



Hayek, Samuelson, and the logic of the mixed economy?

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ABSTRACT

In 1980 Friedrich Hayek wrote to Paul Samuelson complaining about the role that *Economics* had played in discrediting the thesis of Hayek's *The Road to Serfdom*. In the 11th edition of *Economics*, Samuelson had written that "each step away from the market system and towards the social reform of the welfare state is inevitably a journey that must end in a totalitarian state." Given the apparent prevalence of this reading of Hayek's thesis, we assess the dispute over Hayek's 'inevitability thesis' and whether Hayek's complaints were justified.

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"[The Road to Serfdom] was meant as an appeal that we must once more think through the whole system of ideas on social affairs which rules us, and as a warning that if we do not succeed in solving some extremely difficult intellectual problems but go on with the present muddle and confusion, we shall all end in disaster" (Hayek, 1948, p. 10).

"There is such a thing as the *inherent logic of events* which forces us forward on a path on which we have started whether we logically think it out beforehand or not. *The trouble with. . . partial planning is precisely that every step forces us to further steps* if the remaining free forces are not to upset our plans, and that it constantly reduces our freedom of action and makes us more and more the servants of the machinery we have created" (Hayek, 1948, p. 30, italics added).

"Every author has a call option on vindication but in the first half-century of life for *The Road to Serfdom* the realities of post-Roosevelt America, post-Thatcher-Blair UK, post-Palme Sweden and Hayek's own Austria have not yet brought this book's options' market value back up to its original exercise price" (Samuelson, 2001, p. 305).

1. Introduction

Caldwell (2007, p. 28) has noted the prevalence across the ideological spectrum of the "inevitability thesis" reading of F. A. Hayek's *Road to Serfdom*: "Hayek is claimed to have said that, once a society engages in a little planning, it is doomed to end up in a totalitarian state." As Caldwell notes, Hayek wrote to Paul A. Samuelson in 1980 complaining about the role Samuelson's *Economics* had allegedly played in propagating the 'inevitability' thesis reading of Hayek's work. As Hayek put

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it, “[he was] genuinely incensed to discover that what [he regarded]... as the chief source of a misrepresentation of [his]... views... was the most influential textbook of our time.” (Hayek, 1981a, italics added).

Noting the “ubiquity” of the inevitability thesis among both Hayek’s “friends and his foes,” Caldwell considers it “important to try to figure out exactly what has given rise to the confusion” (2007, p. 29). Taking up Caldwell’s suggestion, we argue that the confusion over the inevitability thesis is primarily attributable to Hayek. In making our case, we primarily focus on the Hayek–Samuelson exchange. After documenting Hayek’s initial complaints about Samuelson’s *Economics* and Samuelson’s response, we assess whether Hayek’s complaints were justified.

Unsurprisingly, the nuances of meaning that both Hayek and Samuelson impute to the term ‘inevitability’ play a rather important role in understanding both their exchange and any subsequent commentary (e.g., Caldwell, 2007). We point to three interpretations of the inevitability thesis. First, we have what Caldwell appears to consider a relatively crude historicist ‘inevitability’ thesis (Caldwell, 2007): Hayek supposedly maintaining that any modicum of government intervention would inexorably and irreversibly lead to full-blown command planning and a totalitarian polity.¹ As the opaque dynamics of the latter ‘inevitability’ thesis appear wholly contingent upon some particular (and unspecified) initial government intervention – rather than inevitable in any historicist sense – we accordingly label it the ‘irreversibility’ thesis.² Secondly, we have the ‘logical inevitability’ thesis (Caldwell, 2007, p. 30): Hayek arguing that a totalitarian polity is supposedly an inevitable concomitant of central economic planning. As one leading contemporary Hayekian puts it, totalitarianism is a “logical consequence of the institutional incentives of the attempt to centrally plan an economy” (Boettke, 2001, p. 52). Many of Hayek’s critics, however, have apparently never had any quarrel with Hayek’s logical inevitability thesis. For instance, Durbin (1945, p. 360) notes his agreement with Hayek that a regime of full-blown command planning “could only be fettered upon us by dictatorship and terror.” Similarly, Samuelson considers the logical inevitability thesis the “nonnovel part of Hayek’s” thesis (Samuelson, 1983a, p. 7). Finally, we have the ‘logic of the mixed economy’ version of the inevitability thesis; Hayek contending that the supposedly inherent logic of the mixed economy may culminate in the establishment of central planning and a totalitarian polity. This particular version of the ‘inevitability’ thesis is, we contend, the one that Hayek’s critics apparently attribute to Hayek. Moreover, it is an inevitability thesis that they apparently find decidedly unpersuasive.

Noting that Hayek was frequently read as making a “historicist-type prediction about the future of Europe” (2004, p. 356), Caldwell rightly argues that Hayek intended to provide “a warning of the possible dire consequences of socialism” (2004, p. 356).³ Paul Samuelson (and we suggest, Hayek’s other important critics), however, read Hayek’s usage of inevitability (and similar phraseology) primarily to imply the ‘logic of the mixed economy’ reading of Hayek’s inevitability thesis, rather than anything akin to historicist-type deterministic laws of history or the irreversibility inevitability thesis. Indeed, Samuelson and other critics of Hayek (see, e.g., Stigler, 1988, p. 146; Rosser, 2005, p. 1015, 1017) read him as making a conditional prediction (Samuelson, 2001, p. 305). It is unclear, however, in what way Hayek’s ‘warning’ substantively differs from a conditional prediction. Much of the apparent confusion over the inevitability thesis, we suggest, is largely attributable to Hayek himself (with the water muddied further by the secondary literature on the Hayek–Samuelson exchange), with Samuelson having ready cause to read Hayek as making an ‘inevitability’ claim about the situational logic supposedly inherent to the mixed economy since Hayek often suggested that the logic of the mixed economy and redistributive welfare state ultimately and inevitably resulted in a totalitarian polity.⁴

2. Hayek’s letter to Samuelson: the “inevitability” thesis?

The Hayek–Samuelson exchange opened with Hayek’s letter to Samuelson of 18 December 1980 and concluded with Hayek’s letter to Samuelson dated 6 March 1981. In his 1980 letter, Hayek complained that Samuelson’s account of *The Road to Serfdom* in the 11th edition of *Economics* was grossly inaccurate and had played a major role in generating public misperception (the ‘inevitability’ thesis) of Hayek’s views: “[G]lancing through the 11th edition of your *Economics* I seem to have discovered the source of the false allegation about my book *The Road to Serfdom* which I constantly encounter, most resent and can only regard as a malicious distortion which has largely succeeded in discrediting my argument” (Hayek, 1980). Hayek contended that Samuelson had misrepresented Hayek’s thesis in three particularly misleading ways:

¹ We thank Bruce Caldwell for helpful email correspondence in which he suggested we use the label “historicist inevitability thesis.”

² The irreversibility thesis, though purportedly maintaining that dictatorship is inevitable once a modicum of planning has been adopted, does not consider command planning (nor dictatorship) an historical inevitability per se, thus apparently bearing little resemblance to the historicist doctrines attacked by Hayek (see, e.g., Caldwell, 2007, p. 29). Moreover, it is unclear that any of Hayek’s critics adopted the irreversibility thesis. Rather, Hayek’s critics (and particularly Stigler, Wooton, and Samuelson) apparently found Hayek’s warning that *persisting* with interventionist policy and welfare state practices would lead to dictatorship rather unpersuasive (see, e.g., Hayek, 1978, p. 105).

³ Similarly, Caldwell notes that much of Hayek’s work argues that the “historicist search for general laws that would allow one to predict the course of history is chimerical. Would it make sense for... [Hayek to] attempt to predict the future course of history?” (Caldwell, 2004, p. 241).

⁴ Secondary Hayekian accounts of the Hayek–Samuelson exchange largely follow Caldwell (see, e.g., 1997, p. 1868, 2007, p. 29). For example, one leading Hayekian suggests that Samuelson “had to eventually send Hayek a letter of apology and retraction for what he had written in his textbook” (Boettke, 2006). Similarly, another leading Hayekian scholar suggests that though “Hayek himself explicitly argued... the contrary... that did not stop the ‘inevitability thesis’ from becoming canonized in the 11th edition of Paul Samuelson’s *Economics* (which led to a strongly worded letter from Hayek and an apology from Samuelson).” (Horwitz, 2007).

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