

The Road to Serfdom Study Guide

The Road to Serfdom by Friedrich Hayek

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Plot Summary

The Road to Serfdom by F. A. Hayek is a powerful analysis of how the use of economic planning leads to the evils of totalitarianism when economic planning replaces the markets. A democracy is based on individual freedoms. Individuals have the freedom to make their own choices and decisions. One of the choices and decisions regards the choice of occupation and employment. A market allocates resources, one of which is labor, to different uses in response to market conditions. This happens automatically through changes in wages and prices without direction from a commissar. The market results in an efficient use of resources with output production in accordance with the preferences of consumers.

Planning that takes the place of the markets robs the individual of this freedom of choice. The only way the planners can reallocate resources, including labor, is by the use of force. Therefore, one of the freedoms given up in the move to planning is the individual's freedom to choose his own occupation and employment. When the economy is won by groups of monopolies coalesced with their labor organizations, then there isn't equality. There is the privilege of one group over another. These are the corporate monopolies.

The only way to make it all work is by coercion and force. On an international basis, the groups become countries, and there becomes a dominant group or a country that rules over the subordinate groups or smaller countries by force. Central planning then means withholding certain resources; or, not authorizing the development of certain industries. How does it work? Individualism and personal values and morals in the population are destroyed by the state through the use of propaganda. The individual doesn't think or question. Those who do are dealt with by the use of force, like the Gulag. The less powerful groups, or the majority of the population, are subservient to a dominant group, of the ruling authority that controls the planning structure.

Hayek provides a brilliant insight as to how conditions developed in Germany that led to the years of Nazism. This condition did not develop overnight. It is a condition that began developing in the years following the First World War. It was in many ways a reaction to the laissez faire policies of the British, which is a point that keeps recurring throughout the book. Hayek analyzes the kind of person that is attracted to the rhetoric of this kind of a movement and how the movement takes over the values and essence of that kind of person. Hayek's analysis is on an intellectual level. There is a choice between two economic systems - markets or planning. Each has its shortcomings. One both functions on, and protects individual freedoms. The other can't function if there are individual freedoms, so it has to suppress individualism and replace individual thinking and values, if it is to survive.

For those who ask how it could have happened, Hayek's book explains how the mentality and conditions developed that led to socialism and fascism. It is a book full of insights into both systems.



Chapter 1, The Abandoned Road

Chapter 1, The Abandoned Road Summary and Analysis

The book opens with Hayek commenting on the state of affairs. Society is threatened by various evils even though they have tried to overcome the barbarians of the past and move toward freedom. They look for every reason to explain the current situation except that it is the result of their own errors. Italy, Germany, and Russia are the results of the development in thought processes that they have all shared. Totalitarianism has come into existence.

Hayek feels that people are not aware of what is happening. They still believe they are being governed by a set of principles consistent with freedom and laissez-faire. People didn't realize they were losing their basic freedoms when they embraced the ideals of various totalitarian philosophies. Hayek admits they were warned by various philosophers about the evils of socialism and other forms of totalitarian government but they never made the connection.

Fascism represents a break with the evolution of Western civilization. Western civilization is built on the basis of individualism. Individualism is anathema to the precepts of socialism, which is based on collectivism. The emphasis on the individual and how he could determine his own life is the basis for the development in commerce. The Europe that emerged from feudalism developed on the basis of individual freedoms. This led to the growth of commerce and science in the seventeenth and eighteenth centuries. A society based on competition, not coercion, emerged. The movement toward certain economic and social policies is slow and people turned to liberalism to speed up the process. When that proved too slow for some, they began to look at methods of remodeling society. Since the existing apparatus was too slow, they looked for ways of replacing that apparatus with a different mechanism. Near the end of the nineteenth century, the European center of thinking transferred slowly from England and the emphasis on individual and civil freedoms, to Germany and its form of radical thinking based on market planning and socialism.

The book opens during World War II, during which time Italy and Germany, the fascists, are fighting the Russians, the socialists. Hayek is looking at the state of affairs in the world and asking how it happened. How did these totalitarian governments come into existence? He looks at the history of the development of Western civilization as Europe emerges from the days of serfdom. The emphasis is always on personal freedoms. This is what led to the development of commerce and science. Man could better his own condition when he made decisions that shaped his own life. This led to betterment for all of society. When this process becomes too slow in bringing about the desired economic and social changes, the rise in German thinking comes about. This is where the ideals of socialism are becoming popular. The existing apparatus can't achieve the desired goals, so they replace it with another kind of apparatus.

Hayek's analysis of the development of Europe and the development of German thinking is concise. He shows how the thinking changed that led to the acceptance of socialism. He shows how Europe came to be in the situation it is in when the book opens.



Chapter 2, The Great Utopia

Chapter 2, The Great Utopia Summary and Analysis

In spite of the warnings of the great thinkers about the dangers of collectivism, socialism is embraced around the continent, especially in France. Socialism is portrayed as the way to freedom since it would solve the problem of an unequal income distribution. The intelligentsia embraced socialism as the successor to liberalism. They did not view it as being the opposite of freedom.

Eventually, some Europeans begin to notice that socialism and fascism are one and the same thing, both having arisen out of the same kind of thinking. Some keep trying to believe that the two are opposites, but the opposition to both forms of totalitarianism is becoming vocal. Many in the Nazi leadership, including Mussolini, began as socialists and then went on to develop fascism. There are many clashes between the fascists and socialists since they were in competition for people with the same kind of mentality.

Socialism is embraced by the French intelligentsia and on other places on the continent. French society had a very unequal distribution of wealth due to the nobility. The Revolution had not solved the problem of the nobility or the unequal income distribution. Many people begin to question the benefits of both forms of totalitarianism. There is little difference between the two forms, and many point this out. They both abrogate individual freedom.



Chapter 3, Individualism and Collectivism

Chapter 3, Individualism and Collectivism Summary and Analysis

Hayek describes the concept of socialism as a confusion that society has. Society can see socialism as an abstract concept: the ideals of equality and security. However, it can also mean a tangible practice, a method implemented to abolish privatization and distribute the profits of work. By a society implementing socialist methods, the individual entrepreneur is replaced by a planning entity, in a process viewed as the only rapid way to achieve equal distribution. The policy of socialism is that the ends justify the means: some people accepted this and others did not.

This, according to Hayek, is the cause of the confusion regarding the concept of socialism. Directing the means for production so that the resulting output is for "use" requires the use of planning. Planning is also required to achieve an equal distribution of wealth. The role of the planner is to direct the use of resources in a society. Under socialism, a planning authority performs the function of a market. It is not based on competition or on the existing legal framework of a society. Consumers no longer direct market activity and prices no longer reflect scarcity or serve to coordinate markets.

The individual business owner benefits from the profits of his ventures and suffers from the failures of his ventures, in response to consumer preferences and the directives of the markets. A shortcoming of this free market system is the inability of the legal system to handle all market consequences such as a producer imposing costs on entities not involved in the market. There is also the problem that the system will not produce certain kinds of goods that are needed by society because they are not profitable. Then another way must be used to produce these goods. The fact that in some cases public production and regulation is required does not mean that a system based on competition should be done away with.

The fact that many entities embraced a system that replaced the system of competition means that the appropriate legal system was not in place for the functioning of competition. Societies where the industry monopolies make the planning decision and dictate to consumers can only exist where there is state control, "Or, to express it differently, planning and competition can be combined only by planning for competition but not by planning against competition" (p. 42). Hayek makes the point that his book is an argument against the kind of planning that is planning against competition.

The confusion over the concept of socialism arises from the means that socialism uses to achieve its end. It is based on coercion and planning. Instead of using markets to direct economic activity, socialism uses a planning authority. This means that consumers are not making economic decisions, and directing resources in accordance

with their preferences. Resources are being directed in accordance with the decision of the planning authority.

Hayek's book is an argument against the kind of planning that replaces competition. This is the kind of planning that is inherent in socialism. The planning authority doesn't result in the market rationality and efficiency that competition does. Rationality and efficiency can only result when resources are allocated in accordance with consumer preferences. Consumers buy the goods they want and the producers of these goods experience profits, which result in resources flowing into the industry. If consumers don't want certain goods, those producers experience losses and the industry contracts. Resources then go where that society, taken as a whole, wants them. Planning results in a waste of resources and suppression of consumer wants. The planning doesn't supplement competition or plan for competition; it tries to replace competition.



Chapter 4, The 'Inevitability' of Planning

Chapter 4, The 'Inevitability' of Planning Summary and Analysis

According to Hayek, opinion over half a century results in the belief that planning is required due to changes in technology. The belief is the result of the Marxian concept called concentration of industry, or monopoly. Decisions concerning production are made by the monopolies or the state. Hayek continues to question whether planning is the result of technology or whether it is the result of the decisions made in various countries.

Technology refers to mass production techniques that require large production units in order to achieve low costs. However, not all industries require such large-scale firms in order to achieve low per unit costs. Monopoly is more likely the result of collusive agreements than it is economies of scale. If mass production leads to monopoly, then the industrially advanced countries of the time should have been the first to achieve concentration of industry.

The price system only functions properly when it is based on competition. A planning authority cannot take the place of the market in bringing about relevant price changes in response to market signals. A planning authority could never gather the kind of information it would need with the speed it would need to replace the market in these tasks.

Technology leads to new products and new ways of doing things. This can lead to further new products and still newer ways of doing things. It is up to the individual if he wants the output of this new technology. Planning is the result of choice, not necessity. Hayek states that the movement toward planning is deliberate and not forced, then questions why there are so many technical experts among the more superior planners. They embrace planning because they think they will be able to accomplish goals that are consistent with their own sense of values. Hayek uses as an example the great autobahns built in Germany at a time when there was very little traffic for them. Planning, according to Hayek, unites people who have spent their lives trying to achieve a certain task. They can't achieve their goals in a non-planning environment, so they hope they can achieve them with planning.

Hayek looks at some of the arguments put forth for the need for planning. The concept of technology leading to concentration of industry, or monopoly, is examined, and Hayek correctly concludes that this isn't always the case. Not all industries require economies of scale on such a magnitude to achieve low per unit cost. Not all industries have the same market structure. Therefore, planning is a matter of choice, not economics. He wonders what kind of people favor planning. The people are the ones who have goals that aren't accepted readily in a market economy. They feel they have a better chance to achieve their objectives under planning.



Planning authorities that try to replace the market cause results of inefficiency. They can't obtain the kind of information that they require on a timely basis to supplant the market in bringing about the necessary adjustments. A planning entity of the kind being discussed does not allow for growth in new products development as the market does because it does not allow individuals to make their own choices. Thus, supporters of planning want planning for all the wrong reasons.



Chapter 5, Planning and Democracy

Chapter 5, Planning and Democracy Summary and Analysis

The common goal of labor and all others is given as the common objective of socialism. This implies that non-socialist societies don't have a common objective. However, Hayek states that the common objective, different from liberalism and individualism, is for society's resources to be unified, and to reject the perceived individual supremacy. The terms general welfare and common good mean different things to different people. The assumption that all needs could be ranked means that there is an ethical code. Nevertheless, people do not have common views about things and there is no reason to think that they should. Hayek makes the point that there is no such ethical code.

People who have common goals join forces; and, out of that system, emerges a leader, such as in a state. The state becomes stronger. The common agreement of its members guides its action. When there is no agreement among its members, the state results in suppression when it acts in those areas. When planning takes place in a democracy without the agreement of its members, then coercion exists. In a democracy, the delegation of lawmakers does not go beyond the prescribed limits. Disagreement about planning means or ends means that things do not get done and eventually there is a movement for a planning dictator. Democracy and planning come into conflict because planning needs to suppress the freedoms that are a part of democracy.

Hayek begins the chapter by discussing the problem of trying to define a society in terms of a common goal. There is no way to obtain an order of rankings and derive an ethical code, and people do not all have the same beliefs or objectives. People may agree that some form of planning is needed but disagree on the means or the ends.

Hayek presents a good analysis of why democracy and planning come into conflict. Unless all members of a society agree on the means and the ends, planning cannot work without the suppression of certain individual freedoms. This brings it into conflict with the existing legal system, which has to be changed in order to accommodate planning.



Chapter 6, Planning and the Rule of Law

Chapter 6, Planning and the Rule of Law Summary and Analysis

The Rule of Law means that there are certain rules that bind even a government. Individuals are allowed to pursue their own goals within the confines of the rules of law without the interference of government. Planning results in the opposite of conformance with the Rule of Law, eventually requiring a decision about what is more important in that society. Government ceases to be impartial when it knows the results of its actions on people and it imposes them. Hayek infers that the collectivist state, such as Nazi Germany, becomes a "moral" institution, where it defines and imposes its own "moral" views on the populace, no matter how truly moral or immoral the views may be. This ideation of morality by the collectivist states infers that the liberal state is not moral.

Economic planners should not face this issue because their decisions shouldn't have such consequences. Their decisions should be based on what is reasonable and fair. They shouldn't come into conflict with the Rule of Law. Planning means deciding who can and can't do what. It means a reversal of progressiveness. The Rule of Law prevents privileges to particular people and guarantees equality. Thus, any mechanism trying to bring about income redistribution through planning results in the end of the Rule of Law. Hayek offers the Central European countries as evidence of this fact. This is how planning in practice turned out.

Democracy is based on rules called the Rule of Law that even a government must abide by. Planning comes into conflict with the Rule of Law because a planning authority must make decisions about what people can and can't do. The only way to make planning legal is to change the law to allow special privileges to certain people or groups. Hayek is making the point that democracy and planning that replaces the market can't exist together because planning that replaces the market requires a different legal system that exists in democracy. When a government takes unlimited powers, it makes rules and actions legal and can result in despotism. The Central European countries and the suppression of minorities are evidence of what happens when government tries to control the economy through planning.



Chapter 7, Economic Control and Totalitarianism

Chapter 7, Economic Control and Totalitarianism Summary and Analysis

A planned economy must be dictatorial. It requires the giving up of certain economic freedoms by people. Lesser freedoms are given up for higher freedoms. Restricting an individual's money income is restricting his freedom. Money gives people choices. Providing them with goods instead of money restricts their choices and, therefore, their freedoms. People don't think of economic values to be of importance because they themselves control those values and decisions. This isn't the case under planning. Individuals would not control those decisions: the planner would. The planner decides which individual goals are attained and which aren't. The planner, in effect, controls the individual's life.

Planning means the individual can only consume the goods that the planner authorizes the production of. There is little freedom of choice in a planned economy. The individual can only choose from what the planner authorizes the production of. The only available jobs are in the industries in which the state authorizes production. The individual, again, does not have much choice. No matter what they are willing to sacrifice, the opportunity is not there. Jobs exist in the industries where they produce what the planner has authorized.

Supporters of planning gave up advocating planning because it is too obvious that planning can't compete with the price system in terms of efficiency. Therefore, they advocated planning on the basis of it resulting in a more equitable distribution of income. Hayek asks if it is worth the sacrifices.

Planning circumvents individual economic decision-making. The individual doesn't decide what he will and will not attain; the planner does by their control of economic activity. Planning of economic activity results in less freedom for the individual, who has little freedom of choice, since he can only choose from the output produced because of planning. Planning also removes much of the freedom of choice in occupation because the jobs are where the authorization for production is.

Planning cannot be supported on economic grounds when it attempts to replace the market in the performance of economic activities. The planning authority cannot match the market in terms of efficiency. Planning is supported on the basis of it leading to a more equal distribution of income. Given all of the basic freedoms that individuals have to forego, planning is not worth it.



Chapter 8, Who, Whom

Chapter 8, Who, Whom Summary and Analysis

Competition functions on the basis of price, not on the basis of fairness. The distribution of output is based on competition. Those who can afford the output, purchase it. Those who can't afford it don't purchase it. Hayek sees the options as a choice between this system based on competition, and the system in which somebody else, the planner makes the decisions for people. A poor man only has a chance of becoming rich in a market system. In a planned economy, this isn't true. When government owns the means of production, then government decides all incomes. That is something that socialists that favor transferring ownership of property to government fail to realize. They want to give away the most important guarantee of freedom.

The phrase, who, whom, is attributed to Lenin, in describing a socialist society. Who makes the decisions over whom once you are below the upper echelons. Government takes action without knowing how individuals will be affected by those actions, and also the fact that the extent to which that government makes those decisions. Will some people obtain things in this second situation? Totalitarianism is when a small group within government has control over everyone. Socialism didn't promise equality to people, it only promised a more equal distribution of income, Hayek points out. The problem is how to divide the output of the industries. What is a fair wage and a just price for the output? The planner, in making these decisions, controls the circumstances of many people.

Socialists realized that they had to create a common set of values, or the Weltanschauung. This was the indoctrination method of the fascists in Italy and Germany. The movement took over all aspects of the people's lives with cradle to grave indoctrination tactics. The socialists in Austria began indoctrinating children into political organization and sports leagues.

With workers in the same group, like industrial workers, it is easy to find a common goal for them to work for. It is when these groups compete with each other for control that they come into conflict. The tactics that work with one group do not work with another. The Fascists knew that the most numerous group would win the struggle and receive the privileges. The others that had been promised equality would probably support them.

Hayek points out that socialism did not promise equality. It only promised a more equal distribution of income. Those who favored public ownership as the means of production didn't stop to think that public ownership means that the government determines incomes. The problem is, socialism isn't classless. There is still a privileged class at the upper levels of the society.

The only way the socialists and fascists can recruit members is to promise them equality. They have to find a common cause for each different group to unite behind. The group that wins is the one that is the largest. This was the strategy of the fascists, who then hoped all of the others would join them.



Chapter 9, Security and Freedom

Chapter 9, Security and Freedom Summary and Analysis

Economic security and economic freedom go together. Hayek distinguishes between two kinds of security. There is a limited version of security, which is available for all. This form of security is not a privilege. The second is absolute security. This form isn't available for everyone and should not be given as a form of privilege. These refer to the security of a minimum level of income and a certain standard of life. The individual is assured of food, clothing, and shelter. He should also be assured of care for sickness or accidents. Economic security from business cycle fluctuations should not be considered serious enough to implement a planning mechanism that replaces the market.

Freedom of choice of occupation is not as plausible with planning. A market system attracts the required supply of labor through wages, which should be based on the value of the contribution to society. The only way to have security of employment is through no freedom of choice of occupation. Certain members have an income guarantee and others do not. As this practice spreads, wages cease to have the allocation function, as people do not shift occupations in response to market signals. Since there are income guarantees, the only way to bring about a shift is through orders by the authorities. The incentive function of wages is no longer operational. A military organization operates somewhat in this fashion. In exchange for security, the members give up their freedom of choice of occupation.

Prices must be high enough to provide a return adequate to cover the secure wages. This also requires planning. In a situation where lack of demand results in unemployment, planning precludes this from happening.

People want economic security. Economic security means a guarantee of food, clothing, shelter, and medical care. People who think that they should have income guarantees do not realize that they lose in the form of freedom of choice of occupation when they are guaranteed an income. The market cannot function to allocate labor to various industries when wages have no incentive function. The shift then has to be brought about by fiat.

Hayek provides a good analysis of the problem involved in planning and what the ramifications are for society. He explains why incentives are missing and how the planners must control the occupational assignments if there is to be income security. He is correct in asking if people are prepared to pay this price.



Chapter 10, Why the Worst Get on Top

Chapter 10, Why the Worst Get on Top Summary and Analysis

History has left a trail of diabolical dictators. How a totalitarian regime functions depends on the dictator. Dictators reach a point where they have to become oppressive. The potential dictator must have a large group of followers in order to impose the totalitarian regime. They also have to be willing to live under the rules of the regime. This group is usually comprised of the worst members of the society.

Groups must have common goals to hold them together. Finding a common goal among the higher educated is more difficult than among the less educated. The members of this group will therefore be among the lower elements of society. The members also accept the values of the movement because they do not think independently enough to form their own judgments and values, so they easily accept the values of the movement. The group members emphasize the negative aspects like hatred rather than positive aspects. They are joined by their envy and hatred. The totalitarian leader provides them with an enemy, a certain group of class of people, to funnel their hatred on. With Hitler, it was the Jews; with Stalin it was the kulaks.

In collectivism, the member only gets his identification from being a member of a group, not from being an individual. These groups tend to exhibit strong nationalistic and imperialistic tendencies. This applies to the National Socialists and to the socialists. The power of the individuals as a group is greater than the power of the individuals singly. Those who support collectivism must attack the separation of the economic and the political. As long as they are separate, the group has no power or guarantee of income.

From the formation of the group a new system of morals develops. The group member has no freedom to determine his own views, and accepts the view of the group. Individual ethics and morals are non-existent since the individual acts for the betterment of the group. The group member is a means to the end. The more ruthless and immoral the individual is, the more important he is to the regime, as in the Gestapo.

Hayek provides an analysis of how a totalitarian dictator comes to power. He examines the characteristics of the group that surround the dictator. They are lower class, gullible and easily swayed by the party doctrine and are filled with envy and hatred. The leader has to have a target group for them to funnel their hatred to. This way, their group has more power collectively as a group than the same number of people would have acting individually.

The group members basically give up thinking for themselves and accept the values and goals of the organization. The more ruthless and amoral the individual is, the more valuable he is to the regime because he will follow orders. This is how the dictator remains in power.



Chapter 11, The End of Truth

Chapter 11, The End of Truth Summary and Analysis

The success of a totalitarian regime is based on the individuals that accept the goals of the leadership as their own. They must think the way the leadership wants them to think and they must respond the way the leadership wants them to respond. This is usually accomplished by indoctrination and propaganda. The propaganda targets all members of the society and its purpose is to produce Gleichschaltung in the minds of the members of that society. This kind of propaganda is aimed at the destruction of morals because morals are based upon the truth. This is most successful when there is one entity controlling the propaganda effort. They have to convince the people that their beliefs are correct. "They are all necessarily based on particular views about facts which are then elaborated into scientific theories in order to justify a preconceived opinion" (p. 157).

The role of propaganda is to basically dupe the population into thinking that they have the same values and beliefs as before the regime came to power. They just didn't know it because they weren't formulated correctly. Words are redefined to fit the purpose. According to Mannheim, the concepts the individual previously had of freedom must be destroyed and replaced by the new definition. It is necessary to find a way to silence the critics and doubters since the propaganda effort is less successful if people are exposed to the logical doubt and criticism of the regime. Censorship is required to keep public opinion under control.

There is no activity that has a purpose of its own. There is no such thing as art for the sake of art. It must all be done in the name of the state, even science. This led to the Nazi burning of science books.

In this chapter, Hayek examines how the indoctrination of a population takes place. The regime cannot exist if the members of the society do not adopt its views. This adoption is enforced on them by the practice of propaganda and indoctrination until the individual thinks and responds the way the regime wants him to. New definitions have to be given to old words so that they fit the ideals of the regime. Critics and doubters must be suppressed in some way. The Soviets handled this by using the Gulag. The individual must not think for himself or question. He must accept what is presented to him. If he doesn't, then he becomes a danger to the regime because he may make others think.

The regime must destroy all that is not done for the purpose of the regime. There is no such thing as writing for writing's sake. It must be writing for the good of the regime. There is no such thing as art for art's sake. The painted or drawn picture must be for the good of the regime. There is no such thing as an act in itself: the act must be done for the good of the regime.



Chapter 12, The Socialist Roots of Nazism

Chapter 12, The Socialist Roots of Nazism Summary and Analysis

The thinking that laid the basis for fascism took many years to develop. It grew out of Marxism and socialism. Hayek traces it to the end of World War I and the defeat of Germany. Many socialists like Werner Sombart were early supporters of Marx and socialism and made the switch easily to National Socialism. Plenge is another Marxian scholar of the time who describes World War I as a conflict between two opposing principles. Plenge had hoped the German people would acquiesce to the Constitution and voluntarily submit to control. Plenge also denies the role of individual freedom in socialism and feels the state should be above individual freedom. Many other academics in the U.S. and England also called for planning. Another great influence on the German people and others is Walter Rathenau, who is the German war-materials director, as well as Freidrick Naumann. All were former Marxists who supported Hitler. Paul Lensch helped developed and spread the ideas. All of them began as Marxists and made the switch to National Socialism.

Lensch feels that socialism is needed. The liberals are the ones who oppose them since the working class supports them. The working class in Germany is in a stronger position than their English or French counterparts. Social Democracy is now a national movement. Plenge and Lensch provided the ideas that Oswald Spengler and Arthur Moeller van den Bruck made into policy. The Bismarck regime implemented policies that were more and more socialistic. Some of these policies involved the determination of wage levels by the government and that private citizens could not opt to not be involved. The portrayal of World War I as a battle between socialism and liberalism gave the Germans a united cause to combat liberalism.

Fascism didn't develop overnight in Germany. The roots were laid at the end of World War I. Many of the intelligentsia embraced socialism and the role of planning. As time went on, most of them made the switch from socialism to fascism. They basically viewed the war as a battle between liberalism, as represented by England, and socialism, as represented by Germany. The defeat of Germany resulted in the people having a cause to unite behind, which is socialism. This is the foundation that was laid at the end of the First World War. After the war's end, as time went on, many of the socialists switched to National Socialism and fascism as the movement became associated with nationalism.



Chapter 13, The Totalitarians in our Midst

Chapter 13, The Totalitarians in our Midst Summary and Analysis

Looking at Nazi Germany and the events that occurred there, people wonder how it could ever have happened. The development that led to Hitler and Fascism began more than thirty years before. The left-wing socialists became right-wing fascists. Actually, their views were not that far apart and they both opposed the liberalism, or laissez faire capitalism, of England. It is the British belief in laissez fair as applied to trade that the Germans couldn't accept. It is the opposition to British liberalism that makes Nazism successful in Germany. Hayek also identifies how those intelligent and idealistic theorists were providing the impetus toward totalitarianism. Another entity that was influential is Professor E. H. Carr, a British writer. Carr's view of Germany was that Germany feels any actions are all right if the German people benefited.

There are also many scientists and other intellectuals that support the movement for planning. They view it as a scientific approach to government and economics. A British writer, C.H. Waddington writes that scientists are qualified to run a totalitarian state. Like Marx, Waddington believes in the scientific approach to government. He believes that individuals will have freedom of thought under a totalitarian regime. The movement, in Germany, also has the support of organized labor and organized capital. Their purpose is the corporate society that Italy tried in which the industries are like self-governing entities. The monopolies that developed were the result of the joining of the corporate structure with organized labor to share the profits. No state could afford to allow this kind of situation for long. They call for the end of individualism. There is a need for a system of regulations to strengthen the state, not to protect the individual.

In this chapter, Hayek looks at how the Marxian socialists became National Democrats in Germany. There is a strong movement for economic planning of economies that grew in strength following the World War I years. Marx appealed to academics on many grounds. Much of it is a reaction to the laissez faire economics practiced by England. Marx claimed to take a scientific approach and this appealed to many who never thought through the full economic significance of replacing markets with planning. Since planning was the appeal, and both socialism and fascism involved economic planning, it was not difficult for Marxists to make the switch.



Chapter 14, Material, Conditions and Ideal Ends

Chapter 14, Material, Conditions and Ideal Ends Summary and Analysis

Most claims for economic reconstruction are economic in nature. They call for liberty, equality, and security in the new structure of monopolies. The present generation is impatient and unwilling to listen to economic arguments. They feel that if they submit to the suppression of individual freedom then they are helping to build something. They don't comprehend that if they suppress the market they then give power to a group of governing authorities. The entire society is subordinated to a certain group. This situation occurs during war. To them, planning is a way to avoid unemployment. A market economy adjusts for changes in demand. Unemployment results in shifts of labor to other industries. In socialism, this has to be accomplished by coercion. The only way to raise wages for everyone is through monetary expansion. A peacetime society will not stand for a lowering in the standard of living.

Collectivism destroys individual values and relationships. People aren't willing to take risks or to cooperate with one another willingly. There is a void that is created by the absence of individualism. Collectivism offers nothing with which to replace the void created by obedience to the state. There is no sense of morals. Discrimination and injustices inflicted by government in the interest of the group are now not considered wrong.

Hayek analyzes the economics of fascism. People want economic security. They think that planning guarantees them employment, which it does, but at a price. The price is the sacrifice of individual freedoms and freedom of choice. The sacrifice is the formation and preservation of one's own values. They have lost the values of the British civilization. The Germans identify their new ideals as being in opposition to those espoused by the English and the Americans.



Chapter 15, The Prospects of International Order

Chapter 15, The Prospects of International Order Summary and Analysis

The abandonment of liberalism is seen in international relations. There is little hope for international peace when every country follows whatever course it wants, immune to the effects on other countries. National boundaries should not delineate difference in living standard or resource wealth. This leads to conflict between the countries. Germany is the first to go this route and other nations followed its lead.

The less agreement there is the more it leads to coercion and conflict. People are willing to sacrifice for their own countrymen but not for others. Hayek points out that the British would never live with this kind of scheme. Planning on an international scale will not work for these reasons. It is the result of a small ruling group, forcing their wishes on the whole. The economically wealthier nations would be hated by the poorer nations who would soon realize that they would be better off without the wealthier nations. Planning means that there must be a list of priorities of the claims. Someone must decide priorities, whose claim is more important. After the plan is enacted, everything has to serve that plan. The only way to make it work in an area of small nations, such as Central Europe, is by force.

Force can be accomplished by restricting commodity use or withholding essential elements through the planning mechanism. There is no way a people can improve their condition under this kind of planning apparatus. They can't start new industries or ventures without the approval of the planners. Hayek's point is that planning on an international basis can never work.

Looking to after the end of World War II, Hayek points out that there must be cooperation on an international basis which protect small nations as well as large. There will be some form of international organization. It must not be tyrannical, but must be powerful enough to do its job. It must protect the individual from the state that tries to be too powerful, and must try to prevent future wars.

Hayek considers the effects of planning and discusses why it won't work. Planning requires sacrifices, requiring at times for one sector to sacrifice for the good of another sector; however, but they are all members of the same country. People aren't willing to make that sacrifice for the benefit of sectors in a different country. Planning requires subservience on the part of the lower ranked members. The lower ranked members would not stand for the situation for long. They will hate the ruling group, which has to use force upon them. If this is put on the basis of nations, the smaller nations will be at the mercy of the larger, more economically powerful nations. This will also lead to conflict.

Hayek foresees the need for an international organization to be put into place after the end of World War II. He says this international organization must protect the rights of the individual from an overzealous state, and that it must respect the rights of the smaller countries. This organization's purpose will be to try to prevent future world wars.

Chapter 16, Conclusion

Chapter 16, Conclusion Summary and Analysis

The purpose of the book, according to Hayek, is to point out the problems that Europe experienced from the beginning of the 1900s. Hayek examines the conditions that led to the development of socialism and fascism in response to a rejection of the laissez faire philosophy of the British. What happens after the war depends on how the world uses the opportunities it has at the end of the war. The conclusion of the war frees them from the mistakes of the past and gives them a chance to start over, once they realize the mistakes of the past.

Hayek's conclusion elucidates his theory of how individual freedom is the only progressive policy; and, like the 19th century, this policy of freedom is equally relevant today.



Characters

Alexis de Tocqueville

Max Eastman

Adam Smith

Karl Marx

Adolph Hitler

Dr. Karl Mannheim

Professor Werner Sombart

Professor Johann Plenge

Walter Rathenau

Paul Lensch

Professor E.H. Carr

C. H. Waddington



Objects/Places

England

England was the center of intellectual thinking of economic and civil freedoms until the end of the 1800s. English thinking supported individual and economic freedoms as well as a society based on competition.

Germany

German thinking became the basis for the formation of socialism and socialist principles. Socialism is the natural successor to liberalism in the eyes of the German intelligentsia. They did not view socialism as anathema to individual freedom; they viewed it as a quicker way of achieving those freedoms. Since the existing socio-economic-political apparatus doesn't work, it should be replaced with a different mechanism. This is what socialism and fascism represented.

France

The French are concerned with the unequal distribution of wealth. This is a problem that the Revolution didn't solve since they still have the nobility class. Socialism is viewed as a way of bringing about a more equal distribution of wealth in their society.

Austria

Austria is a country where the fascists and socialists vied for the same kind of person. The socialists began indoctrination of the children at an early age, believing they should be part of the movement from cradle to grave. Socialists are also the providers of youth groups and sports organizations for the young.

Italy

Benito Mussolini led Italy's fascist government. In Italy, the corporate state was the ruling entity.

Planning

Planning is a way to put a socialist economy into operation and to keep it functioning. The planning apparatus replaces the competitive markets. The goal, it is said, is to bring about a more equitable distribution of income. The only way this can happen is for

individuals to sacrifice their own freedom of choice and freedom of thought, which is Hayek's point.

Individualism

Individualism is the basis for the operation of a laissez faire market economy. Since not all people have the same abilities or can make the same contribution to output, a market economy results in an unequal distribution of income. Individualism is what is sacrificed in the move to collectivism and planning.

Values

Values refer to the ability of the individual to think for himself and to draw his own conclusions about morals and ethics. Totalitarianism uses propaganda to change and replace the values of the members of their society.

Liberalism

Liberalism is the term used to denote the laissez fair practices of the British and Americans. Liberalism is the object of the reaction to and the hatred of the socialists and fascists. It is this reaction that led to the development of the conditions that culminated in the National Democrats.

Totalitarianism

Totalitarianism is a tyrannical form of government headed by a dictator; i.e., Stalin and Hitler. It resulted from the use of planning that replaced the use of markets and the suppression of individual freedom.



Themes

Conflict

The theme that runs throughout the book is the conflict between two economic systems. The one system is what Hayek refers to as liberalism. This is the laissez faire market economic system that prevailed at the time, or the economics of Adam Smith. This is a system based on individual freedoms and competition. The individual has the freedom to decide his own occupation and to undertake business ventures if he chooses to take the risk. If his venture is successful, he profits; if not, he loses. However, the system allows him the freedom of choice to decide and to try. Income is determined on scarcity of the factor and the factors' contribution to output. Since not all factors are equal, the resulting income distribution is unequal. Adjustments in the allocation of resources, like labor, come about due to changes in market conditions that affect supply, demand, wages, and prices. Steady employment and a level of income are not a guarantee.

In planning, the role of the market is replaced by a planning apparatus. The market cannot function to equate supply and demand and to bring about the required adjustments in response to changes in prices and wages. The guarantee against unemployment that results from planning means that labor allocations must be by coercion or force. When the individual buys into this kind of mechanism, he sacrifices his individual freedom to choose and to form his own values. Propaganda serves to negate pre-existing values and to replace them with the thinking of the state, which is basically amoral. The ruling group feels they can do anything to achieve their ends.

Individual Freedom

Individual freedom is another recurring theme throughout the book. A free market economy, or what they call liberalism, functions on the basis of individual freedoms and individual initiatives. People and businesses think for themselves and act in their own best interests. In doing so, they are benefiting all of society. They don't have any guarantees of income or profit. The price system rewards the winners with profits and penalizes the losers with losses. Markets adjust on the basis of supply and demand and industries expand and contract, all because of individual freedom. People choose what they do and don't want to do.

This isn't the case with collectivism and planning. Collectivism requires the demise of individualism and free thinking. The individual must be subservient to the whole and must be obedient. Freedom of occupational choice can't exist in a mechanism of planning. There is no market in existence that has rational signals like profits or losses. Industries expand and contract on the basis of the planner's fiat, not in response to market conditions. This requires the use of coercion and force. In a planning mechanism, this can all be done through the assignment of resources, whether they are



labor or other strategic commodities. An impoverished area can't change their own conditions because they can't get the authorization for new industries or for resources.

Collectivism means giving up the right to think for one's self and to make one's own decisions. Hayek is correct in criticizing the intellectuals of the time for not thinking through the ramifications of economic planning and following it to its necessary conclusions. Replacement of the market with a planning apparatus leads to a totalitarian form of government. This is what happened in Russia and Central Europe with socialism and in Germany and Italy with fascism.

Long Range Consequences

Hayek looks at how conditions develop in a long-range perspective. The conditions that led to the acceptance of fascism and Hitler did not happen overnight in Germany. The framework was laid at the end of World War I when British liberalism dominated the international framework. There was a gradual shift in the center of thinking from England to Germany as the interest shifted from belief in a laissez faire model to one in acceptance and belief in a planning model. On the surface, socialism and planning looked appealing because it is believed that the model will result in a more equitable distribution of income. Because of this, it is accepted by members of the intelligentsia, who didn't look at any of the long-range implications of planning. Hayek criticizes them on this basis.

In the conclusion to the book, Hayek looks at the end of World War II as an opportunity for the world to correct its mistakes of the past. It has another chance to set up an organization where nations can work together to maintain peace and prevent the occurrence of future wars.

Style

Perspective

The book is an example of the academic style of writing. It is written in the third person. Hayek is interested in the analysis of the conditions in Europe that led to the acceptance of socialism and fascism. Germany and Italy broke with the basic concepts and beliefs that form the basis for Western Civilization. Hayek is interested in why, and these are the ideas that he explores in the book.

The points of view in the book are Hayek's. The author uses quotes from other writers to support his position. The book is objective and factual as he analyzes the conditions that led to the development of totalitarianism in Europe. His point of view is explaining how it happened and what it took for it to have happened.

Tone

The book is written in an academic manner. The book is basically an analysis of the situation that developed in Europe and how it developed with an accompanying analysis of economic planning that replaces the use of markets. It is readable for the average person, especially if they have some knowledge of economics and history, although it is intended for academics and the intelligentsia. The book does not contain much economic jargon. Hayek defines the terms that he does use in everyday plain language so the reader can understand what he is referring to. The meaning of the book is clear.

The author uses the works of many writers to make his point about the evolution in thinking. There are many citations that help provide insight into the thinking of the time and how it shifted. He is trying to show how fascism happened and how it was accepted by the people. This is the purpose of the citations that he uses.

Structure

The structure of the book is very simple. There are sixteen chapters with a Foreword, Preface, and Introduction. Each chapter contains a different piece of Hayek's analysis of the situation. The timeframe is not strictly linear but the timeframe is irrelevant to the analysis. What is relevant is the subject matter and how the change in thinking developed.

Each chapter is sufficient in covering the relevant subject matter. The book begins with a discussion of how Germany broke with the traditions of Western Civilization and the belief of individual freedoms. The remainder of the book consists of Hayek looking at how this development came about and what the implications of planning are. The book concludes with Hayek saying that the end of World War II means that they have been given a chance to correct their past mistakes.



Quotes

"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." Introduction, p. 9

"The coming of socialism was to be the leap from the realm of necessity to the realm of freedom." Chapter 2, p. 25

"The question was not longer one of making competition work and of supplementing it but of displacing it altogether." Chapter 3, p. 40

"The belief is becoming more and more widespread that, if things are to get done, the responsible authorities must be freed from the fetters of democratic procedure." Chapter 5, p. 67

"A particular enactment can thus infringe the Rule of Law. Anyone ready to deny this would have to content that whether the Rule of Law prevails today in Germany, Italy, or Russia depends on whether the dictators have obtained their absolute power by constitutional means." Chapter 6, p. 84

"Most planners who have seriously considered the practical aspects of their task have little doubt that a directed economy must be run on more or less dictatorial lines." Chapter 7, p. 88

"Thus, the more we try to provide full security by interfering with the market system, the greater the insecurity becomes; and, what is worse, the greater becomes the contrast between the security of those to whom it is granted as a privilege and the ever increasing insecurity of the underprivileged. And the more security becomes a privilege, and the greater the danger to those excluded from it, the higher will security be prized." Chapter 9, p. 130

"Collectivism has no room for the wide humanitarianism of liberalism but only for the narrow particularism of the totalitarian." Chapter 10, p. 141

"The tragedy of collectivist thought is that, while it starts out to make reason supreme, it ends by destroying reason because it misconceives the process on which the growth of reason depends." Chapter 11, p. 165

"The refusal to yield to forces which we neither understand nor can recognize as the conscious decisions of an intelligent being is the product of an incomplete and therefore erroneous rationalism." Chapter 14, p. 205

"Many kinds of economic planning are indeed practicable only if the planning authority can effectively shut out all extraneous influences; the result of such planning is therefore



inevitably the piling-up of restrictions on the movements of men and goods." Chapter 15, p. 220

"This kind of organization of the resources of the world under more or less autonomous bodies, which now so often finds favor in the most surprising quarters, a system of comprehensive monopolies recognized by all the national governments, but subject to none, would inevitably become the worst of all conceivable rackets - even if those entrusted with their administration should prove the most faithful guardians of the particular interests placed in their care." Chapter 15, p. 229

Topics for Discussion

How is the development of Western civilization based on individual freedom? How did this lead to the development of markets based on competition?

Why is a system based on individual freedom and actions anathema to socialism?

What is the meaning of the term "liberalism"?

Why is the framework for Nazism traceable back to World War I?

What is the purpose of economic planning?

Why did so many socialists switch to fascism? How is it possible?

What is the problem with planning on an international basis?

What are Hayek's hopes for the world in the post World War II era?