Introduction

F. A. Hayek's *The Road to Serfdom* has been famous as a political book in which Hayek argued that socialism was the very root of totalitarianism. According to his argument, both the direct means of socialist economic planning and the indirect means of social democracy, such as progressive taxation, would bring about a totalitarian state because they share the same aim to realise distributive justice against market freedom.

Classical liberals and libertarians have often referenced this thesis to support their arguments against the enlargement of governmental power. For example, Milton Friedman applauded Hayek's argument (in the introduction to the Fiftieth Anniversary Edition of *Serfdom*) as a true classic whose central message was timeless and applicable to a wide variety of concrete situations. Friedman himself also gave the readers of his book, *Free to Choose*, a choice between only two things: ‘whether we shall continue speeding down the ‘road to serfdom’, as Friedrich Hayek entitled his profound and influential book, or whether we shall set tighter limits on government and rely more heavily on voluntary cooperation among free individuals to achieve our several objectives’.

This famous and explicit message in *Serfdom* as a criticism of totalitarianism, however, now seems to have little relevance by itself, because historical research has shown that two typical examples of economic control, both in fascist Germany and the communist Soviet Union, were merely the subsequent result and not the cause of totalitarianism. Moreover, welfare states in western countries never actually produced

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1 This paper is mainly based on chapter 1 (and some other chapters) of my book in Japanese: Masaru Yamanaka (2007) *Hayek no seiji-shiso: shijo-chitsujo ni hisomu ningen no kukyo* (Hayek's Political Thought: The Hidden Human Predicament in Market Order; Keiso-Shobo), which was the basis for my doctoral degree, which I earned in 2008 from Kyoto University, Japan.

2 [Hayek, 1944/1994, p. ix]

3 [Friedman, 1979/1990, p. 6]
any totalitarian state. Political science has already revealed that totalitarianism is one phenomenon and authoritarianism another. Economic control by itself would at most lead to authoritarianism, but not to totalitarianism, the cause of which is not economic but inherently political.

However, in my interpretation, Serfdom has another implication, which still makes it relevant in the age of globalisation in a paradoxical way. Hayek actually recognised that free market competition was too hard for common people to endure. It was this knowledge, in my opinion, that must have prompted him to issue his somewhat extreme warning against totalitarianism in order to defend market order. In other words, he must have suspected that, without the fear of totalitarianism, common people would readily give up their freedom and depend on governmental power.

In this paper, after summarizing briefly Hayek’s criticism of totalitarianism in section 1, I will argue in section 2 that the criticism does not give us an adequate explanation of historical facts in Nazi Germany, the Soviet Union and western welfare states. And in section 3, I will maintain that, despite the defect in his case against totalitarianism, Serfdom still has some significance in that it reveals both Hayek’s recognition of the strictness (and sometimes even the mercilessness) of market competitions and his pessimism about the popularity of market order. Then, in section 4, I will point out that Hayek actually admitted the necessity of the security of minimum income for all by government because he had acknowledged the strictness of market competitions, which reminds us that, as a young man, he was a Fabian socialist and that he seems to have had some relic of a socialist humanitarian motive even after refuting socialism as an economic theory.

1. Hayek’s criticism of totalitarianism: socialism as the root of totalitarianism

For Hayek, socialism was the very root of totalitarianism. In other words, the idea of distributive justice gave birth to totalitarianism. In his argument, not only direct means of socialist economic planning but also indirect ones of social democracy, such as progressive taxation in order to achieve ‘social justice’, would bring about a totalitarian state.

He maintained that there was no objective criterion to judge the fairness of any state of allocation of economic remunerations among market competitors. Despite the fact that every idea on distributive justice was subjective, if some notion of distributive justice were put into practice politically through the direct means of economic planning under the vague name of the ‘common welfare’, then the democratic parliament would be actually divided into numerous incompatible opinions and unable to reach any
concrete agreement peacefully. To resolve the resulting political deadlock, some forcible measure would be needed. However, mild socialists did not dare to break a political stalemate by force. This was why dictators like Hitler were welcomed. The absurd mythical ideologies in totalitarian regimes were, according to Hayek, fabricated in order to impose forcibly a subjective criterion of distribution on the whole society. In sum, Hayek argued that socialism was the very root of totalitarianism, and that every ideal of distributive justice was nothing other than ‘the road to serfdom’.

In the post-war period, due to the decline of the ‘hot socialism’ that had once meant the direct state control of economic life, the main target of his criticism in the western intellectual context became rather the indirect means by which the western welfare states were brought about, because the indirect course would lead us to ‘the road to serfdom’ as well. He wrote in ‘Preface to the 1976 Reprint Edition’:

At the time I wrote, socialism meant unambiguously the nationalization of the means of production and the central planning...[but now] socialism has come to mean chiefly the extensive redistribution of incomes through taxation and the institutions of the welfare state. In the latter kind of socialism the effects I discuss in this book are brought about more slowly, indirectly, and imperfectly. I believe that the ultimate outcome tends to be very much the same, although the process by which it is brought about is not quite the same as that described in this book.

Thus he resolutely denied the possibility of the so-called ‘middle way’, and presented us a choice between only two things, which I would like to call the choice of ‘market or servitude’.

2. Economic control as the cause of totalitarianism?

However, according to S. Tormey’s critique of Hayek, his argument was not accurate enough to explain both the historical realities of the German and the Soviet totalitarian regimes and those of the welfare states in the 20th century.

First, planning in Nazi Germany was designed not to bring the entire apparatus of production under state control but rather merely to improve the performance of particular sectors of the economy, especially those connected with the war effort. The

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4 See chs. 5, 7, 8, 10 and 11 in [Hayek, 1944/1994] to read in detail his argument on the relation between economic planning and totalitarianism.
5 [Hayek, 1944/1994, p. xxxiii]
6 [Hayek, 1944/1994, pp. xxiii-xiv]
7 [Tormey, 1995, ch. 1]
Nazis presided over a largely capitalist economy in which most of the productive apparatus was privately owned. Therefore its totalitarian characteristics, such as the cult of the ‘Leader’, the messianic ideology and the terrorisation of wide sections of the population, were not the result of a totally planned economy. Nazi Germany never had a completely socialist planning system.

Second, the Soviet Union was already a dictatorship long before central planning was finally established. After ‘War Communism’ had proven to be ineffective to build a sustainable socialist society, the New Economic Policy was introduced, under which most areas of the economy (other than strategically important elements such as the railways and the banks) were returned to the private sector in order to encourage the economy to develop. However, whilst the economy was thus almost fully liberalised, the state remained or became more despotic. The dictatorial character of the Soviet state, therefore, had little to do in those early days with any economic measures introduced by the Bolsheviks.

Thirdly and lastly, the western welfare states in the post-war period remained liberal democratic countries that displayed ideological tolerance despite their extensive governmental powers. They did not need to employ any totalitarian ideology and terror for their extensive interference with market economy. Rather, political issues related to material distribution were actually able to be resolved through political compromises in pluralist or neo-corporatist ways in the western welfare states. In other words, despite Hayek’s argument that the mythical ideologies in totalitarian regimes were fabricated in order forcibly to impose a subjective criterion of distribution on the whole society, no totalitarian mythical ideology was actually needed to solve political conflicts over material distributions.

It is true that such horrible serfdom as Hayek rightly described was brought about when totalitarian states tried to bring their economies under state control subsequent to the establishment of their regimes. As discussed above however, his thesis that economic planning was the very cause of totalitarianism does not explain accurately the historical facts in Nazi Germany and the Soviet Union, because their totalitarian rule emerged independently of their economic control. And the extensive interference in the economic field by governmental powers in the post-war western countries demanded no

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8 [Tormey, 1995, pp. 21-24]
9 [Tormey, 1995, pp. 25-27]
10 In this regard, Hayek cited Leon Trotsky’s famous phrase at the beginning of chapter 9 in *Serfdom*: ‘In a country where the sole employer is the State, opposition means death by slow starvation. The old principle: who does not work shall not eat, has been replaced by a new one: who does not obey shall not eat’. [Hayek, 1944/1994, p. 132]
mythical ideology. In sum, as Tormey rightly pointed out, the difficulty with Hayek’s argument stems from his assumption that economic control can only work where there is complete ideological uniformity\textsuperscript{11}. However, the historical realities seem to show that political conflicts over merely material distribution can be solved without any totalitarian mythical ideologies.

Even so, on the other hand, it also seems that his argument should not be ignored as a sheer groundless fear. He rightly pointed out a danger of the ‘new kind of servitude’ that Alexis de Tocqueville had warned about in \textit{Democracy in America}. What Hayek and Tocqueville were seriously concerned about was the appearance of a new despotism that would treat kindly the physical bodies of its subjects but spoil their souls and deprive them of an independent spirit. In this context Hayek cited the very famous passage from \textit{Democracy in America}, which, I suppose, has not yet lost its relevance:

after having thus successively taken each member of the community in its powerful grasp, and fashioned him at will, the supreme power then extends its arm over the whole community. It covers the surface of society with a network of small complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate to rise above the crowd. The will of man is not shattered but softened, bent and guided: men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence: it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrial animals, of which government is the shepherd.

—-I have always thought that servitude of the regular, quiet, and gentle kind which I have just described might be combined more easily than is commonly believed with some of the outward forms of freedom and that it might even establish itself under the wing of the sovereignty of the people\textsuperscript{12}.

Nevertheless, the ‘new servitude’ that Hayek (and Tocqueville) warned of should be qualitatively distinguished from totalitarianism. It is certain that the new despotism he was concerned about would be a new authoritarian patriarchy that was rigorously intolerant of any political defiance but at the same time possibly tolerant of some degree of freedom (especially the economic one), so long as its subjects were politically obedient,

\footnotesize{\textsuperscript{11} [Tormey, 1995, p. 31]}
\footnotesize{\textsuperscript{12} A. de Tocqueville, \textit{Democracy in America}, Part II, Book IV, chap. vi, cited in [Hayek, 1944/1994, p. xlii]}
even if their obedience were merely passive and not wholehearted. Totalitarianism never allows both political revolt and merely negative acquiescence. It claims total dedication of its subjects to the regime. In other words, totalitarian states are never content with only passive submission but rather they demand totally active self-devotion. In short, totalitarianism is one thing and authoritarianism another. Hayek’s argument may be appropriate as a criticism of a new authoritarianism, but is not successful in criticising totalitarianism.\(^\text{13}\)

3. Another implication of *The Road to Serfdom*: unpopularity of market order

In my interpretation, however, *Serfdom* has yet more significance, but it is not as a thesis on the cause-and-effect relationship between economic control and totalitarianism. In fact, *Serfdom* reveals that, despite the fact that Hayek was no doubt a powerful defender of market order and that on the one hand he himself must have really believed socialism to be the very origin of totalitarianism, on the other hand he was in fact so pessimistic about the popularity of market order among common people that he must have thought it impossible to compel them to hold on to strict (and sometimes even merciless) market competitions without the fear of horrible totalitarianism.

In *Serfdom* he made the point that the unprecedented affluence modern liberal civilization had produced gradually since the 18\(^{\text{th}}\) and 19\(^{\text{th}}\) centuries aroused more insatiable ambition among many people in the 20\(^{\text{th}}\) century. He argued that:

> 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

\(^{13}\) I suppose that this defect in his discussion on totalitarianism was also reflected in his criticism of Saint-Simonism, which was the main target in his refutation of socialism. In his book *The Counter-Revolution of Science* (first published in 1952), he condemned Saint-Simonism quite thoroughly, but his point of view was almost exclusively based on its assertion of the abolition of private property. While he took Saint-Simonism’s thesis of the ‘organization of labour’ very seriously, he disregarded its ‘religious’ feature. Certainly, on the one hand, he referred to the fact that the doctrine was turned into a religion, but, on the other hand, he simply dismissed this fact by saying ‘the development of their ideas which is of interest to us came more or less suddenly to an end’ [Hayek, 1952/1979, pp. 282-283]. It is true that he actually paid attention to the ‘Historicism’ in Comte and Hegel and maintained that ‘those [ideas] of Hegel and Comte, of Feuerbach and Marx, have produced the totalitarianism of the twentieth’ [Hayek, 1952/1979, p. 399, emphasis added]. If this is the case, I suppose that he should have taken its ‘religious’ character more seriously, because, as Karl Löwith argued in his book, *Meaning in History* (The University of Chicago Press, 1949), the Historicism was the ‘eschatological’ interpretation of secular history.
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, ... 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\textsuperscript{14}.

It was this impatience that gave rise to socialism, which attempted to ‘dispense 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\textsuperscript{15}.

However, he emphasised the complexity of the market civilization by arguing that:

Though it is natural that, as the world around us becomes more complex, our resistance grows against the forces which, without our understanding them, constantly interfere with individual hopes and plans, it is just in these circumstances that it becomes less and less possible for anyone fully to understand these forces. A complex civilization like ours is necessarily based on the individual’s adjusting himself to changes whose cause and nature he cannot understand: why he should have more or less, why he should have to move to another occupation, why some things he wants should become more difficult to get than others, will always be connected with such a multitude of circumstances that no single mind will be able to grasp them; or, even worse, those affected will put all the blame on an obvious immediate and avoidable cause, while the more complex interrelationships which determine the changes remain inevitably hidden to them\textsuperscript{16}.

\textsuperscript{14} [Hayek, 1944/1994, p. 23] (emphasis added)
\textsuperscript{15} [Hayek, 1944/1994, p. 24]
\textsuperscript{16} [Hayek, 1944/1994, p. 223]. In this connection, Friedman similarly argued that, ‘in every society, however it is organized, there is always dissatisfaction with the distribution of income. All of us find it hard to understand why we should receive less than others who seem no more deserving—or why we should be receiving more than so many others whose needs seem as great and whose deserts seem no less. The farther fields always look greener—so we blame the existing system. In a command system envy and dissatisfaction are directed at the rulers. In a free market system they are
Hayek maintained that a willing submission to the complex and invisible forces beyond individuals had made possible the development of liberal civilization and the unprecedented prosperity of liberal societies as a whole. The unquestioning obedience to the impersonal and anonymous market forces, according to Hayek, could not be derived from the collectivist (or constructivist) rationalism that did not know the limit of human reason. He argued against collectivism:

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. It is incomplete because it fails to comprehend that the co-ordination of the multifarious individual efforts in a complex society must take account of facts no individual can completely survey\(^{17}\).

On the contrary,

It was men’s submission to the impersonal forces of the market that in the past has made possible the growth of a civilization which without this could not have developed......It does not matter whether men in the past did submit from beliefs which some now regard as superstitious: from a religious spirit of humility or an exaggerated respect for the crude teachings of the early economists. The crucial point is that it is infinitely more difficult rationally to comprehend the necessity of submitting to forces whose operation we cannot follow in detail than to do so out of the humble awe which religion, or even the respect for the doctrines of economics, did inspire\(^{18}\).

If man refuses to obey this complex society, Hayek argued, ‘the only alternative to submission to the impersonal and seemingly irrational forces of the market is submission to an equally uncontrollable and therefore arbitrary power of other men’\(^{19}\).

A noteworthy fact here is that, notwithstanding his criticism against collectivism, Hayek had some understanding of (or even some sympathy with) the hostile attitudes to the market forces, which he called ‘economophobia’\(^{20}\), as seen in his contention:

directed at the market’ [Friedman, 1979/1990, p. 22].

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\(^{17}\) [Hayek, 1944/1994, p. 224]

\(^{18}\) [Hayek, 1944/1994, p. 224]

\(^{19}\) [Hayek, 1944/1994, p. 224]

\(^{20}\) [Hayek, 1944/1994, p. 222]
That anyone should suffer a great diminution of his income and bitter disappointment of all his hopes through no fault of his own, and despite hard work and exceptional skill, undoubtedly offends our sense of justice. The demands of those who suffer in this way, for state interference on their behalf to safeguard their legitimate expectations, are certain to receive popular sympathy and support\textsuperscript{21}.

However, for Hayek, this was due to the essential characteristic of market order, which he called ‘blind’, by arguing that:

It is significant that one of the commonest objections to competition is that it is “blind”. It is not irrelevant to recall that to the ancients blindness was an attribute of their deity of justice. Although competition and justice may have little else in common, it is as much a commendation of competition as of justice that it is no respecter of persons......it is impossible to foretell who will be the lucky ones or whom disaster will strike, that rewards and penalties are not shared out according to somebody's views about the merits or demands of different people but depend on their capacity and their luck......in competition chance and good luck are often as important as skill and foresight in determining the fate of different people\textsuperscript{22}.

If this is the case, an optimistic advocacy of material benefits that market order brought to liberal societies as a whole would have never made common people ready to endure the sufferings in their daily lives, such as diminution of their incomes, job changes and so on. For, as discussed above, it was the very success of liberalism in its material achievements that stimulated more ambitions, which made common people more and more intolerant of its gradual developments. While, on the one hand, he maintained that ‘it is essential that we should re-learn frankly to face the fact that freedom can be had only at a price, and that as individuals we must be prepared to make severe material sacrifices to preserve our liberty’\textsuperscript{23}, he admitted, on the other hand, that the very success of liberalism in its material prosperity was what made people unwilling to tolerate the sufferings that market competitions sometimes (or even often) inflicted on them. It was this dilemma in Hayek’s mind, in my opinion, that must

\textsuperscript{21} [Hayek, 1944/1994, p. 136]
\textsuperscript{22} [Hayek, 1944/1994, p. 112]
\textsuperscript{23} [Hayek, 1944/1994, p. 147]
have prompted him to give us the somewhat extreme warning of ‘market or servitude’. For him, if the free market system were rejected where success depended partly on the ability and enterprise of the people and partly on unforeseeable circumstances, the alternative was not a system in which everybody would get what he deserved according to some absolute and universal standard of right, but rather a despotic system in which it was the arbitrary will of a few persons that decided who was to get what24.

4. Necessity of limited security by government

The unpopularity of market competitions that Hayek admitted was, I suppose, not only what made him give us the (somewhat extreme) warning of ‘market or servitude’ to support liberalism, but also what led him to allow a kind of economic security by government.

He strictly distinguished between two kinds of security in chapter 9 of Serfdom: the limited security that is security against severe physical privation, the certainty of a given minimum of sustenance for all; and an absolute one that is the security of a given standard of life, or of the relative position that one person or group enjoys compared with others25. While he resolutely refused the latter as ‘the road to serfdom’, he clearly emphasised the necessity of the former by arguing that:

There is no reason why in a society which has reached the general level of wealth which ours has attained the first kind of [limited] security should not be guaranteed to all without endangering general freedom...there can be no doubt that some minimum of food, shelter, and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody26.

In addition to the necessity of the security of minimum income (and that of social insurance by the state to provide for common hazards of life such as sickness and accident27), Hayek also regarded as supremely important the ‘problem of combating general fluctuations of economic activity and the recurrent waves of large-scale unemployment which accompany them’, which was, he admitted, one of the gravest and most pressing problems of his own time of the 1930s and 1940s28. And Hayek even maintained that ‘the very necessary efforts to secure protection against these

24 [Hayek, 1944/1994, p. 112]
25 [Hayek, 1944/1994, pp. 132-133]
26 [Hayek, 1944/1994, p. 133]
27 [Hayek, 1944/1994, pp. 133-134]
28 [Hayek, 1944/1994, p. 134]
fluctuations do not lead to the kind of planning which constitutes such a threat to our freedom.\(^\text{29}\)

That Hayek admitted the necessity of limited security by government reminds us of the fact that, as a young man, he was a Fabian socialist, which was the very motive for him to become an economist. In his Inaugural Address at the LSE in 1933, ‘The Trend of Economic Thinking’, Hayek said:

> It is probably true that economic analysis has never been the product of detached intellectual curiosity about the why of social phenomena, but of an intense urge to reconstruct a world which gives rise to profound dissatisfaction. This is as true of the phylogenesis of economics as of the ontogenesis of probably every economist.\(^\text{30}\)

He also quoted Pigou:

> It is not wonder, but the social enthusiasm which revolts from the sordidness of mean streets and the joylessness of withered lives, that is the beginning of economic science.\(^\text{31}\)

As Jeremy Shearmur rightly pointed out, in referring to this practical and reformist impetus in the economist, Hayek also referred to himself. In other words, what made him become an economist was the recognition that free market competition could be merciless for many people.

Certainly, after he was profoundly influenced by L. von Mises’ book *Socialism*, published in 1922, Hayek renounced socialism as a theory of economics. However, as Shearmur argued appropriately, it was not his values that had changed under the influence of Mises, but his ideas about how such values are best realised.\(^\text{33}\) In other words, he continued to hold some relic of humanitarian sympathy with socialism because of his recognition of the possible mercilessness of market order, which, in my

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\(^{29}\) [Hayek, 1944/1994, p. 135]

\(^{30}\) [Hayek, 1991, p. 19]


\(^{32}\) [Shearmur, 1996, p. 26]

\(^{33}\) [Shearmur, 1996, p. 40]

\(^{34}\) In this regard, Shearmur indicated that, Hayek was no doubt successful in refuting one kind of socialism that asserted the abolition of private property, but not necessarily in denying a market-wise interventionism in pursuit of socialist values. [Shearmur, 1996,]
opinion, led him to admit the necessity of the limited security offered by government even in *Serfdom*.

**Conclusion**

In this paper, after briefly summarizing Hayek’s discussion on totalitarianism in section 1, I have argued the following three points in sections 2, 3 and 4: (1) his thesis that economic control was the cause of totalitarianism did not provide us an adequate explanation of the historical realities in Nazi Germany, the Soviet Union and the western welfare states; (2) nevertheless, his discussion in *Serfdom* still has some significance because it reveals that he was, in fact, so pessimistic about the popularity of market order among common people that he must have thought it impossible to convince them to hold on to strict and sometimes even merciless market competitions without the fear of horrible totalitarianism; (3) his recognition of strictness and even the possible mercilessness of market competitions also seems to have led him to maintain the necessity of the limited security provided by government, which possibly derived from some remnant of his sympathy with a socialist humanitarian motive.

If my argument is correct, despite his somewhat extreme and quite shocking warning of ‘market or servitude’ in *Serfdom*, we should not hesitate to re-examine the possibility of interference with market order by government that is compatible with individual freedom in order to secure, at least, a minimum income or a ‘basic income’ for all. As discussed above, Hayek recognised the supreme importance of the ‘problem of combating general fluctuations of economic activity and the recurrent waves of large-scale unemployment which accompany them’, which was one of the gravest and most pressing problems of his own time in the 1930s and 1940s, and Hayek even maintained that ‘the very necessary efforts to secure protection against these fluctuations do not lead to the kind of planning which constitutes such a threat to our freedom’. I suppose that the same will be true with the present serious situation of the financial or economic crisis these days as well.

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For Shearmur, the fact that Hayek was not necessarily successful in doing so is what should be overcome, and Shearmur attempts to propose a post-Hayekian minimal state [Shearmur, 1996, ch. 7], which I am not yet ready to examine in detail right now. However, on the contrary, it seems to me to imply some possibility of a market-wise interventionism that is compatible with individual liberty, which I would like to explore in the future.
References


