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## LIBERALISM THEN AND NOW

A Review of 'Hayek's "Serfdom" Revisited'  
(N. Barry et al, Institute of Economic  
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by

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## SECTION I

HAYEK'S 'SERFDOM' REVISITED: CONTEXT AND THESISA. CONTEXT

This book seeks to update the analysis presented by Hayek in his 'Road to Serfdom', partly by drawing on his later work (especially 'Law, Legislation and Liberty'), to make it relevant to contemporary debate about the role of the state.

Hayek's view

Hayek wrote 'Serfdom' in response to the view, increasingly popular amongst the intelligentsia of the 1940's, that unfettered capitalism was 'a bad thing'. Neoclassical economics presented the market as a means of co-ordination of decisions leading to a Pareto optimal allocation of resources, but experience suggested two flaws which required urgent attention:

1. the growth of monopoly because of economies of scale, either in production ('technical') or in competition (advertising, access to finance, ability to withstand prolonged losses to drive out competitors);
2. waste of resources caused by unemployment during periodic crises.

This criticism was accepted by a wide spectrum of thinkers, many influenced by Marx - who had analysed these symptoms and argued that they would become increasingly aggravated as

capitalism ripened. Opinions differed as to the cure. The solution advocated by socialist parties everywhere and implemented in the Soviet Union was to replace the market's chaotic workings by rational central planning and co-ordination of resources. Others nearer the political centre, inspired by Keynes and the General Theory, merely proposed adjustments to the workings of the free market by a measure of state intervention.

Hayek's target in 'Serfdom' was chiefly the socialist view. Presumably by 1944 there was some disillusionment in Europe with the effect of the Soviet experiment on civil liberties (Orwell's '1984' followed soon after), even if the full extent of oppression under Stalin may not have been known, but it could always be argued that things had turned sour because the Soviet system was undemocratic and not because of any inherent weakness in central planning itself. After all, wartime planning in the UK had been successful and was built on widespread consensus. Hayek argued that central planning was undesirable on both moral and practical grounds.

Hayek's antipathy towards central planning follows from an exclusively individualistic philosophy in which standards of ethics and morality have meaning only when applied to individuals, or more precisely to individuals' motives. Thus a person is, say, compassionate if the intended results of his or her actions can be so described. This assessment remains unaffected if the action has unintended consequences which seem cruel: one is not to blame for what one did not intend. A collective or 'social' morality is therefore

impossible since no individual is responsible for 'society's actions'; similarly, there is no meaning in trying to evaluate the 'fairness' of the market outcome (e.g. income distribution) since it is an unintended result of all individuals' actions. Incidentally, this also means that no moral significance attaches to success or failure in the market 'game': the value which the market happens to place on your work cannot be judged by ethical standards which only apply to individual conduct.

Given this view of morality, a political/economic system is not judged by its results but by the opportunities it offers, since people can only undertake moral choices if they are free to do so. Helping the poor is charitable and compassionate if it is voluntary; it has no moral significance if it is compulsory. We may prefer a society in which there is no poverty, but if this is achieved through compulsory redistribution of wealth it will not reflect any higher standards of morality. In fact, by altering the outcome of individuals actions, compulsory redistribution breaks the link between action and result so that personal responsibility for actions is lost: if I am selfish the State will make me act charitably. (This sort of philosophy lies behind the view that the growth of the Welfare State has encouraged the churches to withdraw from charitable works.) The state-planned economy is at best amoral. It is impossible to accept, say, state intervention as a sacrifice of some freedom in return for more justice because terms like 'justice' can only be applied to actions freely undertaken by individuals.

This explains Hayek's moral argument against planning: state-enforced morality is no morality at all, and the resulting weakening of personal responsibility causes a deterioration in genuine (individual) morality. We can identify in embryo here an idea which is developed and repeatedly applied by classical liberals: intervention by the state produces a reaction from its subjects which frustrates its purposes.

Hayek developed the idea himself in his practical argument against planning. He emphasised the role of the market as a 'discovery process', a means by which information about supply and demand conditions is communicated in a simple and highly efficient way: by prices. Individuals must be free to choose, and to lose, so that they can learn to adapt. When the State tries to replace the market this information mechanism is lost and the planners have no adequate alternative source of data to guide their decisions. The result is a surplus of spaghetti and queues for toilet rolls. The frustrated planners respond to this failure by trying to regiment consumer demand firstly by limiting choice, and then by employing overt coercion and brainwashing: the consumer's demotion from sovereign to serf is complete. This would be bad enough if the central planning 'Big Brother' were a benign dictator, but Hayek added for good measure an argument that 'the worst get on top' on the lines of survival of the fittest, i.e. the megalomaniacs.

Hayek therefore opposed planning because he thought that it would erode moral responsibility, that it could only be accomplished if the planners manipulated consumer demand as

well as determining supplies, and that such a powerful state would inevitably fall prey to the worst kind of dictator.

#### Experience

Since the war Hayek's stress on the information role of markets has gained fairly general acceptance in the West and seems an appropriate criticism of the socialist economies; hence the liberalisation now under way, notably in China. The failure is especially apparent in the agricultural sector where, in the absence of a production line to enforce obedience weak incentives have discouraged production other than for the black market. The vulnerability of centralised systems to corruption has also been demonstrated, especially in some Third World countries where control procedures may be less strict.

That being the case, central planning is no longer the main issue in main-stream political debate in the West. The only form in which it was implemented in Britain was the nationalisation of selected industries, and other reasons for this were important factors in the decision (social goals, control of 'natural' monopoly). The recent trend has been towards making public enterprises more independent, even to the extent of privatisation, with little opposition other than criticism that the capital realised is smaller than could have been achieved or wasted on current expenditure rather than investment. The Labour Party favours state direction of investment via planning controls, which is a related issue, but this falls a long way short of abolishing the market.

But intervention of the Keynesian reformist kind has grown dramatically: demand management and the Welfare State. Hayek did not address these in 'Serfdom', other than to note that a mixed economy (meaning a combination of central planning and use of the free market) was likely to fail because it implied the half-hearted application of two contradictory methods of co-ordination (IEA, p.93), but this is not a criticism of the practicality of other forms of intervention. Hayek's philosophical views would still tend to reject intervention on the grounds that any action which diminishes individual freedom in the name of justice is wrongheaded, but this argument cuts no ice with those who reject his philosophical stance. If, however, the mixed economy can be shown to be unsustainable on practical grounds then opponents must take notice whatever their views on morality. This is the same tactic which Hayek used in 'Serfdom' and which the Thatcher government uses today (not so much 'our way is right' but 'there is no alternative'). The recent crisis in the British economy has exposed both a long term weakness in the private sector ('deindustrialisation') and the apparent impotence of the State to undertake successful macroeconomic management. Can Hayek's analysis be extended to apply to the modern mixed economy to explain the crisis as a consequence of too much intervention, and also to warn that the mixed economy may still be the road to serfdom? This is the 'classical liberal' agenda and its discussion is the purpose of this book.

B. THE THESIS

The central content of the updated thesis is summarised by the phrase 'the instability of the middle way', a concept developed explicitly in this book by Burton but also touched on by the others, especially Gray and Shearmur. Burton's exposition is clearer and I follow it here. He sets out two processes which are said to operate in the mixed economy: the 'new Hobbesian process' and 'intervention entropy' (Gray's 'nemesis of intervention').

The root of the new Hobbesian process is the

"widespread acceptance of the idea that democratic governments have the right to exercise unlimited powers provided they have been mandated by a majority of representatives in the legislative assembly."  
(IEA, p.94)

Once intervention is accepted as legitimate, politicians will inevitably use this power to compete for the support of particular interest groups by offering special deals. The catch is that, given the premiss that state intervention is not a positive-sum game, the cost of these deals is spread widely (e.g. higher taxes) so that there is no special interest group to oppose the action. Indeed, the successful politician will be the one who can put together the most attractive deals whilst hiding the costs most effectively. Each interest group is in a position similar to the prisoner in the well-known dilemma: whilst all would be better off with no intervention, each has an incentive to demand more.

To use a different analogy suggested by Olson (p.58), it is a 'problem of the common': wise government is a public good which no single interest group can supply and so the pursuit of self-interest will not lead to the maximisation of social welfare. The result is pork-barrel politics of the crudest kind, with an increasing share of GDP commandeered by government.

Intervention entropy explains why, even if the above process could be halted, government would still have to commandeer more resources to maintain a given level of 'deals'. The argument depends on the zero-sum game assertion: hence 'virtually all forms of government intervention create a group of (net) beneficiaries and another group of (net) losers...' (p.95)

The losers have an incentive to devote resources to ways of avoiding the costs (hence the buoyant market for tax accountants). They will do this more actively over time, as the forms of intervention become institutionalised, and with more resources as the costs imposed on them rise. Since you can't fool all the people all the time, the government is forced to extend its powers to maintain the effectiveness of its policy, whether this is taxation, prices and incomes policy or (a favourite target) employment generation policies which allegedly operate by creating inflation and hence - for the duration of workers' misperception - cutting real wages; taxation must be increased to maintain the tax yield as avoidance increases; wage/price controls must be more

detailed to plug loopholes; inflation must accelerate to outpace workers' expectations and wage demands. This is a generalised application of the Lucas critique of macroeconomic policy, and represents a development of the idea found in Hayek and noted above.

The middle way is therefore a knife-edge, with state-controlled serfdom on one side and an anarchic black economy on the other, the actual outcome depending on whether the state succeeds in overcoming the entropy effect or not.

The solution is suggested by the analysis. Since wise government is a public good, its supply cannot be left to the political market place. Constitutional limits must be set on the power of government to intervene so that the 'parliamentary dictatorship' feared by Lord Hailsham is made impossible and political pandering to interest groups prevented. This principle lies behind proposals such as the 'balanced budget amendment' and privatisation of the Bank of England.

## SECTION II INTERNAL CRITIQUE

### A. THE NEW HOBBSIAN PROCESS

One criticism of the analysis is made by Vaughn in this book (p.131). Although there is evidence of cynical pork-barrel politics, in many cases interest groups do not merely press for quiet favours but set out to win a public debate on the issue. Vaughn asks

'why has ... Lee Iacocca emerged in the USA as a pop hero rather than an unpopular figure?' (p.132)

(Indeed, he is a leading contender for the Democratic nomination for the next presidential election.) If the simple Hobbesian process argument were correct, the citizen would resent Iacocca's success in winning government favours even if powerless to prevent it. Vaughn's argument is that a sort of false consciousness is to blame. Because of the complexity of political decisions, people adopt an ideology as an 'economising device' to help them form their views. Exactly how a particular ideology gains 'hegemony' is not clear, but the point is that it is ideas rather than vested interests which determine policy. The Hobbesian process is not inevitable if the ideological battle can be won.

This point seems to be strengthened when we consider the recent swing of politics. In some respects, the Thatcher policies have represented just the kind of rejection of intervention on behalf of interest groups which the classical liberals want and which their analysis suggests could not occur in the outcome of the political market process. The

defeat of the miners seems to be a good example. Similarly, Mondale's presidential campaign was evidently handicapped by his image as a hostage to too many interest groups. For whatever reason, the prevailing ideology seems to have swung against interventionism. Have ideas prevailed over vested interests? If so, the new Hobbesian process can be tamed without constitutional reform.

#### B. INTERVENTION ENTROPY

One major weakness lies in its assumption that intervention is necessarily a process with winners and losers: the problem of the common is assumed to operate in the realm of politics but not in economics. Intervention only succeeds by fooling the losers. In particular, it is assumed that demand management depends for its success on cutting real wages by causing unanticipated inflation, which is clearly not a sustainable policy. But Keynesian analysis views unemployment as a problem of the common and proposes demand management as a public good: everyone benefits from a boost to investment, although any individual firm will lose if it invests alone. The idea that Keynesian policies cause inflation needs to be argued rather than assumed. Why should public expenditure be more inflationary or create fewer jobs than the same expenditure by ICI? It is the classical liberals' own ideology which leads them to grasp the Lucas critique. A deeper explanation of inflation than this is needed.

A second weakness is the assumption that the tendency for

individuals to avoid the costs of intervention will inevitably run to extremes. If a consensus exists on the level and purpose of intervention and if the burden is seen to be shared fairly it is not obvious that people would keep trying to dodge the costs, even if some evasion occurs at the margin. One could just as well argue (as some Marxists would) that theft and embezzlement will inevitably increase in a society which distributes rewards according to criteria which are seen to have no moral foundation. The important issue is to what extent the institutional arrangements which govern post-tax income distribution are accepted as legitimate. The classical liberals, imposing their own value judgements, draw the line between tax evasion and theft; the Marxist may not. As long as a consensus exists which accepts the tax system, the 'intervention entropy' process will not operate. If there is some reason to expect this consensus to evolve in a particular direction (e.g. a reaction against taxation) it is not presented here.

#### C. IS THERE A HALFWAY HOUSE?

In 'Serfdom' Hayek was, inter alia, giving a warning (not strictly a prophecy or prediction) that discretionary power is dangerous and is bound to be abused sooner or later. Therefore, he claimed, there can be no half-way house between competition and planning, no 'stable middle way' - despite its lure. In Gisurason's words (IEA, p.5) "The idea of social democracy was inconsistent, and ... the 'mixed economy' was nothing but the name for the trans-

formation of the market order into socialism". On this road, the road to serfdom, there was a point of no return, warned Hayek: "It is impossible to stop deliberate control just where we should wish" (Serfdom, p.79).

A fairly important question-- which we can term the 'Hayek question' - thus arises: Has this warning received empirical support during the past 40 years? Several of the IEA authors address this matter, and it is important to appraise their arguments. Before so doing, however, some further exposition of Hayek's warning is appropriate.

Gray (IEA, pp.29-34) refers to three strands in Hayek's case, the first of which concerns the movement in intellectual thought away from the European tradition of freedom. Partly, this takes us back to Hayek's view that the market is a discovery procedure; and that much of our knowledge is necessarily dispersed in society, because it is stored/embodied "in habits, dispositions, traditions and practices, and is often beyond our power to articulate in theoretical form" (IEA, p.30). 20th century intellectuals, by contrast were adopting the view ('the synoptic illusion') that knowledge "may, somehow or other, be concentrated in a single body" (ibid).

In addition, intellectual <sup>al</sup>rationism was dangerous in its view of ethics. Social planning implies some form of morality - and of a very detailed kind, such that can actually guide the planners in their complex decisions. The Hayek argument is that we can have no such detailed <sup>al</sup> rules, but only broad ethical rules.

the authorities are given far more power than they can use in a moral way. Thus it will be used harmfully. (Even if we could invent a suitably complex social morality, Hayek would be opposed, because it must restrict and diminish the liberty of the individual; see IILB below for more on freedom).

The second strand in Hayek's 'no halfway house' argument is similar to Burton's 'intervention entropy' idea. Most attempts at intervention in the market will, it is said, fail to achieve the desired result (because planners know less than the market and/or because of unpredictable side-effects). Yet supporters of such policy will claim that success requires more intervention ('we didn't try hard enough') rather than less ('we should give up'). Thus a spiral of increasing interference and failure will develop.

Thirdly, Hayek argues that the more power is delegated to politicians, the worse will be the people who gain it. It is inevitable that the worst will come out on top, because there will be "a ruthless competition for power in which the principled are weeded out and only experts in survival flourish" (IEA, p.34).

It is now possible to appraise the four IEA contributions which (amongst other tasks) address the 'Hayek question'.

#### Hannes Gissurarson

He claims: "Government intervention has everywhere increased,

yet in Western countries there is no real sense of a loss of liberty" (p.15). His answer to the Hayek question might, then, appear to be 'no'; Hayek's warning has proved invalid. Instead, Gissurason makes a further step. "However, it does not follow that, if there is no real sense of a loss of liberty in a society, there is therefore no real loss of it ... If there is a gradual collectivisation of society, man may lose his notion of what it is to be free" (p.16).

As a logical statement this is correct, but it is merely a re-statement of part of Hayek's argument about how liberty might be lost. Gissurason is not offering any evidence in favour of a 'yes' answer.

Indeed, his argument is not that in practice controls have meant more and more controls, ad infinitum (which would be some kind of empirical support especially for Hayek's warning about interventionism's perversely self-reinforcing nature). Rather, he simply asserts that controls reduce freedom. This is an article of faith for a liberal, but in itself it offers no evidence at all to validate Hayek's warning that there is no stable middle way.

The conclusion that Gissurason is merely rehearsing the liberal view is supported by his discussion of loss of liberty in the welfare state (pp.19-21). Gissurason argues that the welfare state extinguishes people's sparkle and creates benign servitude; he instances Sweden and

concludes: "Sweden is certainly better than the Soviet Union is one prefers a nursery to a prison, as most of us would do, but both kinds of society are anathema from a liberal standpoint" (p.20).

This is miles away from a defence of the halfway house argument. Indeed, since there is no suggestion that the nursery is gradually becoming a prison, Hayek's argument is implicitly refuted.

(There remains, of course, the question of whether the nursery is preferable to the 'jungle', which seems the appropriate term for laissez-faire if we are being this journalistic.)

#### John Gray

He argues (in a section headed 'Collapse into totalitarianism not inevitable?') that servility is growing with intervention: "the development of the post-war welfare state in Britain, Europe and America has produced a servile psychology - a lack of initiative and entrepreneurship in some sections of the population - on which many observers have remarked. When servile manners prevail, freedom cannot be safe for long, and will soon be lost".

This is empirical evidence of some kind but, as with Gissurason, it does not imply a 'yes' answer to Hayek's question. Even if there has been a trend from initiative to servility, it does not follow that the trend must

continue until we are totally servile and the totalitarians take over. Gray has certainly not offered any evidence that servile manners do now prevail. He seems to be writing for the converted.

Gray earlier tackles the Hayek question head-on (IEA, pp.27-28), noting that the principal target of Hayek's attack was the belief that there is a stable middle way between the socialist command economy and the free-market process. Gray writes (p.28): "It is a commonplace nowadays to find socialists extolling the indispensable virtues of the market and recognising the folly of attempts at governmental regulation of prices and incomes".

He clearly tries to use this observation as support for the view that the middle way is unstable (in that even its admirers come to reject it). This is rather odd, however. Does not a regulation of prices and incomes belong to a command economy rather than a mixed economy? A 'mixed economy', as the term is normally used, has a sizeable public sector, various forms of intervention (e.g. regional policy, demand-management), and, perhaps, policies to limit the increases in wages and prices. But not detailed regulation of all prices and incomes. When socialists reject such regulation, therefore, they are not at all rejecting the mixed economy. Hence there is no evidence here that the middle way is unstable.

In other words, to allow some role for market forces is

quite different from opening up everything to the market (as some libertarians desire with great, if alarming, consistency: some members of the Federation of Conservative Students want heroin to be legalised). Gray has not shown that post-war Britain is collapsing into totalitarianism. By contrast, it looks suspiciously like a stable (but not static) middle way.

#### Norman Barry

He discusses the impact on liberty and stability of interest groups (see part A above on 'the new Hobbesian process'). Barry argues: "There is mounting plausibility in the thesis that a certain kind of 'stability' tends to emerge from the interactions of groups in liberal democracies, rather than the slide into tyranny predicted by Hayek and other classical liberals. The historical evidence is that communism comes about through revolutionary violence rather than as the end-result of gradual and piecemeal departures from the market order" (p.62). He suggests that, though "riddled with group privilege and economic inefficiency", western society manages not merely to survive but to show a degree of political stability (p.62). A muddling-through and stable middle way.

#### Conclusion

Hayek and the above IEA writers raise some important arguments concerning the feasibility of any halfway house between full competition and full planning. In general,

however, they give very little evidence to validate Hayek's warning that any significant degree of intervention puts us on the road to serfdom. The idea of a stable middle way appears to be supported rather than refuted by Western post-war experience.

SECTION III  
EXTERNAL CRITIQUE

We turn now from internal critique to external, from an appraisal of the IEA book within its own terms to an examination of its moral and philosophical foundations.

A. MARKET FAILURE

Introduction

The free market provides, so it is argued, the most satisfactory vehicle for the exercise of individual choice in the economic realm. There is, initially at least, a 'rough equality' between the parties. Each, buyer and seller, stands to gain from exchange; thus the market process is a positive sum game. No participant would enter unless he stood to benefit.

This does not imply, however, that the market process will generate equal outcomes. There is clear acknowledgement in neo-liberal writings that some will be able to take advantage of the market place more than others because they are better endowed with resources, skills, knowledge and information. This is seen as an inevitable consequence of the presence of free choice and the absence of coercion. It has nothing to do with either justice or the moral worth of the individuals concerned.

Market Power

Criticisms of the free market order include the argument that competition inevitably leads to concentration

where some participants grow to the point where they are able to exercise market power and therefore coercive influence over others. The trouble with competitions, as George Orwell put it, is that someone wins them (and thus someone loses).

There is little doubt that success in the market and technological developments have led to the possibility of dominant producers emerging in certain sectors of the economy. This has been the experience of modern capitalism, both within economies and across trans-national boundaries. Do such firms, then, restrict individual freedom and act in a coercive manner?

Typically, any organisation exercising monopoly power would be, for example, erecting barriers to the entry of new firms, or exploiting labour or consumers in various ways. These are, essentially, empirical questions, yet the New Right does not, in general address itself to these issues. There is no implication here that large size, by itself, constitutes a threat to market freedom. Large firms, operating with economies of scale may be highly competitive, offering quality products at relatively low prices. Some monopolies may indeed be the creation of the State, through nationalisation or protective charters. The unwillingness to recognise the importance of monopoly power, by classical liberals, springs from their conceptions of markets and the

nature of individual freedom. Competition is, first and foremost, a discovery procedure. There are always gaps to be filled by alert profit-seeking entrepreneurs. Therefore, the monopolist is always and everywhere subject to challenge.

One important exception to this is made by Hayek. Trade Unions, because of the nature of their activities are coercive institutions. Their power, therefore, should be restrained by legislation.

Industrial concentration, however, is a fact of economic life and there can be little doubt that, for many modern industries, especially those which are highly capital- or technology-intensive, existing firms can maintain barriers to the entry of new challengers. In the market for consumer goods and services, many households have limited knowledge of the true nature of the choices available to them. They cannot devote the time and resources necessary to become well informed. Consequently, markets are slow to adjust and are essentially imperfect. Furthermore, the same problems often face the individual worker in the labour market. Such individuals tend to be inadequately informed about job choices and are relatively immobile. The economic necessity to find employment further shifts the balance of market power away from the worker towards the employer.

Finally, neo-liberals employ a very restrictive notion of freedom. The worker who is unhappy with the terms of trade (i.e. the wage rate) is assumed to be able to exercise his freedom and look elsewhere for employment. Could it not be argued that in an ostensibly free labour market, during a recessionary period, workers may be 'coerced' into accepting employment at extremely low wages? The inequalities of outcome which will inevitably accumulate over time in a free market situation, may lead to an imbalance so great that some participants have their freedoms severely restricted, even in the absence of third party intervention.

#### Externalities

Sometimes the market is unable to achieve those technical solutions for which it is supposedly the best mechanism. Many critiques of the market address themselves to the problem of externalities, where there is divergence between private and social costs. For instance, the costs of treatment of pollution resulting from market activity presents difficulties for neo-liberals.

There are a number of ways in which such costs can be handled, all involving State intervention. Polluters may be taxed or invited through public subsidy to modify their methods of production so as to reduce or eradicate the offence. Alternatively,

legislation may be introduced to ban such activity or to extend private property rights to enable offended parties to seek redress in the courts.

Neo-liberals are concerned about the problems of quantifying the precise extent of the damage inflicted by such activities and therefore tend to be unhappy about solutions which increase the tax burden of firms or create a new army of bureaucrats. Their preferred solution is the extension of property rights. (Hayek rejects the very concept of externalities, since its meaning requires a notion of social optimum - and, as we have seen, Hayek rejects social morality).

The Austrian view of these neighbourhood effects is essentially that they are less serious than is generally supposed. Where they do exist, they often attribute responsibility to government. Ludwig von Mises has suggested that many issues turn out, on close examination, to be simply someone's disapproval of the voluntary choices made by others or the result of the failure of government to protect private property interests (Shand, p. 105).

Part of the reason for the tendency to dismiss the problem of externalities no doubt lies in the subjectivist methodology employed by classical liberal economists which makes them sceptical of the whole

concept of social cost. There can be little doubt, however, that real costs, and restrictions to freedom, are experienced by third parties in the course of production (and consumption) activities. Many of these issues are highly complex but it seems right to confront rather than ignore them when they emerge in the context of the free market.

#### B. CONCEPTS OF FREEDOM

The reluctance to approve of intervention in the market is rooted in the notion of freedom which is used by Hayek and his fellow liberals. In their commitment to the importance of personal liberty, these writers adopt the concept of negative freedom. (Freedom from coercion; freedom for what is less clear). This implies that people know their own interests best and should therefore be allowed to enter into contracts freely without the intervention or coercion of a third party e.g. the State. The role of government would be confined to ensuring that contracts were honoured. It should have no discretionary legislative power over market arrangements nor act in an arbitrary and unpredictable manner. The idea of negative freedom incorporates the notion that people are liberated from something, the latter being any form of human action which restrains their free choices. Hayek, at least, has stressed, however, that with this freedom must come a sense of responsibility. The parties must have a set of rules by which they abide. He is not interested in

the quality of any particular individual's decisions, but he is concerned with the quality of the totality of decisions. If responsibility is absent, the process of discovery in a free society is not going to work properly (Bosanquet p. 93).

By contrast, the idea of positive freedom suggests the individual's power to develop his own particular capacities, the ability to act, to exercise authority over one's own life and existence. T.H. Green has argued that freedom of contract by itself was not an end but a means to enable people to achieve the positive power of enjoyment.

This latter view appears to be much more expansive and dynamic in that positive freedom takes account of people's active responses to situations and a range of possible human objectives and the choices needed to pursue them. The debate between proponents of negative and positive freedom concentrates heavily on the role of the State: on the one hand its propensity to inhibit, manipulate and control human endeavour; on the other hand its potential for protecting the individual and redistributing resources.

Views of negative freedom as held by the New Right tend to place responsibility for a coercive role on government. They, therefore, deny or minimise the significance of private monopoly power in markets and

are suspicious of government intervention where externalities may occur. This approach seems an unnecessarily restrictive one. The biblical view of creation, and of mankind's role as stewards of that creation, requires us to act positively to exploit nature in the best sense and to develop economic resources in ways that respect the created order including humanity. Economic activity has to be purposeful in the widest sense. In developing our environment we must not only protect it for ourselves, but for the benefit of future generations.

Further, the existence of human sinfulness suggests that we may, at times, be in need of protection from our own, as well as others' actions. This does not necessarily imply a paternalistic 'nanny' State but the acknowledgement of a sense of responsibility that extends beyond our individual selves. The demands of a Christian view of freedom have to be set alongside the requirements for economic justice and the support of the disadvantaged. It may be that some of these needs can be best met by the State. Our desire for personal liberty has to be tempered by a spirit of sacrifice which is surely at the centre of the Gospel.

The primacy of economic freedom in the market as the underlying ethical foundation of the 'great society' is therefore likely to lead to an individualistic, and materialistic view of the world; individualistic, because the liberal view of freedom cannot handle

the notion of responsibility implied by an emphasis on community; materialistic, because negative freedom leaves no scope for richer values. Such a view is fundamentally at odds with the truly liberating Christian alternative.

### C. FREEDOM, JUSTICE AND GOVERNMENT

We now develop the above comments on the liberals' view of freedom into a fuller evaluation of their view of justice and the State.

For Hayek, the most we can and should expect of government is for it to ensure negative freedom for all, i.e. the absence of coercion. This is not to say that such freedom is the goal of life itself; Hayek's emphasis on responsibility was mentioned above. But in the political sphere, we are limited to a constitution of (negative) liberty: this is the goal.

Such a view necessarily implies a highly dominant role for the market in the determination of economic outcomes. This role, we should note, need have nothing to do with the productive efficiency of the market (nor a meritocratic justification of it). Rather, it is only in a free market that economic agents can, unimpeded, signal their preferences. If the State enters the market, whether to influence production, distribution or consumption, it automatically interferes with personal freedom.

Hence the loaded word 'intervention': loaded because its use carries the assumption that the burden of proof is always with the interventionist not the free-marketeer.

That assumption is questioned below, but first we should again consider the liberals' view of justice and rights. Raymond Plant (pp. 3-4) illustrates it with a meteorological analogy. When the weather causes suffering, the latter is the purely naturalistic outcome of a non-deliberate process, and the consequences are a matter of luck as much as anything else: "it would be absurd to rail against it (the weather) because it is coercive or because the suffering it causes is an injustice". (p.3)

For Hayek, the rights of those who suffer have not been infringed, because no human being intended the outcome. Similarly, only an intentional outcome can be unjust. "So it is with the market. While it is of course true that the market consists of human actions and is thus not like the weather or a genetic lottery, nevertheless they are similar in that in all cases the outcomes were unintentional." (p.3) The consequences of market transactions derive from a whole host of individual decisions, taken for a whole variety of reasons.

There are two problems here. First, it is only by

defining terms in this way that the liberals deny the possibility of market outcomes being unjust. They are simply playing with words. There is no obvious reason for accepting that rights can only be infringed intentionally. Certainly on a biblical basis, we should assert that all human beings have a right to (at a minimum) food and shelter. Such rights can clearly be infringed by the weather. In addition, the Bible's 'preferential option for the poor' (John Stott) is quite clearly a matter of justice : this was commanded by God, and was not merely behaviour for those who felt so inclined.

Secondly, not all market outcomes are of the unintentional, almost mystical, category. If British Telecom close rural phone-boxes, or if a large multi-national closes half of its factories in the north of England, the people who take those decisions know full well the consequences for consumers and employees respectively. Nor can it be said that the market has compelled such action; both organisations could comfortably have (more than) survived. No, the decision-makers deliberately choose to value additional profit more highly than the interests of customers/workers.

One could try to justify such action on an efficiency basis - although, as already shown, this is not the liberals' argument. But the unintentionality

argument is false, and is nothing less than an appeal for us to bow down unquestioningly before "the market": an attitude we should have only towards the Lord himself.

To summarise so far: by their view of freedom and definition of injustice, the liberals effectively prejudice the issue of the role of the State. Now that this has been exposed, the market can be dethroned; below, it is argued that the relative importance to be attached to markets and government can be decided by comparing the costs and benefits of these two types of influence. Before that, however, we consider the relationship between freedom and equality.

#### Liberty, equality and stewardship

As noted above, liberals view freedom as the highest goal of political economy. Part of the standard socialist retort is that equality should be emphasised as well as liberty. There is also thought to be some conflict between the two, such that a trade-off needs to be found. Liberals accept the conflict, but reject any trade-off - because liberty is more important. They say there can be no agreement on the distributive criteria to impose on the market. Even if there were, such imposition would be coercion.

Plant (pp. 5-10) explains/develops the socialist view quite skilfully, and, whilst there is one major clash with the biblical perspective, his argument is a useful one for the purpose of relating the biblical approach.

Plant argues that equality is not an end, but a means. He agrees with Hayek that freedom is a higher goal, but says that, precisely because of this, we must ensure that everyone has a roughly equal quantity of liberty - which Plant terms an equal or at least fair value (or worth) of liberty.

"In order to live a purposive life shaped by my own values and not those of others I need opportunities and resources to choose my own way of life and values... The positive resources which individuals need to be able to live their own lives in their own way cannot be a set of negative or procedural rights, important though these are. They require rather the marshalling of economic and social resources to enable individuals to live the kind of lives which they want to live." (p.6)

Since the State is the only legitimate body with the power so to marshal resources, there is implied a significant role for it, and a significant willingness not to accept the distribution of resources and abilities generated by the market and by genetics, luck, family background, etc.

Equality, then, is a means to an equal or fair value of liberty.

The disagreement with the biblical perspective is profound. Consider Plant's own rationale for the emphasis on freedom: "if we ask proponents of negative liberty why freedom is valued, the answer is that to be free of the arbitrary constraints of others will allow me to live a meaningful life, to live it in my own way, shaped by my own values and purposes. This is a noble ideal, and one which goes to the heart of what it is for a purposive creature to live a meaningful life." (p. 6, emphasis added). By contrast, the Bible teaches that we are to love God with our all, and our neighbours as ourselves. We are given values and purposes, we do not choose our own. Plant's 'noble ideal' and that of the liberals who share it, is glorified selfishness, a variant on structural sin, and we should deeply disagree with it.

Nevertheless, Plant's argument has some validity. If we substitute the key biblical concepts of justice and stewardship for his equality and liberty, the same means-to-end logic still applies. For everyone to exercise stewardship, it is necessary that there be a just distribution of resources, i.e. that everyone has access to resources. Justice is (amongst other things) a means to stewardship. With Plant, then, we would not accept the 'natural' distribution, and there is an important role for the State.

Note, then, the practical application which Plant offers. He suggests that redistribution should be concerned with the general class of 'primary' goods, which are basic necessities for the pursuit of any plan of life. "These goods are almost certainly going to include income and wealth, education, health care and welfare services." In so far as a more equal distribution of these primary goods "reduces the very high worth of liberty of those who are already better off, it is a legitimate restriction and one which we, as socialists, have to face squarely" (p.7).

Whilst "an equal value of stewardship" may be beyond the biblical requirement, the Old Testament calls for sufficient restrictions on the markets for land, capital and labour, and sufficient reallocation of resources, that 'justice as a means to stewardship' is a valid principle.

#### Costs and benefits of markets and the State

Having dethroned the market, shown (in principle) a valid role for the State, and questioned severely the goal of liberty, the final point to make, in very broad outline, concerns the relative roles of markets and the State in the allocation and use of resources. Eschewing the loaded terms 'intervention' and 'interference' (see above), the logical implication of the above arguments is that both of these influences on economic activity may have validity. Whilst the

free market has faults (ranging from 'market failures' and externalities to the perhaps more fundamental question of distribution), its ability to transmit information/signals between consumers and producers is likely to give it an advantage over command planning in terms of (negative) freedom as well as efficiency. Similarly, although government influence on economic activity may carry dangers (e.g. concerning liberty), it has benefits, e.g. in making for greater justice in distribution; and, in general, by limiting the harmful effects on various groups' and individuals' economic behaviour on the lives of others (of which 'externalities' is one example).

This view of government is, we would argue, broadly in line with the biblical one: the authorities are legitimate in making laws and boundaries to govern and constrain people's behaviour; but there is also great wariness of the danger of too much power accruing to those in authority (e.g. Saul, Rev. 13 - Michael Schluter argues that a decentralised political system is what we find in the Old Testament).

In principle, therefore, some combination of these two types of influence is desirable. The costs and benefits of each may vary, but they should be weighed. Such a combination may be messy and is fairly explicitly a second-best: pure laissez-faire and

total command planning might both be excellent - in different worlds to ours.

Finally, it is worth reiterating (see Section I for more detail) some of the costs of government involvement in economic life, as explored by the IEA liberals. (As with Marxism, one can use some of the analysis without buying the prescription).

- (a) A plethora of interest-groups, i.e. a general atmosphere in which government finds it harder and harder to give any coherent lead or overall direction (a political equivalent of Eph. 4. 14), because there are so many disparate voices with no concern for overall direction. (Christians are caught up in this).

See Gissurason, I.E.A., pp. 18-19; and Barry's account of Olson, pp. 57-8. It may well be that interest-groups are more plentiful because governments have adopted a generally interventionist stance.

- (b) Benign servility.
- (c) Interference in (but not large-scale reversal of) the market process
- (i) is wasteful
  - and (ii) distorts the market
- (Shearmur, pp. 80-1)
- ((i) may be more important)

- (d) Interventionism creates excessive expectations of government - as argued by Samuel Brittan (Shearmur, p.81).

Shearmur is careful to argue that, although (c) and (d) are important weaknesses of pluralism, and .'. of social democracy, they do not imply that the solution is total non-interference with the market.

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