

## An enduring insight into the purpose of prosperity

By Amartya Sen

Published: September 21 2004 03:00 | Last updated: September 21 2004 03:00

Friedrich Hayek's combative monograph *The Road to Serfdom* had a profound impact on political, economic and social thinking in the decades that followed its publication 60 years ago, serving as an intellectual manifesto against socialist planning and state intervention. But are Hayek's ideas and arguments of any interest today, after the downfall of communism and the emergence of neo-liberalism as the dominant ideology of contemporary capitalism? I would argue that they remain extremely important.

Consider Hayek's insistence that any institution, including the market, be judged by the extent to which it promotes human liberty and freedom. This is different from the more common praise of the market as a promoter of economic prosperity. A huge part of economic theory is concerned with the prosperity argument, going back to Adam Smith and David Ricardo. That connection is indeed important, and it is not surprising that so much attention has been devoted to seeing the market mechanism from this perspective - defending its achievements as well as disputing particular claims and proposing qualified endorsements. Yet Hayek was surely right to insist on clarity regarding the purpose of seeking prosperity. Markets have to be judged, he argued, by their role in advancing freedoms, not just in generating more income (as Hayek once said: making money can be of interest only to the miser). This integrative perspective demands that we be concerned both with the outcome of market processes (including the economic prosperity it may generate and the extent to which that would advance human freedom) and with the processes through which these results are brought about (including the liberty of action that people have in an institutional system).

It is the perspective of seeing markets and other institutions in terms of their role in advancing freedoms and liberties of individuals that Hayek brought into singular prominence. It may be pointed out, in contrast, that despite the title of Milton Friedman's famous book (with Rose Friedman), *Free to Choose*, the criteria by which Friedman tends to defend the market mechanism are not liberty and freedom, but prosperity and utility ("being free to choose" is seen as a good means - a fine instrument - rather than being valuable in itself). Even though a few other economists, James Buchanan in particular (and, to some extent, John Hicks), have presented insightful ideas on a freedom-centred line of reasoning, it is to Hayek we have to turn for the classic articulation of this way of seeing the merits of the market mechanism and what it gives to society.

I am not persuaded that Hayek got the substantive connections entirely right. He was too captivated by the enabling effects of the market system on human freedoms and tended to downplay - though he never fully ignored - the lack of freedom for some that may result from a complete reliance on the market system, with its exclusions and imperfections, and the social effects of big disparities in the ownership of assets. But it would be hard to deny Hayek's

immense contribution to our understanding of the importance of judging institutions by the criterion of freedom.

A second contribution of Hayek is of particular relevance to thinkers on the right of the political spectrum. In *The Road to Serfdom*, he gave powerful reason to indicate why explicit provision has to be made by the state and the society for the deprived and the dispossessed. While Hayek is often taken to be uncompromisingly hostile to any economic role of the state (other than what is needed to support the market mechanism), and certainly late in his life he gave grounds for thinking that this could indeed be his view, nevertheless in *The Road to Serfdom* Hayek's position is much broader and inclusive than that. Now that the welfare state is often under such attack, it is worth recollecting that the pioneering manifesto that championed the market mechanism on grounds of freedom did not reject the need for a welfare state and provided a reasoned defence of it as an institutional necessity.

A third contribution of Hayek is of particular interest to those on the left of the political spectrum. Hayek's critique of state planning is mainly based on a subtle psychological argument. He was particularly concerned with the way centralised state planning and the huge asymmetry of power that tends to accompany it may generate a psychology of indifference to individual liberty. As Hayek put it: "I have never accused the socialist parties of deliberately aiming at a totalitarian regime or even suspected that the leaders of the old socialist movements might ever show such inclination." One of Hayek's central points was that "socialism can be put into practice only by methods of which most socialists disapprove".

We can hardly ignore the massive accumulation of evidence - before and after publication of *The Road to Serfdom* - of tyrannical use of bureaucratic power and privilege, and the political and economic corruption that tends to go with it. Hayek's central point here was to note that even though socialism has a strongly ethical quality, that is not in itself adequate to guarantee that the results of trying to implement it will be in line with its ethics, rather than being deflected and debased by the psychology of power and the influence of administrative arbitrariness.

Hayek was insightful in drawing attention to a basic vulnerability that goes with unrestrained administrative authority, and in explaining why social psychology and institutional incentives are extraordinarily important. To take the massive evidence in socialist practice of departures from expected behaviour to be no more than easily avoided individual aberrations would be comparable to blaming the "few bad apples" to whom the leaders of the coalition forces point in Iraq when they refuse to consider the systematic corruptibility underlying the torture and brutality of an unrestrained system of imprisonment. Incidentally, Hayek's psychological insights into administration also tell us something about the genesis of those terrible contemporary events.

Our debt to Hayek is very substantial. He helped to establish a freedom- based approach of evaluation through which economic systems can be judged (no matter what substantive judgments we arrive at). He pointed to the importance of identifying those services that the state can perform well and has a social duty to undertake. Finally, he showed why administrative psychology and propensities to corruptibility have to be considered in determining how states can, or cannot, work and how the world can, or cannot, be run.

As someone whose economics (as well as politics) is very different from Hayek's, I would like to use the 60th anniversary of *The Road to Serfdom* to say how greatly indebted we are to his writings in general and to this book in particular. Dialectics is critically important for the pursuit of understanding, and Hayek made outstanding contributions to the dialectics of contemporary economics.

*The writer, Lamont university professor at Harvard University, was awarded the Nobel prize for economics in 1998*