

The Many Roads to Serfdom

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The Many Roads to Serfdom  
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**Abstract:** The paper considers the planning/laissez faire debate discussed in the Hayek symposium, and offers three comments. The first is that all debates are contextual and Hayek's *Road to Serfdom* needs to be considered in its contextual setting. The second is that there are many roads to serfdom, not just the one outlined by Hayek, and the Hayek/Lerner debate today would probably focus a different road than it did in the 1930s. The third is that modern economists' focus on technical issues has in large part removed them from the role that Hayek and other top economists played in their time.

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## **The Many Roads to Serfdom**

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In 1983 Abba and Lerner and I wrote a paper called “Guiding the Invisible Hand.” In it we discussed the differing approaches Lerner and Hayek took toward government responsibility and regulation. We structured the differences, somewhat unfairly to Hayek, as a contrast between an unadulterated laissez faire view and Lerner’s view that regulation and planning are fundamental to the workings of the market. We did this to respond to what we felt was Hayek’s somewhat unfair characterization of the role of planning.

The point we made in that paper is that governments must regulate and plan. There is no good alternative, since not to plan is simply another type of plan--what Carl Landauer once called “planless planning.” The debate is now, and always has been, about the appropriate type of planning, and how much flexibility to have within the plan. As the papers in this symposium make clear, however, this is the way Hayek saw the issue, too; Hayek was a highly sophisticated thinker whose insights into economics are still playing an important role in cutting-edge theory.

As I have become interested in complexity theory, my admiration for, and my understanding of, Hayek has increased significantly. Today, having read Hayek’s later works, I have a much greater appreciation for the complexity of his thought and the nuances of his understanding of the economy than I had when I wrote in 1983. I now recognize that Hayek never was an opponent of sensible planning. He simply wanted everyone to recognize the limits of what government, or any collective action, can achieve, writing in an environment that did not generally recognize those limits.

With that background, let me turn to my three substantive comments on the symposium. The first comment is meant to put the earlier debate between Hayek and Lerner in perspective. The point is that all debates are contextual points and counterpoints that can be understood and interpreted only in the context of the times. Given the nature of debates, it is impossible to take the arguments that Hayek was making in 1944, or even that Lerner and I were making in 1983, and apply them to today. This is especially the case with a popular book such as the *Road to Serfdom*, where the intended audience is unsophisticated, and whose understanding of issues is quite different than those of trained professional economists. *The Road to Serfdom* is not a book that Hayek would write today; the context has changed and were Hayek making arguments about the role of planning and the state now, those arguments would likely be quite different than the ones he made then. Caldwell (this volume) nicely makes this argument in regard to planning.

Similar arguments exist with respect to the term socialism, which conveyed a quite different sense then from what it does now. Thus, what one wants to pull out of a book such as the *Road to Serfdom*, it seems to me, is not the planning/no planning distinction, or the socialism/capitalism distinction; these are murky concepts that are not

central to today's debates. Rather it is the essential Hayek, which I interpret to be that governments are not to be trusted and need to be limited by social and constitutional constraints; planning should involve a good dose of those constraints. Grand plans about what government programs will achieve need to be placed in the perspective of what governments have actually achieved, and what happens if they become too strong. From that perspective, Hayek argues that we should not expect much from these government programs. Lerner, and many other economists, for all their brilliance, often missed that point. Hayek never did. That essential Hayek is part of the broader Classical tradition of Smith and Mill. Economists today, with their focus on technical issues, seem far less aware of that tradition than were Classical economists.

My second comment is an implication of my first. It is that when one considers the essential Hayek, one sees that there are many roads to serfdom, not just a single road, just as there are many possible feudal lords. We did not go down the road to serfdom in the 1930s or 1940s, but that doesn't mean that the problem is gone. While the articles in the symposium nicely point out the complexity of Hayek's thought; they do not capture the different dimension of the issues today, and hence do not tell us what the essential Hayek might have to say about the issues in play today. Let me give an example. As the articles in the symposium point out, the debate between Lerner and Hayek was not about consumer sovereignty; both accepted that consumer sovereignty was desirable and achievable. Today, I'm not so sure both would accept it. Now firms have much greater control over people's minds through advertising and sophisticated use of data analysis. More and more, advertising is being built into video games, movies, and the general culture. Strong arguments can be made that those technological changes are leading us down a road to serfdom, with some different feudal lords. Should we accept those arguments or is this technological change simply a benign development? My suspicion is that Lerner and Hayek may have had different views on this issue.

Modern economists are slowly beginning to deal with such issues. Behavioral economists today are entering into policy territory that economists have avoided for the last 50 years. They are offering insights in policy in which policy makers can structure programs to "guide" individual choice without violating consumer sovereignty. An example is changing the default option on a program that allows saving, such as a 401K program in the United States. Economists have found that if the default option is "to save," consumer choices are quite different than are consumer choices if the default option is "not to save," and they argue that policy makers should use such insights to design policy to guide individuals. (Sunnstein and Thaler, forthcoming) I suspect that there will be a lively debate on these extensions, called libertarian paternalistic policies, and that Lerner and Hayek would have been on the forefront of that debate.

My third comment is that modern economists' tendency to stay within a highly technical mode, and not enter into the debate about policy in their full capacity, means that they are not playing the role that Hayek and Lerner did in the 1930s and 1940s. When top economists structure their arguments in technical terms, they pull themselves out of the general policy debate, leaving the actual policy debate to others. The very way that courses in economics are structured pulls students away from considering alternative roads to serfdom, and instead concentrates students' minds on narrow technical issues.

By focusing our textbook presentations on the efficiency of markets, we miss the market process issues that are central to policy and that are part of the essential Hayek.

If one asks a good student who has studied the texts what the argument for the market is, he or she will tell you that the argument for the markets is that they are more efficient than other forms of economic organization. An alternative argument for markets, which is found in the essential Hayek, is what I call the complexity argument for markets. It is that markets provide a check against the abuse of power of the government, just as governments provide a check against the abuse of power of the market. Our economic and political system works because it has checks and balances, which limit the power of any group, and prevent absolute power from corrupting absolutely. As technology changes, the desirable checks and balances change, which requires a change in the role of government.

This complexity foundation for markets is not found in textbooks, but it is the argument that Hayek was making. What makes Hayek's view unappealing for textbooks is precisely that it does not provide an answer on any policy issue; instead it provides a useful framework in which to think about policy. It is a framework within which the best we can hope for is to muddle through and avoid the many roads to serfdom.

In conclusion, Hayek's book was right for its time, but, if it is extrapolated from its earlier context, it also gives us important lessons for today. What we are missing today is a modern-day Hayek, who can find that mix of sensibility and insight, which can carry through what is essential in classical liberalism to modern times.

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