measures for the promotion of social interest, if individual interest is in conflict with it.*

**JEL Classification:** B1, B2, N3, P1, P3, P5, Y3

### The Road to Serfdom: Exposition of the Market Economy

Originally published in 1944, *The Road to Serfdom* is among the most influential and popular expositions of market economy, selling over two million copies, and remaining a best-seller. F. A. Hayek warned of the

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<sup>1</sup> Prof. Dr. Asad Zaman is Vice Chancellor of the Pakistan Institute of Development Economics (PIDE) (formerly, Professor at Lahore University of management Sciences (LUMS) and DG, IIIE of IIU, Islamabad). The comments on the book by Hayek were delivered orally at the 19<sup>th</sup> Annual Meetings of the Pakistan Society of Development Economists held at PIDE, Islamabad, 2004 [“*The Mahbub ul Haq Memorial Lecture: On Hayek's Road to Serfdom: Sixty Years Later*”]. We are grateful to Dr. Zaman for suggesting and allowing us to publish the same in the JIBM to add one more review to already available over 500 reviews on the book. The present review is of special relevance in the wake of human sufferings resulting from the unhindered functioning of market economies and in the light of Islamic viewpoint on the role of the State.

danger of tyranny that may result from government control of economic decision making through central planning. He argued that the abandonment of individualism and classical liberalism inevitably leads to a loss of freedom, the creation of an oppressive society, the tyranny of a dictator and the serfdom of the individual.

Historical evidences, however, are there that the classical individualism and liberalism promote selfishness that must be distinguished from the value based 'self interest' which requires that one should be conscious of the interest of others and should avoid hurting them. Hence, the State is required to adopt a policy mix of market based competitive system along with the core value of justice, fair play, mutual help and sense of sacrifice for the fellow beings.

### **Historical Background**

Western social science is intimately tuned to Western history. The emergence of Social Science in the West was coincident with the loss of faith in the West, referred to as "Death of God" by Nietzsche. Loss of Divine Guidance forced fresh thinking about human nature. Hobbes thought that the natural state of humans was a "war of all against all"; the state or government was necessary to intermediate this conflict and bring about a peaceful outcome. In contrast, John Locke granted rights to men and thereby limited the rights and powers of the government. These early philosophers became the precursors of substantially different views on the crucial issue of the appropriate balance between the powers of the government and individual liberty.

### **The Liberal Tradition**

Hayek is squarely within the liberal tradition, a particular kind of social and political philosophy espoused by British and Continental thinkers such as John Locke, Baron de Montesquieu, David Hume and Adam Smith, and American thinkers such as Thomas Jefferson and James Madison. In essence, these classical liberal thinkers were committed to three types of freedom: economic freedom, political freedom, and freedom of speech and religion. For classical liberalism, freedom meant severely limiting the power and scope of invasive government, thus increasing the scope for individual and private action.

### **"Unintended Consequences" of Socialist Policy**

Hayek presents a sophisticated and subtle defence of liberalism, but could not escape the influence of the horrifying World War II which he lived

through in formulating his philosophies. One of the main themes of the RtS is the “the law of unintended consequences”. Hayek contends that well-intentioned German socialists created government controls to help the poor and bring about desirable social reforms. However these government policies, like Frankenstein’s monster, went out of control and led to the emergence of Nazi-ism. He foresees the same process occurring in Britain, and warns that similarly well-intentioned efforts to help the poor would lead to powerful governments and Serfdom in Britain. Part of his prophecies came true in that the Labour Party did come to power in Britain and did pursue and implement many socialist policies including nationalization of industries and socialized medicine. However, there was no apparent resultant loss of individual liberty in UK that Hayek thought would inevitably result.<sup>2</sup> Subsequently, the Thatcher government reversed most of the nationalizations but left the socialized medicine system intact.

### **Intended Consequences of Socialist Policy**

While the “unintended consequences” Hayek warned about did not emerge, the intended consequences were very prominent. The lot of the sick in UK, Europe and Canada, with socialized medicine, is substantially better than that of the USA, where private medicine leaves a large proportion of the poor population uncovered in medical emergencies. Studies have shown that large proportions of people who fall into poverty do so as a result of medical problems. There is substantial evidence showing that quality of life of the poor is much worse and their percentage much greater in the USA than in European countries which have adopted many socialist type policies for the benefit of the poor. Taken in the context of post World War II policy making, which is the narrow context for Hayek’s RtS, it seems clear that Hayek was dangerously wrong. Had Hayek’s warnings been heeded, the lives of vast numbers of the poor in Europe would have been miserable, and human suffering would have increased. European countries did implement socialist policies and provide substantially more support to the poor than USA, but none of them slipped into Nazi-ism or the Serfdom that Hayek thought would result. A glaring counterexample to Hayek is provided by the Scandinavian countries, and most prominently Sweden, who have most aggressively pursued socialist policies of the kind held to be dangerous and damaging both to long run economic performance and to individual freedom by Hayek. As a group,

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<sup>2</sup> Hayek’s admirers consider the high rate of taxation in UK to be equivalent to Serfdom and a vindication of his prophecies. However, equating high taxes to serfdom can only be done by elitists who have never encountered poverty.

these economies have done better in terms of growth, unemployment and inflation, and also have had higher rankings in terms of various measures of political and individual freedom, than other European economies with less socialist policies [see Rosser (2004)].

### **The Larger Debate: Free Markets**

We next consider the broader context for RtS, namely the debate about whether markets should be regulated by the state, or whether they should be allowed to operate freely as the liberals advocate. There is overwhelming empirical evidence on all aspects of this debate. It is clear that markets do well at some thing. In terms of creation of wealth, and efficient fulfilment of demands and desires of the rich and powerful, markets work very well. However, markets fail at providing equitable income distributions or adequate support to the poor. As the remarkable studies by Amartya Sen have shown, a fully functioning free market and adequate food supplies are perfectly compatible with famines which lead to death by hunger of large masses of people. The emergence of Keynesian doctrines in the 1930s was due to the Great Depression which showed again very forcefully to a very large number of people that market outcomes cannot be trusted to deliver the goods, i.e. economic welfare. This clear and overwhelming evidence was so strong that Hayek and all liberal thinkers were eclipsed until horrors of the depression had faded from memories. Only in the late 70's, some 40 years after the Great Depression was there a revival of fortunes of liberal thought. It appears strange that these neoclassical liberals have learnt nothing from experience. They insist that markets equilibrate very fast, and that unemployment will be quickly eliminated by free market mechanisms. Even ignoring the Great Depression, the experience of Chile under the Chicago Boys, where unemployment remained at around 20% during fourteen years of ultra liberal policies is enough to show that this is not true (see Rayack (1984)). Similarly, liberals are still developing theories to account for the failure of Russia to respond quickly to free market mechanisms, and the subsequent economic disaster leading to massive poverty, heavy unemployment and a fall in productive output of more than 60%. The liberals make much of the argument that central planning requires information typically unavailable and hence leads to inefficiencies. However, they have never considered or calculated the time taken and the cost of reaching the efficient market equilibrium, which is borne by the poor and the unemployed in the form of hunger, suffering and misery.

## **Power/Knowledge**

Given overwhelming empirical evidence that unregulated markets often deliver disastrous outcomes, leading to misery, hunger, death and exploitation for masses of people, what accounts for repeated insistence of liberal theorists that “markets work”? Surely this message, frequently made with emphasis in nearly all standard economic textbooks, deserves some qualifications and refinements, together with some explanation of contrary empirical evidence. However, typical texts sweep all contrary evidence under the rug, rather than treat it with intellectual honesty. This leads one to reluctantly consider Foucault and his explanation of the link between (actually the identity of) Knowledge and Power. The naïve view is that Knowledge consists of understanding phenomena, and validity or truth of the knowledge depends on how accurately it describes the reality. Many case studies done by Foucault and his followers show that Knowledge consists of rules of manipulating reality to achieve desirable results (Power). When considered in the context, the repeated re-emergence of liberal thought, despite repeated and massive failures on the empirical front, makes perfect sense. In all ages, social requirement of justice, equity, compassion for the poor and other social norms (including environmental issues) place powerful restrictions on the scope of actions available to the rich and powerful. Liberal thought, and the message that *Laissez Faire* leads to optimal social outcomes, is a strategic tool which is helpful in removing these restraints. The rich and powerful have access to media, can fund colleges and think-tanks etc. and therefore produce “knowledge” that will enhance the power of this group.

## **An Ironic Twist**

The post 9/11 US experience provides an ironic twist on the central message of Hayek’s RtS. Nearly all of the signposts on the Road to Serfdom identified by Hayek can be found in some form or the other in the curtailment of personal freedoms in the USA, supposedly as a defence against terror. People have been arrested and imprisoned for talking against US policies. The radical curtailment of individual freedom in the “Patriot Act” is a source of concern to many liberal thinkers. The irony is that the apparent cause of this path to Serfdom in the USA is not socialist policy but the pro-free market and laissez faire policies pursued to the extremes in the USA. Relentless pursuit of profits by US and multinational firms, unrestrained by any considerations of equity and fairness, has created tremendous amounts of social injustice, poverty, exploitation, etc. The attempts to squelch popular protest against such market-friendly policies has led to police-state like policies in the USA bearing a striking

resemblance to those described by Hayek as being signposts on the road to Serfdom. It has also been suggested that the market itself enslaves vast numbers of humans, reducing their lives to endless drudgery in the name of greater profits and production. It would appear that there is more than one road to Serfdom, and one of the roads is extreme laissez faire advocated by Hayek and his followers.

### **Lessons from European History**

One important reason for considering the context for Hayek and its critique is to show that it is deeply grounded in European historical experience. It has been a European conceit that their experience is somehow universal, and hence lessons from it applicable to all societies. One of these lessons is that the liberal tradition, with maximum individual freedom, is the ideal state which all societies will ultimately achieve. Indeed, the collapse of Russia led to the (premature) celebration of “The End of History” by Fukuyama – history is about to achieve its goal of leading all societies to conform to the ideal European culture with maximum individual freedom for all. The only way to avoid this Procrustean fate is for us to develop our own social science, which is an urgent requirement for our time.

### **Muslim Social Science**

The historical experience of Muslim societies and our own interpretation of it are substantially different from Western experience. A genuine social science would be built on an analysis of our own history and our strengths and weaknesses. For Muslims, the most important event in human history would be mission of our Prophet (pbuh) and the time period in which he carried it out. The message of the Prophet (pbuh) had no immediate impact on the economic conditions. Rather, it brought about a change in character so that the people who were once burying their own daughters alive became such exemplars of virtue, sacrifice, and compassion for fellow humans. The Qur’an praises the Companions as people who offer food to others when they are themselves hungry. This is what development means to us: the development of human character [see Zaman (2013) for a lengthier exposition]. For reasons too complex to be detailed in this brief comment, Western social science is static rather than dynamic. Western methodological conception of science involves the ability to predict and mechanical linkages between past and present. The inherent freedom of human beings to change, and the tremendous potential of human beings to free them from the burden of the past cannot be contemplated within the

scientific methodological constraints of Western philosophy. Yet this is a fundamental message of Islam.

### **Re-evaluation of Western Progress**

The evaluation and characteristics of progress look very different when measured by the yardsticks of character. Reading about the *jāhillīyah* (pre-Islamic Arabian culture), I recall being horrified at the live burial of children. The idea that we have progressed tremendously since then suggests that such an event could no longer take place in the modern and civilized age. However, a Google search will turn up several cases of women who have drowned or killed their own infants by various means in the recent past in USA, supposedly the most advanced society in the world, and the model to which all underdeveloped nations should aspire. Even though there has been a lot of material progress in the past couple of centuries, the character of human beings appears to be on the decline. Barbarism and immorality is on the rise. This could be demonstrated by statistics about number of innocent citizens killed, increases in hunger, poverty and the indifference of people to moral causes, the ascendancy of the paradigm of selfishness, etc. See for example “The Demoralization of Society” by Gertrude Himmelfarb for a sophisticated intellectual analysis. The cruel and inhuman behaviour witnessed, especially by those who claimed to be the torchbearers and apex of humanity, would put Attila the Hun to shame. The Aryans demonstrated their superiority by burning Jews in Gas Chambers. The flames of Dresden demonstrated the moral superiority of the Allies. Americans bombed Hiroshima and Nagasaki, and destroyed livelihoods of thousands of farmers in Vietnam for the crime of allowing guerrillas to live in their midst. The American Ambassador to the UN, Madeleine Albright affirmed in a public forum that killing half a million Iraqi children was a reasonable price for control of oil. The horrors of Abu-Ghraib and Guantanamo Bay were committed in the name of bringing civilization and democracy to the natives. Clearer than a ton of statistics is the public reaction to the acknowledgement of Clinton that he had lied to the public and his wife about his affair with Monica Lewinsky. This would not have been tolerable in earlier and more moral ages, but was shrugged off by the modern public.

### **The Way Forward**

Since the leaders of the West have abandoned morality in a naked pursuit of power and wealth, there is a desperate need in the world for guidance and leadership towards the direction of achieving the full human potential.

As the Qur'an says, Man has the potential to be higher than angels, and also the potential to be worse than wild beasts:

“We have indeed created man in the best of moulds”;  
 “Then do we abase him (to be) the lowest of the low” (95:4 &5).

Man has been shown the two paths (high & low) and given the chance to choose between the two. While the current trend seems to be in the downward direction, it is always possible to reverse this. Furthermore, Muslims have a mission to invite all human beings towards the model of best possible human conduct. Muslim social science would be built around this potential – the possibility of changing human beings and achieving the potential inherent in us. The possibility of radically changing behaviours was demonstrated by the Prophet (pbuh) and it is this dynamic that would be at the heart of any genuine Muslim social science.

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