

The Road to Serfdom

By
FRIEDRICH A. HAYEK



THE UNIVERSITY OF CHICAGO PRESS

PREFACE

WHEN a professional student of social affairs writes a political book, his first duty is plainly to say so. This is a political book. I do not wish to disguise this by describing it, as I might perhaps have done, by the more elegant and ambitious name of an essay in social philosophy. But, whatever the name, the essential point remains that all I shall have to say is derived from certain ultimate values. I hope I have adequately discharged in the book itself a second and no less important duty: to make it clear beyond doubt what these ultimate values are on which the whole argument depends.

There is, however, one thing I want to add to this. Though this is a political book, I am as certain as anyone can be that the beliefs set out in it are not determined by my personal interests. I can discover no reason why the kind of society which seems to me desirable should offer greater advantages to me than to the great majority of the people of my country. In fact, I am always told by my socialist colleagues that as an economist I should occupy a much more important position in the kind of society to which I am opposed—provided, of course, that I could bring myself to accept their views. I feel equally certain that my opposition to these views is not due to their being different from those with which I have grown up, since they are the very views which I held as a young man and which have led me to make the study of economics my profession. For those who, in the current fashion, seek interested motives in every profession of a political opinion, I may, perhaps, be allowed to add that I have every possible reason for *not* writing or publishing this book. It is certain to offend many

people with whom I wish to live on friendly terms; it has forced me to put aside work for which I feel better qualified and to which I attach greater importance in the long run; and, above all, it is certain to prejudice the reception of the results of the more strictly academic work to which all my inclinations lead me.

If in spite of this I have come to regard the writing of this book as a duty which I must not evade, this was mainly due to a peculiar and serious feature of the discussions of problems of future economic policy at the present time, of which the public is scarcely sufficiently aware. This is the fact that the majority of economists have now for some years been absorbed by the war machine, and silenced by their official positions, and that in consequence public opinion on these problems is to an alarming extent guided by amateurs and cranks, by people who have an ax to grind or a pet panacea to sell. In these circumstances one who still has the leisure for literary work is hardly entitled to keep to himself apprehensions which current tendencies must create in the minds of many who cannot publicly express them—though in different circumstances I should have gladly left the discussion of questions of national policy to those who are both better authorized and better qualified for the task.

The central argument of this book was first sketched in an article entitled "Freedom and the Economic System," which appeared in the *Contemporary Review* for April, 1938, and was later reprinted in an enlarged form as one of the "Public Policy Pamphlets" edited by Professor H. D. Gideonse for the University of Chicago Press (1939). I have to thank the editors and publishers of both these publications for permission to reproduce certain passages from them.

F. A. HAYEK

CONTENTS

INTRODUCTION	1
I. THE ABANDONED ROAD	2
II. THE GREAT UTOPIA	3
III. INDIVIDUALISM AND COLLECTIVISM	4
IV. THE "INEVITABILITY" OF PLANNING	5
V. PLANNING AND DEMOCRACY	7
VI. PLANNING AND THE RULE OF LAW	8
VII. ECONOMIC CONTROL AND TOTALITARIANISM	10
VIII. WHO, WHOM?	11
IX. SECURITY AND FREEDOM	13
X. WHY THE WORST GET ON TOP	15
XI. THE END OF TRUTH	16
XII. THE SOCIALIST ROOTS OF NAZISM	18
XIII. THE TOTALITARIANS IN OUR MIDST	20
XIV. MATERIAL CONDITIONS AND IDEAL ENDS	22
XV. THE PROSPECTS OF INTERNATIONAL ORDER	24
XVI. CONCLUSION	24
BIBLIOGRAPHICAL NOTE	24
INDEX	25

INTRODUCTION

Few discoveries are more irritating than those which expose the pedigree of ideas.—LORD ACTON.

CONTEMPORARY events differ from history in that we do not know the results they will produce. Looking back, we can assess the significance of past occurrences and trace the consequences they have brought in their train. But while history runs its course, it is not history to us. It leads us into an unknown land, and but rarely can we get a glimpse of what lies ahead. It would be different if it were given to us to live a second time through the same events with all the knowledge of what we have seen before. How different would things appear to us; how important and often alarming would changes seem that we now scarcely notice! It is probably fortunate that man can never have this experience and knows of no laws which history must obey.

Yet, although history never quite repeats itself, and just because no development is inevitable, we can in a measure learn from the past to avoid a repetition of the same process. One need not be a prophet to be aware of impending dangers. An accidental combination of experience and interest will often reveal events to one man under aspects which few yet see.

The following pages are the product of an experience as near as possible to twice living through the same period—or at least twice watching a very similar evolution of ideas. While this is an experience one is not likely to gain in one country, it may in certain circumstance be acquired by living in turn for long periods in different countries. Though the influences to which the trend of thought is subject in most civilized nations are to a

large extent similar, they do not necessarily operate at the same time or at the same speed. Thus, by moving from one country to another, one may sometimes twice watch similar phases of intellectual development. The senses have then become peculiarly acute. When one hears for a second time opinions expressed or measures advocated which one has first met twenty or twenty-five years ago, they assume a new meaning as symptoms of a definite trend. They suggest, if not the necessity, at least the probability, that developments will take a similar course.

It is necessary now to state the unpalatable truth that it is Germany whose fate we are in some danger of repeating. The danger is not immediate, it is true, and conditions in England and the United States are still so remote from those witnessed in recent years in Germany as to make it difficult to believe that we are moving in the same direction. Yet, though the road be long, it is one on which it becomes more difficult to turn back as one advances. If in the long run we are the makers of our own fate, in the short run we are the captives of the ideas we have created. Only if we recognize the danger in time can we hope to avert it.

It is not to the Germany of Hitler, the Germany of the present war, that England and the United States bear yet any resemblance. But students of the currents of ideas can hardly fail to see that there is more than a superficial similarity between the trend of thought in Germany during and after the last war and the present current of ideas in the democracies. There exists now in these countries certainly the same determination that the organization of the nation which has been achieved for purposes of defense shall be retained for the purposes of creation. There is the same contempt for nineteenth-century liberalism, the same spurious "realism" and even cynicism, the same fatalistic acceptance of "inevitable trends." And at least nine out of every ten of the lessons which our most

vociferous reformers are so anxious we should learn from this war are precisely the lessons which the Germans did learn from the last war and which have done much to produce the Nazi system. We shall have opportunity in the course of this book to show that there are a large number of other points where at an interval of fifteen to twenty-five years we seem to follow the example of Germany. Although one does not like to be reminded, it is not so many years since the socialist policy of that country was generally held up by progressives as an example to be imitated, just as in more recent years Sweden has been the model country to which progressive eyes were directed. All those whose memory goes further back know how deeply for at least a generation before the last war German thought and German practice influenced ideals and policy in England and, to some extent, in the United States.

The author has spent about half of his adult life in his native Austria, in close touch with German intellectual life, and the other half in the United States and England. In the latter period he has become increasingly convinced that at least some of the forces which have destroyed freedom in Germany are also at work here and that the character and the source of this danger are, if possible, even less understood than they were in Germany. The supreme tragedy is still not seen that in Germany it was largely people of good will, men who were admired and held up as models in the democratic countries, who prepared the way for, if they did not actually create, the forces which now stand for everything they detest. Yet our chance of averting a similar fate depends on our facing the danger and on our being prepared to revise even our most cherished hopes and ambitions if they should prove to be the source of the danger. There are few signs yet that we have the intellectual courage to admit to ourselves that we may have been wrong. Few are ready to recognize that the rise of fascism and nazism was not a reaction against the socialist trends of

the preceding period but a necessary outcome of those tendencies. This is a truth which most people were unwilling to see even when the similarities of many of the repellent features of the internal regimes in communist Russia and National Socialist Germany were widely recognized. As a result, many who think themselves infinitely superior to the aberrations of nazism, and sincerely hate all its manifestations, work at the same time for ideals whose realization would lead straight to the abhorred tyranny.

All parallels between developments in different countries are, of course, deceptive; but I am not basing my argument mainly on such parallels. Nor am I arguing that these developments are inevitable. If they were, there would be no point in writing this. They can be prevented if people realize in time where their efforts may lead. But until recently there was little hope that any attempt to make them see the danger would be successful. It seems, however, as if the time were now ripe for a fuller discussion of the whole issue. Not only is the problem now more widely recognized; there are also special reasons which at this juncture make it imperative that we should face the issues squarely.

It will, perhaps, be said that this is not the time to raise an issue on which opinions clash sharply. But the socialism of which we speak is not a party matter, and the questions which we are discussing have little to do with the questions at dispute between political parties. It does not affect our problem that some groups may want less socialism than others; that some want socialism mainly in the interest of one group and others in that of another. The important point is that, if we take the people whose views influence developments, they are now in the democracies in some measure all socialists. If it is no longer fashionable to emphasize that "we are all socialists now," this is so merely because the fact is too obvious. Scarcely anybody doubts that we must continue to move toward socialism, and

most people are merely trying to deflect this movement in the interest of a particular class or group.

It is because nearly everybody wants it that we are moving in this direction. There are no objective facts which make it inevitable. We shall have to say something about the alleged inevitability of "planning" later. The main question is where this movement will lead us. Is it not possible that if the people whose convictions now give it an irresistible momentum began to see what only a few yet apprehend, they would recoil in horror and abandon the quest which for half a century has engaged so many people of good will? Where these common beliefs of our generation will lead us is a problem not for one party but for every one of us—a problem of the most momentous significance. Is there a greater tragedy imaginable than that, in our endeavor consciously to shape our future in accordance with high ideals, we should in fact unwittingly produce the very opposite of what we have been striving for?

There is an even more pressing reason why at this time we should seriously endeavor to understand the forces which have created National Socialism: that this will enable us to understand our enemy and the issue at stake between us. It cannot be denied that there is yet little recognition of the positive ideals for which we are fighting. We know that we are fighting for freedom to shape our life according to our own ideas. That is a great deal, but not enough. It is not enough to give us the firm beliefs which we need to resist an enemy who uses propaganda as one of his main weapons not only in the most blatant but also in the most subtle forms. It is still more insufficient when we have to counter this propaganda among the people in the countries under his control and elsewhere, where the effect of this propaganda will not disappear with the defeat of the Axis powers. It is not enough if we are to show to others that what we are fighting for is worth their support, and it is not

enough to guide us in the building of a new world safe against the dangers to which the old one has succumbed.

It is a lamentable fact that the democracies in their dealings with the dictators before the war, not less than in their attempts at propaganda and in the discussion of their war aims, have shown an inner insecurity and uncertainty of aim which can be explained only by confusion about their own ideals and the nature of the differences which separated them from the enemy. We have been misled as much because we have refused to believe that the enemy was sincere in the profession of some beliefs which we shared as because we believed in the sincerity of some of his other claims. Have not the parties of the Left as well as those of the Right been deceived by believing that the National Socialist party was in the service of the capitalists and opposed to all forms of socialism? How many features of Hitler's system have not been recommended to us for imitation from the most unexpected quarters, unaware that they are an integral part of that system and incompatible with the free society we hope to preserve? The number of dangerous mistakes we have made before and since the outbreak of war because we do not understand the opponent with whom we are faced is appalling. It seems almost as if we did not want to understand the development which has produced totalitarianism because such an understanding might destroy some of the dearest illusions to which we are determined to cling.

We shall never be successful in our dealings with the Germans until we understand the character and the growth of the ideas which now govern them. The theory which is once again put forth, that the Germans as such are inherently vicious, is hardly tenable and not very creditable to those who hold it. It dishonors the long series of Anglo-Saxon thinkers who during the last hundred years have gladly taken over what was best, and not only what was best, in German thought. It overlooks the fact that, when eighty years ago John Stuart Mill was

writing his great essay *On Liberty*, he drew his inspiration, more than from any other men, from two Germans—Goethe and Wilhelm von Humboldt¹—and forgets the fact that two of the most influential intellectual forebears of National Socialism—Thomas Carlyle and Houston Stewart Chamberlain—were a Scot and an Englishman. In its crude forms this view is a disgrace to those who by maintaining it adopt the worst features of German racial theories.

The problem is not why the Germans as such are vicious, which congenitally they are probably no more than other peoples, but to determine the circumstances which during the last seventy years have made possible the progressive growth and the ultimate victory of a particular set of ideas, and why in the end this victory has brought the most vicious elements among them to the top. Mere hatred of everything German instead of the particular ideas which now dominate the Germans is, moreover, very dangerous, because it blinds those who indulge in it against a real threat. It is to be feared that this attitude is frequently merely a kind of escapism, caused by an unwillingness to recognize tendencies which are not confined to Germany and by a reluctance to re-examine, and if necessary to discard, beliefs which we have taken over from the Germans and by which we are still as much deluded as the Germans were. It is doubly dangerous because the contention that only the peculiar wickedness of the Germans has produced the Nazi system is likely to become the excuse for forcing on us the very institutions which have produced that wickedness.

The interpretation of the developments in Germany and Italy about to be proffered in this book is very different from

¹ As some people may think this statement exaggerated, the testimony of Lord Morley may be worth quoting, who in his *Recollections* speaks of the "acknowledged point" that the main argument of the essay *On Liberty* "was not original but came from Germany."

that given by most foreign observers and by the majority of exiles from those countries. But if this interpretation is correct, it will also explain why it is almost impossible for a person who, like most of the exiles and the foreign correspondents of English and American newspapers, holds the now prevalent socialist views to see those events in the proper perspective. The superficial and misleading view which sees in National Socialism merely a reaction fomented by those whose privileges or interests were threatened by the advance of socialism was naturally supported by all those who, although they were at one time active in the movement of ideas that has led to National Socialism, have stopped at some point of that development and, by the conflict into which this brought them with the Nazis, were forced to leave their country. But the fact that they were numerically the only significant opposition to the Nazis means no more than that in the wider sense practically all Germans had become socialists and that liberalism in the old sense had been driven out by socialism. As we hope to show, the conflict in existence between the National Socialist "Right" and the "Left" in Germany is the kind of conflict that will always arise between rival socialist factions. If this interpretation is correct, it means, however, that many of those socialist refugees, in clinging to their beliefs, are now, though with the best will in the world, helping to lead their adopted country the way which Germany has gone.

I know that many of my Anglo-Saxon friends have sometimes been shocked by the semi-Fascist views they would occasionally hear expressed by German refugees, whose genuinely socialist convictions could not be doubted. But while these observers put this down to the others' being Germans, the true explanation is that they were socialists whose experience had carried them several stages beyond that yet reached by socialists in England and America. It is true, of course, that German socialists have found much support in their country from

certain features of the Prussian tradition; and this kinship between Prussianism and socialism, in which in Germany both sides gloried, gives additional support to our main contention.² But it would be a mistake to believe that the specific German rather than the socialist element produced totalitarianism. It was the prevalence of socialist views and not Prussianism that Germany had in common with Italy and Russia—and it was from the masses and not from the classes steeped in the Prussian tradition, and favored by it, that National Socialism arose.

² That there did exist a certain kinship between socialism and the organization of the Prussian state, consciously organized from the top as in no other country, is undeniable and was freely recognized already by the early French socialists. Long before the ideal of running the whole state on the same principles as a single factory was to inspire nineteenth-century socialism, the Prussian poet Novalis had already deplored that "no other state has ever been administered so much like a factory as Prussia since the death of Frederick William" (cf. Novalis [Friedrich von Hardenberg], *Glauben und Liebe, oder der König und die Königin* [1798]).

tion of the present crisis of our civilization except one: that the present state of the world may be the result of genuine error on our own part and that the pursuit of some of our most cherished ideals has apparently produced results utterly different from those which we expected.

While all our energies are directed to bring this war to a victorious conclusion, it is sometimes difficult to remember that even before the war the values for which we are now fighting were threatened here and destroyed elsewhere. Though for the time being the different ideals are represented by hostile nations fighting for their existence, we must not forget that this conflict has grown out of a struggle of ideas within what, not so long ago, was a common European civilization and that the tendencies which have culminated in the creation of the totalitarian systems were not confined to the countries which have succumbed to them. Though the first task must now be to win the war, to win it will only gain us another opportunity to face the basic problems and to find a way of averting the fate which has overtaken kindred civilizations.

Now, it is somewhat difficult to think of Germany and Italy, or of Russia, not as different worlds but as products of a development of thought in which we have shared; it is, at least so far as our enemies are concerned, easier and more comforting to think that they are entirely different from us and that what happened there cannot happen here. Yet the history of these countries in the years before the rise of the totalitarian system showed few features with which we are not familiar. The external conflict is a result of a transformation of European thought in which others have moved so much faster as to bring them into irreconcilable conflict with our ideals, but which has not left us unaffected.

That a change of ideas and the force of human will have made the world what it is now, though men did not foresee the results, and that no spontaneous change in the facts obliged us

I

THE ABANDONED ROAD

A program whose basic thesis is, not that the system of free enterprise for profit has failed in this generation, but that it has not yet been tried.—F. D. ROOSEVELT.

WHEN the course of civilization takes an unexpected turn—when, instead of the continuous progress which we have come to expect, we find ourselves threatened by evils associated by us with past ages of barbarism—we naturally blame anything but ourselves. Have we not all striven according to our best lights, and have not many of our finest minds incessantly worked to make this a better world? Have not all our efforts and hopes been directed toward greater freedom, justice, and prosperity? If the outcome is so different from our aims—if, instead of freedom and prosperity, bondage and misery stare us in the face—is it not clear that sinister forces must have foiled our intentions, that we are the victims of some evil power which must be conquered before we can resume the road to better things? However much we may differ when we name the culprit—whether it is the wicked capitalist or the vicious spirit of a particular nation, the stupidity of our elders, or a social system not yet, although we have struggled against it for half a century, fully overthrown—we all are, or at least were until recently, certain of one thing: that the leading ideas which during the last generation have become common to most people of good will and have determined the major changes in our social life cannot have been wrong. We are ready to accept almost any explana-

thus to adapt our thought is perhaps particularly difficult for the Anglo-Saxon nations to see, just because in this development they have, fortunately for them, lagged behind most of the European peoples. We still think of the ideals which guide us, and have guided us for the past generation, as ideals only to be realized in the future and are not aware how far in the last twenty-five years they have already transformed not only the world but also our own countries. We still believe that until quite recently we were governed by what are vaguely called nineteenth-century ideas or the principle of *laissez faire*. Compared with some other countries, and from the point of view of those impatient to speed up the change, there may be some justification for such belief. But although until 1931 England and America had followed only slowly on the path on which others had led, even by then they had moved so far that only those whose memory goes back to the years before the last war know what a liberal world has been like.¹

The crucial point of which our people are still so little aware is, however, not merely the magnitude of the changes which have taken place during the last generation but the fact that they mean a complete change in the direction of the evolution of our ideas and social order. For at least twenty-five years before the specter of totalitarianism became a real threat, we had progressively been moving away from the basic ideas on which Western civilization has been built. That this movement on which we have entered with such high hopes and ambitions should have brought us face to face with the totalitarian hor-

¹ Even in that year the Macmillan Report could already speak of "the change of outlook of the government of this country in recent times, its growing preoccupation, irrespective of party, with the management of the life of the people" and add that "Parliament finds itself increasingly engaged in legislation which has for its conscious aim the regulation of the day-to-day affairs of the community and now intervenes in matters formerly thought to be entirely outside its scope." This could be said before, later in the same year, England finally took the headlong plunge and, in the short space of the inglorious years 1931-39, transformed its economic system beyond recognition.

ror has come as a profound shock to this generation, which still refuses to connect the two facts. Yet this development merely confirms the warnings of the fathers of the liberal philosophy which we still profess. We have progressively abandoned that freedom in economic affairs without which personal and political freedom has never existed in the past. Although we had been warned by some of the greatest political thinkers of the nineteenth century, by De Tocqueville and Lord Acton, that socialism means slavery, we have steadily moved in the direction of socialism. And now that we have seen a new form of slavery arise before our eyes, we have so completely forgotten the warning that it scarcely occurs to us that the two things may be connected.²

How sharp a break not only with the recent past but with the whole evolution of Western civilization the modern trend toward socialism means becomes clear if we consider it not merely against the background of the nineteenth century but in a longer historical perspective. We are rapidly abandoning not the views merely of Cobden and Bright, of Adam Smith and Hume, or even of Locke and Milton, but one of the salient characteristics of Western civilization as it has grown from the foundations laid by Christianity and the Greeks and Romans. Not merely nineteenth- and eighteenth-century liberalism, but the basic individualism inherited by us from Erasmus and Montaigne, from Cicero and Tacitus, Pericles and Thucydides, is progressively relinquished.

The Nazi leader who described the National Socialist revolution as a counter-Renaissance spoke more truly than he probably knew. It was the decisive step in the destruction of that

² Even much more recent warnings which have proved dreadfully true have been almost entirely forgotten. It is not yet thirty years since Hilaire Belloc, in a book which explains more of what has happened since in Germany than most works written after the event, explained that "the effect of Socialist doctrine on Capitalist society is to produce a third thing different from either of its two beggetters—to wit, the Servile State" (*The Servile State* [1913; 3d ed., 1927], p. xiv).

civilization which modern man had built up from the age of the Renaissance and which was, above all, an individualist civilization. Individualism has a bad name today, and the term has come to be connected with egotism and selfishness. But the individualism of which we speak in contrast to socialism and all other forms of collectivism has no necessary connection with these. Only gradually in the course of this book shall we be able to make clear the contrast between the two opposing principles. But the essential features of that individualism which, from elements provided by Christianity and the philosophy of classical antiquity, was first fully developed during the Renaissance and has since grown and spread into what we know as Western civilization—are the respect for the individual man *qua* man, that is, the recognition of his own views and tastes as supreme in his own sphere, however narrowly that may be circumscribed, and the belief that it is desirable that men should develop their own individual gifts and bent. “Freedom” and “liberty” are now words so worn with use and abuse that one must hesitate to employ them to express the ideals for which they stood during that period. “Tolerance” is, perhaps, the only word which still preserves the full meaning of the principle which during the whole of this period was in the ascendant and which only in recent times has again been in decline, to disappear completely with the rise of the totalitarian state.

The gradual transformation of a rigidly organized hierarchic system into one where men could at least attempt to shape their own life, where man gained the opportunity of knowing and choosing between different forms of life, is closely associated with the growth of commerce. From the commercial cities of northern Italy the new view of life spread and the commerce to the west and north, through France and the southwest of Germany to the Low Countries and the British Isles, taking firm root wherever there was no despotic political

power to stifle it. In the Low Countries and Britain it for a long time enjoyed its fullest development and for the first time had an opportunity to grow freely and to become the foundation of the social and political life of these countries. And it was from there that in the late seventeenth and eighteenth centuries it again began to spread in a more fully developed form to the West and East, to the New World and to the center of the European continent, where devastating wars and political oppression had largely submerged the earlier beginnings of a similar growth.³

During the whole of this modern period of European history the general direction of social development was one of freeing the individual from the ties which had bound him to the customary or prescribed ways in the pursuit of his ordinary activities. The conscious realization that the spontaneous and uncontrolled efforts of individuals were capable of producing a complex order of economic activities could come only after this development had made some progress. The subsequent elaboration of a consistent argument in favor of economic freedom was the outcome of a free growth of economic activity which had been the undesigned and unforeseen by-product of political freedom.

Perhaps the greatest result of the unchaining of individual energies was the marvelous growth of science which followed the march of individual liberty from Italy to England and beyond. That the inventive faculty of man had been no less in earlier periods is shown by the many highly ingenious automatic toys and other mechanical contrivances constructed while industrial technique still remained stationary and by the development in some industries which, like mining or watchmaking, were not subject to restrictive controls. But the few at-

³ The most fateful of these developments, pregnant with consequences not yet extinct, was the subjection and partial destruction of the German bourgeoisie by the territorial princes in the fifteenth and sixteenth centuries.

tempts toward a more extended industrial use of mechanical inventions, some extraordinarily advanced, were promptly suppressed, and the desire for knowledge was stifled, so long as the dominant views were held to be binding for all: the beliefs of the great majority on what was right and proper were allowed to bar the way of the individual innovator. Only since industrial freedom opened the path to the free use of new knowledge, only since everything could be tried—if somebody could be found to back it at his own risk—and, it should be added, as often as not from outside the authorities officially intrusted with the cultivation of learning, has science made the great strides which in the last hundred and fifty years have changed the face of the world.

As is so often true, the nature of our civilization has been seen more clearly by its enemies than by most of its friends: "the perennial Western malady, the revolt of the individual against the species," as that nineteenth-century totalitarian, Auguste Comte, has described it, was indeed the force which built our civilization. What the nineteenth century added to the individualism of the preceding period was merely to make all classes conscious of freedom, to develop systematically and continuously what had grown in a haphazard and patchy manner, and to spread it from England and Holland over most of the European continent.

The result of this growth surpassed all expectations. Wherever the barriers to the free exercise of human ingenuity were removed, man became rapidly able to satisfy ever widening ranges of desire. And while the rising standard soon led to the discovery of very dark spots in society, spots which men were no longer willing to tolerate, there was probably no class that did not substantially benefit from the general advance. We cannot do justice to this astonishing growth if we measure it by our present standards, which themselves result from this growth and now make many defects obvious. To appreciate

what it meant to those who took part in it, we must measure it by the hopes and wishes men held when it began: and there can be no doubt that its success surpassed man's wildest dreams, that by the beginning of the twentieth century the workingman in the Western world had reached a degree of material comfort, security, and personal independence which a hundred years before had seemed scarcely possible.

What in the future will probably appear the most significant and far-reaching effect of this success is the new sense of power over their own fate, the belief in the unbounded possibilities of improving their own lot, which the success already achieved created among men. With the success grew ambition—and man had every right to be ambitious. What had been an inspiring promise seemed no longer enough, the rate of progress far too slow; and the principles which had made this progress possible in the past came to be regarded more as obstacles to speedier progress, impatiently to be brushed away, than as the conditions for the preservation and development of what had already been achieved.

There is nothing in the basic principles of liberalism to make it a stationary creed; there are no hard-and-fast rules fixed once and for all. The fundamental principle that in the ordering of our affairs we should make as much use as possible of the spontaneous forces of society, and resort as little as possible to coercion, is capable of an infinite variety of applications. There is, in particular, all the difference between deliberately creating a system within which competition will work as beneficially as possible and passively accepting institutions as they are. Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of *laissez faire*. Yet, in a sense, this was necessary and unavoidable. Against the innumerable interests which could show that particular meas-

ures would confer immediate and obvious benefits on some, while the harm they caused was much more indirect and difficult to see, nothing short of some hard-and-fast rule would have been effective. And since a strong presumption in favor of industrial liberty had undoubtedly been established, the temptation to present it as a rule which knew no exceptions was too strong always to be resisted.

But, with this attitude taken by many popularizers of the liberal doctrine, it was almost inevitable that, once their position was penetrated at some points, it should soon collapse as a whole. The position was further weakened by the inevitably slow progress of a policy which aimed at a gradual improvement of the institutional framework of a free society. This progress depended on the growth of our understanding of the social forces and the conditions most favorable to their working in a desirable manner. Since the task was to assist, and where necessary to supplement, their operation, the first requisite was to understand them. The attitude of the liberal toward society is like that of the gardener who tends a plant and, in order to create the conditions most favorable to its growth, must know as much as possible about its structure and the way it functions.

No sensible person should have doubted that the crude rules in which the principles of economic policy of the nineteenth century were expressed were only a beginning—that we had yet much to learn and that there were still immense possibilities of advancement on the lines on which we had moved. But this advance could come only as we gained increasing intellectual mastery of the forces of which we had to make use. There were many obvious tasks, such as our handling of the monetary system and the prevention or control of monopoly, and an even greater number of less obvious but hardly less important tasks to be undertaken in other fields,

where there could be no doubt that the governments possessed enormous powers for good and evil; and there was every reason to expect that, with a better understanding of the problems, we should some day be able to use these powers successfully.

But while the progress toward what is commonly called “positive” action was necessarily slow, and while for the immediate improvement liberalism had to rely largely on the gradual increase of wealth which freedom brought about, it had constantly to fight proposals which threatened this progress. It came to be regarded as a “negative” creed because it could offer to particular individuals little more than a share in the common progress—a progress which came to be taken more and more for granted and was no longer recognized as the result of the policy of freedom. It might even be said that the very success of liberalism became the cause of its decline. Because of the success already achieved, man became increasingly unwilling to tolerate the evils still with him which now appeared both unbearable and unnecessary.

Because of the growing impatience with the slow advance of liberal policy, the just irritation with those who used liberal phraseology in defense of antisocial privileges, and the boundless ambition seemingly justified by the material improvements already achieved, it came to pass that toward the turn of the century the belief in the basic tenets of liberalism was more and more relinquished. What had been achieved came to be regarded as a secure and imperishable possession, acquired once and for all. The eyes of the people became fixed on the new demands, the rapid satisfaction of which seemed to be barred by the adherence to the old principles. It became more and more widely accepted that further advance could be expected not along the old lines within the general framework

which had made past progress possible but only by a complete remodeling of society. It was no longer a question of adding to or improving the existing machinery but of completely scrapping and replacing it. And, as the hope of the new generation came to be centered on something completely new, interest in and understanding of the functioning of the existing society rapidly declined; and, with the decline of the understanding of the way in which the free system worked, our awareness of what depended on its existence also decreased.

This is not the place to discuss how this change in outlook was fostered by the uncritical transfer to the problems of society of habits of thought engendered by the preoccupation with technological problems, the habits of thought of the natural scientist and the engineer, and how these at the same time tended to discredit the results of the past study of society which did not conform to their prejudices and to impose ideals of organization on a sphere to which they are not appropriate.⁴ All we are here concerned to show is how completely, though gradually and by almost imperceptible steps, our attitude toward society has changed. What at every stage of this process of change had appeared a difference of degree only has in its cumulative effect already brought about a fundamental difference between the older liberal attitude toward society and the present approach to social problems. The change amounts to a complete reversal of the trend we have sketched, an entire abandonment of the individualist tradition which has created Western civilization.

According to the views now dominant, the question is no longer how we can make the best use of the spontaneous forces found in a free society. We have in effect undertaken to dis-

⁴ The author has made an attempt to trace the beginning of this development in two series of articles on "Scientism and the Study of Society" and "The Counter-Revolution of Science" which appeared in *Economica*, 1941-44.

pense with the forces which produced unforeseen results and to replace the impersonal and anonymous mechanism of the market by collective and "conscious" direction of all social forces to deliberately chosen goals. The difference cannot be better illustrated than by the extreme position taken in a widely acclaimed book on whose program of so-called "planning for freedom" we shall have to comment yet more than once. "We have never had to set up and direct," writes Dr. Karl Mannheim, "the entire system of nature as we are forced to do today with society. . . . Mankind is tending more and more to regulate the whole of its social life, although it has never attempted to create a second nature."⁵

It is significant that this change in the trend of ideas has coincided with a reversal of the direction in which ideas have traveled in space. For over two hundred years English ideas had been spreading eastward. The rule of freedom which had been achieved in England seemed destined to spread throughout the world. By about 1870 the reign of these ideas had probably reached its easternmost expansion. From then onward it began to retreat, and a different set of ideas, not really new but very old, began to advance from the East. England lost her intellectual leadership in the political and social sphere and became an importer of ideas. For the next sixty years Germany became the center from which the ideas destined to govern the world in the twentieth century spread east and west. Whether it was Hegel or Marx, List or Schmoller, Sombart or Mannheim, whether it was socialism in its more radical form or merely "organization" or "planning" of a less radical kind, German ideas were everywhere readily imported and German institutions imitated.

Although most of the new ideas, and particularly socialism,

⁵ *Man and Society in an Age of Reconstruction* (1940), p. 175.

did not originate in Germany, it was in Germany that they were perfected and during the last quarter of the nineteenth and the first quarter of the twentieth century that they reached their fullest development. It is now often forgotten how very considerable was the lead which Germany had during this period in the development of the theory and practice of socialism; that a generation before socialism became a serious issue in this country, Germany had a large socialist party in her parliament and that until not very long ago the doctrinal development of socialism was almost entirely carried on in Germany and Austria, so that even today Russian discussion largely carries on where the Germans left off. Most English and American socialists are still unaware that the majority of the problems they begin to discover were thoroughly discussed by German socialists long ago.

The intellectual influence which German thinkers were able to exercise during this period on the whole world was supported not merely by the great material progress of Germany but even more by the extraordinary reputation which German thinkers and scientists had earned during the preceding hundred years when Germany had once more become an integral and even leading member of the common European civilization. But it soon served to assist the spreading from Germany of ideas directed against the foundations of that civilization. The Germans themselves—or at least those among them who spread these ideas—were fully aware of the conflict: what had been the common heritage of European civilization became to them, long before the Nazis, “Western” civilization—where “Western” was no longer used in the old sense of Occident but had come to mean west of the Rhine. “Western” in this sense was liberalism and democracy, capitalism and individualism, free trade and any form of internationalism or love of peace.

But in spite of the ill-concealed contempt of an ever increasing number of Germans for those “shallow” Western ideals, or perhaps because of it, the people of the West continued to import German ideas and were even induced to believe that their own former convictions had merely been rationalizations of selfish interests, that free trade was a doctrine invented to further British interests, and that the political ideals of England and America were hopelessly outmoded and a thing to be ashamed of.

Only under the influence of the strong democratic currents preceding the revolution of 1848 did socialism begin to ally itself with the forces of freedom. But it took the new "democratic socialism" a long time to live down the suspicions aroused by its antecedents. Nobody saw more clearly than De Tocqueville that democracy as an essentially individualist institution stood in an irreconcilable conflict with socialism:

"Democracy extends the sphere of individual freedom," he said in 1848; "socialism restricts it. Democracy attaches all possible value to each man; socialism makes each man a mere agent, a mere number. Democracy and socialism have nothing in common but one word: equality. But notice the difference: while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude."¹

To allay these suspicions and to harness to its cart the strongest of all political motives—the craving for freedom—socialism began increasingly to make use of the promise of a "new freedom." The coming of socialism was to be the leap from the realm of necessity to the realm of freedom. It was to bring "economic freedom," without which the political freedom already gained was "not worth having." Only socialism was capable of effecting the consummation of the age-long struggle for freedom, in which the attainment of political freedom was but a first step.

The subtle change in meaning to which the word "freedom" was subjected in order that this argument should sound plausible is important. To the great apostles of political freedom the word had 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. The new freedom promised, how-

¹ "Discours prononcé à l'assemblée constituante le 12 septembre 1848 sur la question du droit au travail," *Œuvres complètes d'Alexis de Tocqueville* (1866), IX, 546.

II

THE GREAT UTOPIA

What has always made the state a hell on earth has been precisely that man has tried to make it his heaven.—
F. HOELDERLIN.

THAT socialism has displaced liberalism as the doctrine held by the great majority of progressives does not simply mean that people had forgotten the warnings of the great liberal thinkers of the past about the consequences of collectivism. It has happened because they were persuaded of the very opposite of what these men had predicted. The extraordinary thing is that the same socialism that was not only early recognized as the gravest threat to freedom, but quite openly began as a reaction against the liberalism of the French Revolution, gained general acceptance under the flag of liberty. It is rarely remembered now that socialism in its beginnings was frankly authoritarian. The French writers who laid the foundations of modern socialism had no doubt that their ideas could be put into practice only by a strong dictatorial government. To them socialism meant an attempt to "terminate the revolution" by a deliberate reorganization of society on hierarchical lines and by the imposition of a coercive "spiritual power." Where freedom was concerned, the founders of socialism made no bones about their intentions. Freedom of thought they regarded as the root-evil of nineteenth-century society, and the first of modern planners, Saint-Simon, even predicted that those who did not obey his proposed planning boards would be "treated as cattle."

ever, was to be freedom from necessity, release from the compulsion of the circumstances which inevitably limit the range of choice of all of us, although for some very much more than for others. Before man could be truly free, the "despotism of physical want" had to be broken, the "restraints of the economic system" relaxed.

Freedom in this sense is, of course, merely another name for power² or wealth. Yet, although the promises of this new freedom were often coupled with irresponsible promises of a great increase in material wealth in a socialist society, it was not from such an absolute conquest of the niggardliness of nature that economic freedom was expected. What the promise really amounted to was that the great existing disparities in the range of choice of different people were to disappear. The demand for the new freedom was thus only another name for the old demand for an equal distribution of wealth. But the new name gave the socialists another word in common with the liberals, and they exploited it to the full. And, although the word was used in a different sense by the two groups, few people noticed this and still fewer asked themselves whether the two kinds of freedom promised could really be combined.

There can be no doubt that the promise of greater freedom has become one of the most effective weapons of socialist propaganda and that the belief that socialism would bring freedom is genuine and sincere. But this would only heighten the tragedy if it should prove that what was promised to us as

² The characteristic confusion of freedom with power, which we shall meet again and again throughout this discussion, is too big a subject to be thoroughly examined here. As old as socialism itself, it is so closely allied with it that almost seventy years ago a French scholar, discussing its Saint-Simonian origins, was led to say that this theory of liberty "est à elle seule tout le socialisme" (Paul Janet, *Saint-Simon et le Saint-Simonisme* [1878], p. 26 n.). The most explicit defender of this confusion is, significantly, the leading philosopher of American left-wingism, John Dewey, according to whom "liberty is the effective power to do specific things" so that "the demand for liberty is demand for power" ("Liberty and Social Control," *Social Frontier*, November, 1935, p. 41).

the Road to Freedom was in fact the High Road to Servitude. Unquestionably, the promise of more freedom was responsible for luring more and more liberals along the socialist road, for blinding them to the conflict which exists between the basic principles of socialism and liberalism, and for often enabling socialists to usurp the very name of the old party of freedom. Socialism was embraced by the greater part of the intelligentsia as the apparent heir of the liberal tradition: therefore it is not surprising that to them the idea of socialism's leading to the opposite of liberty should appear inconceivable.

In recent years, however, the old apprehensions of the unforeseen consequences of socialism have once more been strongly voiced from the most unexpected quarters. Observer after observer, in spite of the contrary expectation with which he approached his subject, has been impressed with the extraordinary similarity in many respects of the conditions under "fascism" and "communism." While "progressives" in England and elsewhere were still deluding themselves that communism and fascism represented opposite poles, more and more people began to ask themselves whether these new tyrannies were not the outcome of the same tendencies. Even communists must have been somewhat shaken by such testimonies as that of Max Eastman, Lenin's old friend, who found himself compelled to admit that "instead of being better, Stalinism is worse than fascism, more ruthless, barbarous, unjust, immoral, anti-democratic, unredeemed by any hope or scruple," and that it is "better described as superfascist"; and when we find the same author recognizing that "Stalinism is socialism, in the sense of being an inevitable although unforeseen political accompaniment of the nationalization and collectivization which he had relied upon as part of his plan for erecting a classless society,"³ his conclusion clearly achieves wider significance.

³ *Stalin's Russia and the Crisis of Socialism* (1940), p. 82.

Mr. Eastman's case is perhaps the most remarkable, yet he is by no means the first or the only sympathetic observer of the Russian experiment to form similar conclusions. Several years earlier W. H. Chamberlin, who in twelve years in Russia as an American correspondent had seen all his ideals shattered, summed up the conclusions of his studies there and in Germany and Italy in the statement that "socialism is certain to prove, in the beginning at least, the road not to freedom, but to dictatorship and counter-dictatorships, to civil war of the fiercest kind. Socialism achieved and maintained by democratic means seems definitely to belong to the world of utopias."⁴ Similarly a British writer, F. A. Voigt, after many years of close observation of developments in Europe as a foreign correspondent, concludes that "Marxism has led to Fascism and National Socialism, because, in all essentials, it is Fascism and National Socialism."⁵ And Walter Lippmann has arrived at the conviction that "the generation to which we belong is now learning from experience what happens when men retreat from freedom to a coercive organization of their affairs. Though they promise themselves a more abundant life, they must in practice renounce it; as the organized direction increases, the variety of ends must give way to uniformity. That is the nemesis of the planned society and the authoritarian principle in human affairs."⁶

Many more similar statements from people in a position to judge might be selected from publications of recent years, particularly from those by men who as citizens of the now totalitarian countries have lived through the transformation and have been forced by their experience to revise many cherished beliefs. We shall quote as one more example a German writer who expresses the same conclusion perhaps more justly than those already quoted.

⁴ *A False Utopia* (1937), pp. 202-3.

⁵ *Unto Caesar* (1939), p. 95.

⁶ *Atlantic Monthly*, November, 1936, p. 552.

"The complete collapse of the belief in the attainability of freedom and equality through Marxism," writes Peter Drucker, "has forced Russia to travel the same road toward a totalitarian, purely negative, non-economic society of unfreedom and inequality which Germany has been following. Not that communism and fascism are essentially the same. Fascism is the stage reached after communism has proved an illusion, and it has proved as much an illusion in Stalinist Russia as in pre-Hitler Germany."⁷

No less significant is the intellectual history of many of the Nazi and Fascist leaders. Everyone who has watched the growth of these movements in Italy⁸ or in Germany has been struck by the number of leading men, from Mussolini downward (and not excluding Laval and Quisling), who began as socialists and ended as Fascists or Nazis. And what is true of the leaders is even more true of the rank and file of the movement. The relative ease with which a young communist could be converted into a Nazi or vice versa was generally known in Germany, best of all to the propagandists of the two parties. Many a university teacher during the 1930's has seen English and American students return from the Continent uncertain whether they were communists or Nazis and certain only that they hated Western liberal civilization.

It is true, of course, that in Germany before 1933, and in Italy before 1922, communists and Nazis or Fascists clashed more frequently with each other than with other parties. They competed for the support of the same type of mind and reserved for each other the hatred of the heretic. But their practice showed how closely they are related. To both, the real enemy, the man with whom they had nothing in common and

⁷ *The End of Economic Man* (1939), p. 230.

⁸ An illuminating account of the intellectual history of many of the Fascist leaders will be found in Robert Michels (himself a former Marxist Fascist), *Sozialismus und Faschismus* (Munich, 1925), II, 264-66, 311-12.

whom they could not hope to convince, is the liberal of the old type. While to the Nazi the communist, and to the communist the Nazi, and to both the socialist, are potential recruits who are made of the right timber, although they have listened to false prophets, they both know that there can be no compromise between them and those who really believe in individual freedom.

Lest this be doubted by people misled by official propaganda from either side, let me quote one more statement from an authority that ought not to be suspect. In an article under the significant title of "The Rediscovery of Liberalism," Professor Eduard Heimann, one of the leaders of German religious socialism, writes: "Hitlerism proclaims itself as both true democracy and true socialism, and the terrible truth is that there is a grain of truth for such claims—an infinitesimal grain, to be sure, but at any rate enough to serve as a basis for such fantastic distortions. Hitlerism even goes so far as to claim the role of protector of Christianity, and the terrible truth is that even this gross misinterpretation is able to make some impression. But one fact stands out with perfect clarity in all the fog: Hitler has never claimed to represent true liberalism. Liberalism then has the distinction of being the doctrine most hated by Hitler."⁹ It should be added that this hatred had little occasion to show itself in practice merely because, by the time Hitler came to power, liberalism was to all intents and purposes dead in Germany. And it was socialism that had killed it.

While to many who have watched the transition from socialism to fascism at close quarters the connection between the two

⁹ *Social Research*, Vol. VIII, No. 4 (November, 1941). It deserves to be recalled in this connection that, whatever may have been his reasons, Hitler thought it expedient to declare in one of his public speeches as late as February, 1941, that "basically National Socialism and Marxism are the same" (cf. the *Bulletin of International News* [published by the Royal Institute of International Affairs], XVIII, No. 5, 269).

systems has become increasingly obvious, in the democracies the majority of people still believe that socialism and freedom can be combined. There can be no doubt that most socialists here still believe profoundly in the liberal ideal of freedom and that they would recoil if they became convinced that the realization of their program would mean the destruction of freedom. So little is the problem yet seen, so easily do the most irreconcilable ideals still live together, that we can still hear such contradictions in terms as "individualist socialism" seriously discussed. If this is the state of mind which makes us drift into a new world, nothing can be more urgent than that we should seriously examine the real significance of the evolution that has taken place elsewhere. Although our conclusions will only confirm the apprehensions which others have already expressed, the reasons why this development cannot be regarded as accidental will not appear without a rather full examination of the main aspects of this transformation of social life. That democratic socialism, the great utopia of the last few generations, is not only unachievable, but that to strive for it produces something so utterly different that few of those who now wish it would be prepared to accept the consequences, many will not believe until the connection has been laid bare in all its aspects.

on the other hand, who value the ultimate ends of socialism no less than the socialists refuse to support socialism because of the dangers to other values they see in the methods proposed by the socialists. The dispute about socialism has thus become largely a dispute about means and not about ends—although the question whether the different ends of socialism can be simultaneously achieved is also involved.

This would be enough to create confusion. And the confusion has been further increased by the common practice of denying that those who repudiate the means value the ends. But this is not all. The situation is still more complicated by the fact that the same means, the "economic planning" which is the prime instrument of socialist reform, can be used for many other purposes. We must centrally direct economic activity if we want to make the distribution of income conform to current ideas of social justice. "Planning," therefore, is wanted by all those who demand that "production for use" be substituted for production for profit. But such planning is no less indispensable if the distribution of incomes is to be regulated in a way which to us appears to be the opposite of just. Whether we should wish that more of the good things of this world should go to some racial élite, the Nordic men, or the members of a party or an aristocracy, the methods which we shall have to employ are the same as those which could insure an equalitarian distribution.

It may, perhaps, seem unfair to use the term "socialism" to describe its methods rather than its aims, to use for a particular method a term which for many people stands for an ultimate ideal. It is probably preferable to describe the methods which can be used for a great variety of ends as collectivism and to regard socialism as a species of that genus. Yet, although to most socialists only one species of collectivism will represent true socialism, it must always be remembered that socialism is a species of collectivism and that therefore everything which is

III

INDIVIDUALISM AND COLLECTIVISM

The socialists believe in two things which are absolutely different and perhaps even contradictory: freedom and organization.—ÉLIE HALÉVY.

BEFORE we can progress with our main problem, an obstacle has yet to be surmounted. A confusion largely responsible for the way in which we are drifting into things which nobody wants must be cleared up. This confusion concerns nothing less than the concept of socialism itself. It may mean, and is often used to describe, merely the ideals of social justice, greater equality, and security, which are the ultimate aims of socialism. But it means also the particular method by which most socialists hope to attain these ends and which many competent people regard as the only methods by which they can be fully and quickly attained. In this sense socialism means the abolition of private enterprise, of private ownership of the means of production, and the creation of a system of "planned economy" in which the entrepreneur working for profit is replaced by a central planning body.

There are many people who call themselves socialists, although they care only about the first, who fervently believe in those ultimate aims of socialism but neither care nor understand how they can be achieved, and who are merely certain that they must be achieved, whatever the cost. But to nearly all those to whom socialism is not merely a hope but an object of practical politics, the characteristic methods of modern socialism are as essential as the ends themselves. Many people,

true of collectivism as such must apply also to socialism. Nearly all the points which are disputed between socialists and liberals concern the methods common to all forms of collectivism and not the particular ends for which socialists want to use them; and all the consequences with which we shall be concerned in this book follow from the methods of collectivism irrespective of the ends for which they are used. It must also not be forgotten that socialism is not only by far the most important species of collectivism or "planning" but that it is socialism which has persuaded liberal-minded people to submit once more to that regimentation of economic life which they had overthrown because, in the words of Adam Smith, it puts governments in a position where "to support themselves they are obliged to be oppressive and tyrannical."¹

The difficulties caused by the ambiguities of the common political terms are not yet over if we agree to use the term "collectivism" so as to include all types of "planned economy," whatever the end of planning. The meaning of this term becomes somewhat more definite if we make it clear that we mean that sort of planning which is necessary to realize any given distributive ideals. But, as the idea of central economic planning owes its appeal largely to this very vagueness of its meaning, it is essential that we should agree on its precise sense before we discuss its consequences.

"Planning" owes its popularity largely to the fact that everybody desires, of course, that we should handle our common problems as rationally as possible and that, in so doing, we should use as much foresight as we can command. In this sense everybody who is not a complete fatalist is a planner, every political act is (or ought to be) an act of planning, and

¹ Quoted in Dugald, Stewart's *Memoir of Adam Smith* from a memorandum written by Smith in 1755.

there can be differences only between good and bad, between wise and foresighted and foolish and shortsighted planning. An economist, whose whole task is the study of how men actually do and how they might plan their affairs, is the last person who could object to planning in this general sense. But it is not in this sense that our enthusiasts for a planned society now employ this term, nor merely in this sense that we must plan if we want the distribution of income or wealth to conform to some particular standard. According to the modern planners, and for their purposes, it is not sufficient to design the most rational permanent framework within which the various activities would be conducted by different persons according to their individual plans. This liberal plan, according to them, is no plan—and it is, indeed, not a plan designed to satisfy particular views about who should have what. What our planners demand is a central direction of all economic activity according to a single plan, laying down how the resources of society should be "consciously directed" to serve particular ends in a definite way.

The dispute between the modern planners and their opponents is, therefore, *not* a dispute on whether we ought to choose intelligently between the various possible organizations of society; it is not a dispute on whether we ought to employ foresight and systematic thinking in planning our common affairs. It is a dispute about what is the best way of so doing. The question is whether for this purpose it is better that the holder of coercive power should confine himself in general to creating conditions under which the knowledge and initiative of individuals are given the best scope so that *they* can plan most successfully; or whether a rational utilization of our resources requires *central* direction and organization of all our activities according to some consciously constructed "blueprint." The socialists of all parties have appropriated the term "planning" for planning of the latter type,

and it is now generally accepted in this sense. But though this is meant to suggest that this is the only rational way of handling our affairs, it does not, of course, prove this. It remains the point on which the planners and the liberals disagree.

It is important not to confuse opposition against this kind of planning with a dogmatic *laissez faire* attitude. The liberal argument is in favor of making the best possible use of the forces of competition as a means of co-ordinating human efforts, not an argument for leaving things just as they are. It is based on the conviction that, where effective competition can be created, it is a better way of guiding individual efforts than any other. It does not deny, but even emphasizes, that, in order that competition should work beneficially, a carefully thought-out legal framework is required and that neither the existing nor the past legal rules are free from grave defects. Nor does it deny that, where it is impossible to create the conditions necessary to make competition effective, we must resort to other methods of guiding economic activity. Economic liberalism is opposed, however, to competition's being supplanted by inferior methods of co-ordinating individual efforts. And it regards competition as superior not only because it is in most circumstances the most efficient method known but even more because it is the only method by which our activities can be adjusted to each other without coercive or arbitrary intervention of authority. Indeed, one of the main arguments in favor of competition is that it dispenses with the need for "conscious social control" and that it gives the individuals a chance to decide whether the prospects of a particular occupation are sufficient to compensate for the disadvantages and risks connected with it.

The successful use of competition as the principle of social organization precludes certain types of coercive interference with economic life, but it admits of others which sometimes

may very considerably assist its work and even requires certain kinds of government action. But there is good reason why the negative requirements, the points where coercion must not be used, have been particularly stressed. It is necessary in the first instance that the parties in the market should be free to sell and buy at any price at which they can find a partner to the transaction and that anybody should be free to produce, sell, and buy anything that may be produced or sold at all. And it is essential that the entry into the different trades should be open to all on equal terms and that the law should not tolerate any attempts by individuals or groups to restrict this entry by open or concealed force. Any attempt to control prices or quantities of particular commodities deprives competition of its power of bringing about an effective co-ordination of individual efforts, because price changes then cease to register all the relevant changes in circumstances and no longer provide a reliable guide for the individual's actions.

This is not necessarily true, however, of measures merely restricting the allowed methods of production, so long as these restrictions affect all potential producers equally and are not used as an indirect way of controlling prices and quantities. Though all such controls of the methods or production impose extra costs (i.e., make it necessary to use more resources to produce a given output), they may be well worth while. To prohibit the use of certain poisonous substances or to require special precautions in their use, to limit working hours or to require certain sanitary arrangements, is fully compatible with the preservation of competition. The only question here is whether in the particular instance the advantages gained are greater than the social costs which they impose. Nor is the preservation of competition incompatible with an extensive system of social services—so long as the organization of these services is not designed in such a way as to make competition ineffective over wide fields.

It is regrettable, though not difficult to explain, that in the past much less attention has been given to the positive requirements of a successful working of the competitive system than to these negative points. The functioning of a competition not only requires adequate organization of certain institutions like money, markets, and channels of information—some of which can never be adequately provided by private enterprise—but it depends, above all, on the existence of an appropriate legal system, a legal system designed both to preserve competition and to make it operate as beneficially as possible. It is by no means sufficient that the law should recognize the principle of private property and freedom of contract; much depends on the precise definition of the right of property as applied to different things. The systematic study of the forms of legal institutions which will make the competitive system work efficiently has been sadly neglected; and strong arguments can be advanced that serious shortcomings here, particularly with regard to the law of corporations and of patents, not only have made competition work much less effectively than it might have done but have even led to the destruction of competition in many spheres.

There are, finally, undoubted fields where no legal arrangements can create the main condition on which the usefulness of the system of competition and private property depends: namely, that the owner benefits from all the useful services rendered by his property and suffers for all the damages caused to others by its use. Where, for example, it is impracticable to make the enjoyment of certain services dependent on the payment of a price, competition will not produce the services; and the price system becomes similarly ineffective when the damage caused to others by certain uses of property cannot be effectively charged to the owner of that property. In all these instances there is a divergence between the items which enter into private calculation and those which affect social

welfare; and, whenever this divergence becomes important, some method other than competition may have to be found to supply the services in question. Thus neither the provision of signposts on the roads nor, in most circumstances, that of the roads themselves can be paid for by every individual user. Nor can certain harmful effects of deforestation, of some methods of farming, or of the smoke and noise of factories be confined to the owner of the property in question or to those who are willing to submit to the damage for an agreed compensation. In such instances we must find some substitute for the regulation by the price mechanism. But the fact that we have to resort to the substitution of direct regulation by authority where the conditions for the proper working of competition cannot be created does not prove that we should suppress competition where it can be made to function.

To create conditions in which competition will be as effective as possible, to supplement it where it cannot be made effective, to provide the services which, in the words of Adam Smith, "though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual or small number of individuals"—these tasks provide, indeed, a wide and unquestioned field for state activity. In no system that could be rationally defended would the state just do nothing. An effective competitive system needs an intelligently designed and continuously adjusted legal framework as much as any other. Even the most essential prerequisite of its proper functioning, the prevention of fraud and deception (including exploitation of ignorance), provides a great and by no means yet fully accomplished object of legislative activity.

The task of creating a suitable framework for the beneficial working of competition had, however, not yet been carried very far when states everywhere turned from it to that of sup-

planting competition by a different and irreconcilable principle. The question was no longer one of making competition work and of supplementing it but of displacing it altogether. It is important to be quite clear about this: the modern movement for planning is a movement against competition as such, a new flag under which all the old enemies of competition have rallied. And although all sorts of interests are now trying to re-establish under this flag privileges which the liberal era swept away, it is socialist propaganda for planning which has restored to respectability among liberal-minded people opposition to competition and which has effectively lulled the healthy suspicion which any attempt to smother competition used to arouse.² What in effect unites the socialists of the Left and the Right is this common hostility to competition and their common desire to replace it by a directed economy. Though the terms "capitalism" and "socialism" are still generally used to describe the past and the future forms of society, they conceal rather than elucidate the nature of the transition through which we are passing.

Yet, though all the changes we are observing tend in the direction of a comprehensive central direction of economic activity, the universal struggle against competition promises to produce in the first instance something in many respects even worse, a state of affairs which can satisfy neither planners nor

² Of late, it is true, some academic socialists, under the spur of criticism and animated by the same fear of the extinction of freedom in a centrally planned society, have devised a new kind of "competitive socialism" which they hope will avoid the difficulties and dangers of central planning and combine the abolition of private property with the full retention of individual freedom. Although some discussion of this new kind of socialism has taken place in learned journals, it is hardly likely to recommend itself to practical politicians. If it ever did, it would not be difficult to show (as the author has attempted elsewhere—see *Economica*, 1940) that these plans rest on a delusion and suffer from an inherent contradiction. It is impossible to assume control over all the productive resources without also deciding for whom and by whom they are to be used. Although under this so-called "competitive socialism" the planning by the central authority would take somewhat more roundabout forms, its effects would not be fundamentally different, and the element of competition would be little more than a sham.

liberals: a sort of syndicalist or "corporative" organization of industry, in which competition is more or less suppressed but planning is left in the hands of the independent monopolies of the separate industries. This is the inevitable first result of a situation in which the people are united in their hostility to competition but agree on little else. By destroying competition in industry after industry, this policy puts the consumer at the mercy of the joint monopolist action of capitalists and workers in the best organized industries. Yet, although this is a state of affairs which in wide fields has already existed for some time, and although much of the muddled (and most of the interested) agitation for planning aims at it, it is not a state which is likely to persist or can be rationally justified. Such independent planning by industrial monopolies would, in fact, produce effects opposite to those at which the argument for planning aims. Once this stage is reached, the only alternative to a return to competition is the control of the monopolies by the state—a control which, if it is to be made effective, must become progressively more complete and more detailed. It is this stage we are rapidly approaching. When, shortly before the war, a weekly magazine pointed out that there were many signs that British leaders, at least, were growing accustomed to thinking in terms of national development by controlled monopolies, this was probably a true estimate of the position as it then existed. Since then this process has been greatly accelerated by the war, and its grave defects and dangers will become increasingly obvious as time goes on.

The idea of complete centralization of the direction of economic activity still appalls most people, not only because of the stupendous difficulty of the task, but even more because of the horror inspired by the idea of everything being directed from a single center. If we are, nevertheless, rapidly moving toward such a state, this is largely because most people still believe that it is must be possible to find some middle way between

"atomistic" competition and central direction. Nothing, indeed, seems at first more plausible, or is more likely to appeal to reasonable people, than the idea that our goal must be neither the extreme decentralization of free competition nor the complete centralization of a single plan but some judicious mixture of the two methods. Yet mere common sense proves a treacherous guide in this field. Although competition can bear some admixture of regulation, it cannot be combined with planning to any extent we like without ceasing to operate as an effective guide to production. Nor is "planning" a medicine which, taken in small doses, can produce the effects for which one might hope from its thoroughgoing application. Both competition and central direction become poor and inefficient tools if they are incomplete; they are alternative principles used to solve the same problem, and a mixture of the two means that neither will really work and that the result will be worse than if either system had been consistently relied upon. Or, to express it differently, planning and competition can be combined only by planning for competition but not by planning against competition.

It is of the utmost importance to the argument of this book for the reader to keep in mind that the planning against which all our criticism is directed is solely the planning against competition—the planning which is to be substituted for competition. This is the more important, as we cannot, within the scope of this book, enter into a discussion of the very necessary planning which is required to make competition as effective and beneficial as possible. But as in current usage "planning" has become almost synonymous with the former kind of planning, it will sometimes be inevitable for the sake of brevity to refer to it simply as planning, even though this means leaving to our opponents a very good word meriting a better fate.

IV

THE "INEVITABILITY" OF PLANNING

We were the first to assert that the more complicated the forms assumed by civilization, the more restricted the freedom of the individual must become.—BENITO MUSSOLINI.

IT is a revealing fact that few planners are content to say that central planning is desirable. Most of them affirm that we can no longer choose but are compelled by circumstances beyond our control to substitute planning for competition. The myth is deliberately cultivated that we are embarking on the new course not out of free will but because competition is spontaneously eliminated by technological changes which we neither can reverse nor should wish to prevent. This argument is rarely developed at any length—it is one of the assertions taken over by one writer from another until, by mere iteration, it has come to be accepted as an established fact. It is, nevertheless, devoid of foundation. The tendency toward monopoly and planning is not the result of any "objective facts" beyond our control but the product of opinions fostered and propagated for half a century until they have come to dominate all our policy.

Of the various arguments employed to demonstrate the inevitability of planning, the one most frequently heard is that technological changes have made competition impossible in a constantly increasing number of fields and that the only choice left to us is between control of production by private monopolies and direction by the government. This belief derives mainly from the Marxist doctrine of the "concentration

