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Another Road to Serfdom

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Abstract

Friedrich Hayek's *The Road to Serfdom* is an influential book more than seventy years after its publication. This paper examines his arguments and finds that they come up short in many ways and suggests that we have taken "another road to serfdom". Hayek's mind was completely closed to the possibility that there were multiple threats to individual freedom and not only state power. He failed to see that any concentration of power is dangerous. This was one of his major mistakes. In contrast to Hayek, a public intellectual who warned us of the concentration of power from institutions other than the state was Aldous Huxley who was keenly aware that the danger is not the state per se but rather the concentration of power which might well take on other guises as well. In a 1958 interview he precociously identified Madison Avenue as a potential danger to our autonomy, individuality, and freedom. There are other concentrations of power as well which are just as threatening such as wealthy mega-corporations and billionaire individuals who through their influence on government, on elections, and on the political process are able to change the rules of the market in their favor.

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“A new tyranny is thus born, invisible and often virtual,
which unilaterally and relentlessly imposes its own laws and rules.
Pope Francis, 2013¹

Introduction

Friedrich Hayek's *The Road to Serfdom* is a powerful and still uncannily influential book even more than seventy years after its publication. It had an enormous impact on the evolution of the spirit of the times as far as economic matters were concerned especially by defining the role of the state in the modern economy in the media, in the popular mind, and in Milton Friedman's thinking.² Through his two books *Capitalism and Freedom*³ and *Free to Choose*⁴ Friedman amplified immensely Hayek's impact.⁵ The latter book was also made into a ten-part television program and broadcast in 1980 and again in 1990⁶ which reached additional millions and continued to glorify an individualistic ethic that laid the intellectual foundations of a conservative anti-Keynesian and anti-government rhetoric.⁷ The efforts of these academics culminated in Margaret Thatcher's and Ronald Reagan's well-known determination to “roll back the state” beginning in 1979 and 1980.

In short, Hayek's book and the worldview depicted in it was a watershed in the development of an anti-Keynesian spirit that permeated deeply into the body politic in the last decades of the 20th century appealing especially to market aficionados and government haters. It was an important spark that lit “the fire in the minds of men” to use James Billington's imagery, and led through Reaganomics and its tax cuts for the rich to an immense inequality as well as to the deregulation movement of the late-20th century which culminated in the Financial Crisis of 2008. Thus, Hayek's influence was enormous and mostly negative insofar as the political processes unleashed by the Reagan revolution ended up concentrating power in the hands of an elite. While the tax cuts were supposed to “trickle down” to the masses, the flow had the viscosity of molasses and stuck with the 1%. A tiny bit of the new wealth created reached even the rest of the top 10%, never mind the middle class.⁸

So wealth and its concomitant, political power, became as concentrated as it was during the era of the Robber Barons at the turn of the 20th century.⁹ Vanderbilt, Rockefeller, Carnegie, Astor, and Mellon were replaced by people like Zuckerman, Walton, Gates, Koch, Buffett, and Soros.

Yet, this development contradicts the basic tenets of a democratic political system insofar as the dispersion of power is the very essence of a functioning democracy. A democracy turns into a plutocracy eventually if economic power is concentrated among an aristocracy of riches in the absence of countervailing power.¹⁰ And at the moment with the practical destruction of powerful labor unions there is no countervailing power sufficient to resist the immense influence of the ultra-wealthy.¹¹ Thus, the concentration of wealth has undermined the political system not only through lobbying, campaign contributions, but also through discouraging people from voting. “From 1998 through 2010, business interests and trade groups spent \$28.6 billion on lobbying compared with \$492 million for labor, nearly a 60-to-1 advantage.”¹² No wonder that citizens are discouraged and are even willing to support radical politicians. In the election of 2014 which chose all 435 members of congress and 33 senators merely 37% of the eligible voters turned out.¹³ The will of the people has been subdued.

The concentration of wealth in the U.S. has taken obscene proportions with just 3% of the population owning half of the country’s total wealth. It goes without saying that such enormous wealth enables the elite not only to engage in conspicuous consumption that makes the rest of the population feel inferior but also enables them to “buy” economists as well as politicians.¹⁴ In brief, that is how we took “another road to serfdom”. Hayek’s mind was completely closed to the possibility that there were multiple threats to individual freedom. He feared exclusively state power and failed to see that any concentration of power can become a

serious threat. This was his major mistake. Ney, it was worse than a mistake.... It is hardly an exaggeration to call it a blunder.

In contrast to Hayek, a public intellectual who warned us of the concentration of power from institutions other than the state was Aldous Huxley. Of course, he is best known for his prophetic nightmare-vision dystopian novel, *Brave New World*, which openly warned Mankind, as early as 1931, that is to say prior to the rise of Hitler and prior to most of the dehumanizing forces of totalitarianism became evident. However, Huxley was keenly aware of the fact that the threat is not the state per se but rather any concentration of power which might well take on other guises as well. He expressed these views in an important 1958 interview: “obviously the passion for power is one of the most moving passions that exists in man; and after all, all democracies are based on the proposition that power is very dangerous and that it is extremely important not to let any one man or any one small group have too much power for too long a time.”¹⁵ Huxley continued by naming some of the other institutions where the threats could come from, noting astutely that Madison Avenue discovered long ago that the shortest way to the parents’ bank account is through their offspring: “Today’s children walk around singing beer commercials and toothpaste commercials. . . . this whole question of children, I think, is a terribly important one because children are quite clearly much more suggestible than the average grownup; and . . . all the propaganda [is] an extraordinarily powerful force playing on these children, who, after all, are going to grow up and be adults quite soon. . . . [T]he children of Europe used to be called ‘cannon fodder’ and here in the United States they are ‘television and radio fodder.’ . . . after all, you can read in the trade journals the most lyrical accounts of how necessary it is, to get hold of the children, because then they will be loyal brand buyers later on.”¹⁶

Thus, Huxley precociously identified Madison Avenue as a potential threat to our autonomy, individuality, and freedom. There are other concentrations of power as well which

are just as threatening to our freedom. The list should include the wealthy mega-corporations and billionaire individuals who through their influence on government, on elections, and on the political process are able to change the rules of the market in their favor thereby not only solidifying but increasing their power and wealth and their concomitant advantages in the market.¹⁷ In addition to Madison Avenue and to the mega corporations and wealthy there is Hollywood and Silicon Valley with immense impact on popular culture that binds our ability to become autonomous human beings. Hayek does not consider all that.

Yet, in spite of such major oversights Hayek's book still enjoys a surprising amount of appeal for its dogmatic anti-government polemic and it is still among the most popular economics books on Amazon.¹⁸ This is regrettable, because it misleads so many modern readers. Hence, I argue that the sell-by-date of Hayek's *Road to Serfdom* has long expired. It is simply outdated because we know so much more about real-world economic processes that were less obvious in 1944 when Hayek published his best seller.

Socialism and Nazism

The essence of Hayek's argument is that we must choose between socialism that ultimately leads to such unsavory totalitarian leaders such as Hitler, Stalin, or Mussolini, and a free-market decentralized liberal socio-economic and political order. He focuses on National Socialism much more than the other forms of dictatorship. Simply put, he sees socialism as a "High Road to Servitude" (p. 78). In the process of laying out his polemic he has far too many unsubstantiated generalizations especially in suggesting repeatedly that Nazism had its roots in socialism that began in Germany in the late 19th century.¹⁹ For example he writes: "it is necessary now to state the unpalatable truth that it is Germany whose fate we are in some danger of repeating.... The author [Hayek]... has become increasingly convinced that at least some of the forces which have destroyed freedom in Germany are also at work here... (p. 58)." Another uncorroborated assertion suggests that

“...the rise of fascism and naziism was not a reaction against the socialist trends of the preceding period but a necessary outcome of those tendencies.” (p. 59)

Such theories were never taken seriously by the historical profession. As Hans Ulrich Wehler argued, the roots of Nazism was to be found in Germany’s special path to the 20th century in which rapid economic modernization took place during the Second Industrial Revolution with rapid expansion of heavy industry, while political modernization was blocked by the pre-industrial Prussian Junker elites who remained in charge of the political system as well as the military.²⁰ Add the loss of World War I and the additional frustrations associated with the subsequent loss of territory and the heavy reparations payments, the hyperinflation of the 1920s which wiped out large swaths of the middle class, the widespread unemployment and poverty of the Great Depression, and the emergence of a charismatic leader who could mesmerize a large section of the electorate and at the same time use gangster tactics against opponents, and you have the prescription for the ascendancy of the National Socialist German Workers’ Party without invoking the influence of socialism. Of course, many of these same factors apply to the Stalin and Mussolini as well.

And let us emphasize also that it was the breakdown of the free market that led to a quarter of the labor force being unemployed in Germany without which Hitler would never have come close to becoming Chancellor. In other words, the collapse of capitalism had more to do with the Nazi rise to power than did the Social Democratic Party.

Moreover, socialism had nothing to do with the Nazi ideology of racial superiority, its rabid nationalism, its antisemitism, or its expansionist foreign policy based on the Pan-German doctrine of *Lebensraum* (living space). In fact, German socialism was exactly at the opposite range of the ideological spectrum. Moreover, Hitler wrote with utter disgust about Social Democracy with its Jewish leaders.²¹ In short, Hayek is nothing short of being ridiculous in maintaining or repeatedly insisting that socialism was the root of Nazi

totalitarianism. This is particularly irking, because he does not spend much time on either Communism or Fascism. Nazism is his primary example to warn his readers of the evils of socialism and how meddling with markets leads to the enslavement of the population.

In addition, the Nazis never socialized any industries or confiscated capital in a socialist spirit. The Aryanization policy transferred Jewish businesses to German-Christian private owners for a pittance but they did not become property of the state. In that regard as well, socialist solutions were not an inherent part of Nazi policy.

Hayek's myopic binary world

Thus, Hayek's contention that socialism led to Nazism is a fundamental flaw of his argument. Another major weakness of his thesis is that he sees the world through binary lenses. He claims that any collectivist approach will lead inexorably to a totalitarian system. Insofar as that is obviously not an attractive option and insofar as he does not allow for any gradations of communitarian policies the only palatable alternative that remains in his view is the liberal *laissez-faire* economic system.

Yet, it should be obvious by now that this binary vision is myopic. As far as Hayek is concerned the economy is either organized on the principles of the free market or it is socialistic. He accepts that the "ultimate aims" of socialism are "social justice, greater equality, and security (p. 83)" but does not believe that they are feasible: There is no middle way: "democratic socialism... is not only unachievable, but... [will] produce something so utterly different that few of those who now wish it would be prepared to accept the consequences... (p. 82)". He assumes that only an extreme form of socialism is feasible: "socialism means the abolition of private enterprise, of private ownership of the means of production, and the creation of a system of 'planned economy' in which the entrepreneur working for profit is replaced by a central planning body (p. 83)." There is no room in this thinking for a mixed economy or for the welfare state.

However, in fact, there is a continuum of socioeconomic systems, ranging from Hayek's market fundamentalism to a Soviet-style planned economy. But there are numerous variations in between these two extremes. After all, Scandinavian and the Western European welfare states proceeded to do just that which he thought was not within the realm of possibility. They were able to achieve it by adapting Capitalism to their needs and vision with considerable community input into market processes.²² The market is not supreme in these countries, rather, the democratic process is, as it should be, because theoretically the individual is supposed to hold the ultimate right to exercise his/her power in a democratic society. That is the basis of sovereignty. It makes little sense to suggest that the population is in control of the body politic but in economic affairs the market is supreme. That would not make any more sense than to say that the citizen is excluded from matters of foreign affairs or for that matter from determining the affairs of the sewer authority. Those would not be democratic principles. In short, the market ought not be supreme in economic matters. It has to be subordinate to the general will. The citizen should control the markets and not the other way around.

These principles are "self-evident" also in the Declaration of Independence which states clearly that "the pursuit of Happiness" is an "unalienable Right" and one of the reasons why "Governments are instituted." Moreover, the goal of governments should be to provide "Safety and Happiness" to its citizenry.²³ And economic matters are certainly included in the pursuit of happiness. Moreover, the preamble to the Constitution of the U.S., also mentions prominently that its goal is to "promote the general Welfare".²⁴ So welfare and happiness is a legitimate goal of government. Where do the happiest people live? Not in the most laissez-faire countries with fierce competition and little protection of workers and consumers like in the U.S. but in countries with a comprehensive welfare state with low levels of inequality, risk sharing, and a collaborative Capitalism such as in Scandinavia.²⁵

Hayek was not only theoretically wrong but he was also wrong in terms of overlooking actual practice insofar as the Nordic social democratic model was being put into practice prior to his writing. It should have been known to him insofar as Sweden had a long tradition of Social Democracy with its first Prime Minister in 1920-21. In both Norway and Sweden Social Democratic parties came to power in the 1930s and began the construction of a benevolent welfare state.²⁶ Similarly in Denmark Social Democrats came to power in 1924 and remained the largest party in parliament until 2001.

This model, or one should say these models for they were not identical in the Nordic countries, retained the basic principles of Capitalism but combined it with a concern for the general welfare and guaranteeing security for the citizens that includes universal health care and free university education, public pension plans, and promoted social mobility and included guarding them from the insecurity of the marketplace and in which labor obtained considerable bargaining power.²⁷ The goal was to find the right balance of institutions such that the free market would support technological progress and rising incomes but at the same time also guard against the excesses of the market by making sure that the economy remained inclusive and in which all citizens retained access to a fair share of the fruits of their labor. Moreover, the state would provide for the public provisioning of social insurance that it could do more efficiently than the private sector. There was no threat whatsoever that these states would turn into totalitarian regimes. There was no mention of a command economy or of confiscation of private property. In spite of their importance, Hayek completely ignores this significant development.

This mix of market and public oversight was also evident in Franklin Roosevelt's New Deal which proceeded to tame the worst excesses of the free market. The New Deal that also preceded Hayek's publication of *The Road to Serfdom*, created jobs through public works, provided a minimum wage and social security, supported the labor unions, reigned in

the influence of the financial sector, and made sure that bank deposits were secure by providing deposit insurance to name just some of its major accomplishments. It created new institutions such as the Security and Exchange Commission and the Federal Deposit Insurance Corporation to oversee the market in order to guard against the malfunctioning of markets. It also created the Work Progress Administration which at its peak provided work to 7% of the labor force. That should have been known to Hayek. Roosevelt did not speak of the elimination of private property. He did not aspire to become an all-powerful planner of economic activity. He was merely protecting a large segment of the population from poverty and the insecurity of the marketplace.

Similarly, in the U.K. the Beveridge Report was issued in 1942 with a vision of the welfare state that actually did come into being after the war. But its “socialist recommendations” were limited to the five “Giant Evils” Beveridge identified in the UK society: squalor, ignorance, want, idleness, and disease. It did not call for anything close to the totalitarian planner Hayek keeps on referencing as an all-around boogieman.²⁸ Instead, the Archbishop of Canterbury praised the report for its Christian spirit.²⁹

The Scandinavian developments had an impact on much of Western Europe and the United Kingdom after the World War.³⁰ A mixed economy was firmly established in practically all of Western European democracies and then slowly and to a lesser extent also in North America. It was a Third Way between the two extremes that Hayek’s narrow imagination emphasized. In Germany, led by Konrad Adenauer, Ludwig Erhard created a new system, the “Social Market Economy,” that combined basic capitalistic principles with social policies along the Nordic model with Christian principles of fairness, social justice, and setting limits to squeezing those who lacked the power to defend themselves.

These principles were outlined in Pope Leo XIII’s encyclical of 1891, which similarly to the Beveridge Report stressed “that some opportune remedy must be found for the misery

and wretchedness pressing so unjustly on the majority of the working class;.... It has come to pass that working men have been surrendered, isolated and helpless, to the hardheartedness of employers and the greed of unchecked competition. The mischief has been increased by rapacious usury,... so that a small number of very rich men have been able to lay upon the teeming masses of the laboring poor a yoke little better than that of slavery itself.”³¹ The social market economy was an answer to these injustices.³²

The European Welfare States, each in its own way, were able to accomplish exactly that which Hayek thought impossible: tame the free market through state institutions and make sure that the fruits of labor were broadly distributed. And the European populations are better off for it on any scale that correlates directly with the quality of life. They have better safety nets, fewer homeless, live longer, have better education, fewer people in jail, have more life satisfaction, and fewer murders than the Americans whose economic system is closer to Hayek’s ideal.³³ In other words, the third way was clearly the better way to proceed to tame the excesses of Capitalism and at the same time avoid the pitfalls of a Soviet-style dictatorship. Unbridled Capitalism might deliver a higher GNP with higher growth rates but Nordic Capitalism and its variants delivered the highest quality of life.

As these examples suggest, drawing the line between intervention and laissez faire is not as challenging as Hayek makes it out to be, provided one trusts democratic processes. The goal of economic policy should be to intervene in those aspects of the economy in which the market by itself fails to improve the general welfare and concentrates wealth and power in the hands of an elite. That is precisely what the Third Way is. Hayek’s thinking does not leave any room whatsoever for such collective action to tame market excesses, although the interwar efforts to improve the lives of people should have been known to him. As far as he was concerned, the market should remain supreme rather than the legislature or the people’s will, which, in effect, sidelines democratic processes, or at least relegates them to a

subordinate position. According to Hayek the market is king. And he never revised his thesis of 1944 even well after the successes of the welfare states were evident.

Hayek did not believe that a mixed economy could be stable. He is possible and asserts without any supportive evidence whatsoever that “Both competition and central direction become poor and inefficient tools if they are incomplete; they are alternative principles used to solve the same problem, and a mixture of the two means that neither will really work and that the result will be worse than if either system had been consistently relied upon (p. 90)” Similarly to his fellow traveler, Milton Friedman, he failed to see any imperfections in market processes such as that it tends to focus on short-run outcomes whereas the state has also the long-run in view and is more capable of making long-run plans in many important respects such as in energy policy or to consider the interests of generations yet unborn who are incapable of influencing today’s markets.

The meaning of serfdom

Serfdom in Feudalism is bondage in which a person’s rights are limited politically, economically, and socially. Serfs were not free to move about, to work where they liked, and were dependents of the lord of the manor in every respect. They were bound not by fetters as slaves but by laws and custom. Their autonomy was highly circumscribed and they were legally subordinate of the lords.

We are not serfs in this sense. However, it is important to note that there are various subtle ways to subordinate individuals and relegate them to a second-class status. Today’s society does not use physical chains as in slavery or laws as under feudalism. Today’s limitations on freedom depend on access to education, to employment and therefore to income. In a hierarchical society with limited social mobility, this implies that much of the limitations are acquired at birth insofar as the circumstances of birth determine to a considerable extent one’s access to education and therefore to employment and income.

One's actions are constrained if one does not have the financial means to exercise one's theoretical rights. However, the limitations are just as real and just as frustrating as for serfs. Perhaps the modern form of servitude is even more frustrating, because feudal serfs did not expect a better life. Instead, they were resigned to their position in life sanctified by the Church which supported the power of the lords as a divine right and told them that their time will come in the afterlife. In contrast, today's bondage is much bitterer in a milieu in which the hype of the American dream with its Powerball millions is just around the corner. For the serf the lifestyle of the lords of the manor was out of sight and out of reach whereas for their modern counterparts the conspicuous consumption of the rich and famous is incessantly in vizer. This is exacerbated by the fact that those who are excluded are more often than not told that they themselves are to be blames for the fact that they have fallen on hard times. The serf did not have to contend with such indignities. The main point is that "social domination of man by man" can be established by means other than those used by the Gestapo; "totalitarianism can be imposed without terror."³⁴.

Hayek is an extremist in his views on any sort of collectivist economic policy. He believes that any deviation from the free market requires a complete plan and a "complete ethical code (p. 101)". "The attempt to direct all economic activity according to a single plan would raise innumerable questions to which the answer could be provided only by a moral rule, but to which existing morals have no answer... (p. 101)." The argument is again that planning has to encompass all economic activity or none at all. Of course, most progressive thinkers would disagree and suggest that there are some universal values that can be applied in all situations, for instance, the need for basic needs, safety, stability, security, and education. Markets are notoriously incapable of providing these goods and intangibles to all participants and a welfare state does not need to go much beyond providing these basic needs in order to guarantee a decent life to its citizens. In addition, the state has to keep inequality

from getting out of hand, because if it does, then it will threaten the basic foundations of democracy insofar as the concentration of power is a threat to democracy as Chief Justice Louis Brandeis asserted decades ago: “We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can’t have both.”³⁵

However, Hayek thinks in terms of absolutes: we have an “infinite variety of different needs (p. 102).” However, he does not contemplate that in reality the government needs to be concerned with a small set of these.

Freedom

Hayek draws a connection between economic and political freedom: “We have progressively abandoned that freedom in economic affairs without which personal and political freedom has never existed in the past. Although we had been warned by some of the greatest political thinkers of the nineteenth century... that socialism means slavery, we have steadily moved in the direction of socialism. And now that we have seen a new form of slavery arise before our eyes, we have so completely forgotten the warning that it scarcely occurs to us that the two things may be connected (p. 67).” This is an idea that Milton Friedman would accentuate repeatedly in his widely read *Capitalism and Freedom*.³⁶

Hayek insists on conceptualizing freedom in a formal legalistic sense and is incapable of conceiving it in a wider framework, for instance as Amartya Sen does in terms of capability.³⁷ Actually, the intangible limitations markets can impose upon individuals are as binding any formal limitation if one has little to offer the market. There is a large number of progressive social theorists who emphasized the limitations markets place on human development especially on disadvantaged groups. Among these was the humanistic psychologist Erich Fromm who stressed the constricting aspects of free markets: “Modern capitalism needs men who cooperate smoothly and in large numbers; who want to consume more and more; and whose tastes are standardized and can be easily influenced and

anticipated. It needs men who feel free and independent, not subject to any authority or principle or conscience--yet willing to be commanded, to do what is expected of them, to fit into the social machine without friction; who can be guided without force, led without leaders, prompted without aim..."³⁸ That describes the extent of unfreedom in today's economic system.

Fromm argued, furthermore, that the "submission" to "anonymous authority" leads to conformity just as societies led by "overt authority".³⁹ What is this "invisible authority"? It is "profit, economic necessities, the market." "The laws of anonymous authority are as invisible as the laws of the market—and just as unassailable."⁴⁰ "The mechanism through which the anonymous authority operates is conformity," that accompanies the "craving for acceptance" but leads to "absence of individuality".⁴¹

As recognized by Huxley, this craving for acceptance is fostered by Madison Avenue, because by dictating conformity they can homogenize market participants and define the terms on which an individual becomes a respected member of the society. And those terms enhance the bottom line of their clients. In this regard Herbert Marcuse asked: "Can one really distinguish between the mass media as instruments of information and entertainment, and as agents of manipulation and indoctrination?"⁴² Of course, Madison Avenue is not alone in limiting our autonomy and imposing its fetters upon the individual. It is joined by Hollywood, Silicon Valley, and the internet in which it is difficult to avoid the imprint of a commercial culture imposing its version of unfreedom upon us. This indoctrination implies that one is not free to develop one's personality from within; rather it is imposed through the media with the hard-press sales pitches of intrusive advertisements and manipulating images and misleading rhetoric that dulls the mind. Developing one's character autonomously without the interference of the profit motive of big business would be an essential aspect of a truly free society made up of individuals who are not inculcated with the fundamental elements of

consumerism. Such freedoms are not easily gained. “The idea of ‘inner freedom’... [is] the private space in which man may become and remain ‘himself’. Today this private space has been invaded and whittle down by technological reality. Mass production and mass distribution claim the *entire* individual...”⁴³ This is made all the more easier through the decline in the power of the family to protect its children from the outside world. Its socializing functions are increasingly taken over by outside groups and media.⁴⁴ The upshot is a “one dimensional man”, one-dimensional thinking in economic terms and the ability for critical thought is whittled away. The intimate spheres of life are invaded and disappear. These thoughts were composed in the 1950s and 1960s. How would these scholars shudder at the civilization of the 21st century with Facebook at center stage?

According to Fromm, the consequence of a legalistic conception of freedom combined with the domination of a consumer culture and the ideology of the supremacy of the free market is an “alienated conformity” and an “automaton conformity” that ultimately fails to satisfy. Instead, frustration arises out of a “lack of individuality” without people realizing the source of their lingering malaise. We are trapped into “obedience without the use of force” “under the influence of our whole cultural apparatus, the advertisements, movies, television, newspapers,...and can hardly escape being driven into conformity...”⁴⁵ Of course, this is not apparent to the individuals themselves insofar as self-knowledge is lacking. Marcuse concurs: “The individuals identify themselves with the existence which is imposed upon them and have in it their own development and satisfaction.”⁴⁶

Riesman et al. also argue that autonomy is compromised in the modern industrial society that is increasingly bureaucratic with increasing power of corporations. They argued that in such a society people define themselves in reference to others in the society. “Their contemporaries are the source of direction for the individual... This source is of course ‘internalized’ in the sense that dependence on it for guidance in life is implanted early....

This mode of keeping in touch with others permits a close behavioral conformity, not through drill in behavior itself, ... but rather through an exceptional sensitivity to the actions and wishes of others.... his need for approval and direction from others... goes beyond the reasons that lead most people in any era to care very much what others think of them. While all people want and need to be liked by some of the people some of the time, it is only the modern other-directed types who make this their chief source of direction and chief area of sensitivity. It is perhaps the insatiable force of this psychological need for approval that differentiates people of the metropolitan, American upper middle class, ... from very similar types that have appeared in capital cities... in previous historical periods.”⁴⁷

“The function of advertising is largely to coax you into buying and to whet your appetite for things, so that you can be coaxed.” This results in a “greed for things and the inability to postpone the satisfaction of wishes.” The ultimate outcome is “the destruction of the self.”⁴⁸ “Having fun consists mainly in the satisfaction of consuming...” is constantly stressed. “Most of these appetites are synthetic.” The “desires are constantly stimulated” so that desires cannot be extinguished so that satisfaction continues to elude in an alienated society that overvalues money and consumption. Yet, money and consumption does not satisfy. Spirituality and deep interpersonal relationships would satisfy but they are stifled because there is no profit to be made from them. “So people do worry, feel inferior, inadequate, guilty. They sense that they live without living, that life runs through their hands like sand.”⁴⁹

Amartya Sen has a similar perspective on freedom as Fromm. It is insufficient to have formal rights. One also has to be *de facto* capable of exercising those rights in order to live a fully human life and benefit from the formal rights: “various types of unfreedoms leave people with little choice and little opportunity of exercising their reasoned agency”.⁵⁰ Unfreedoms include: “poverty as well as tyranny, poor economic opportunities as well as

systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states.” “Sometimes the lack of substantive freedoms relates directly to economic poverty...”⁵¹ While focusing mainly on the developing part of the world, Sen’s concepts are applicable to the developed part of the globe as well: “The richer countries too often have deeply disadvantaged people, who lack basic opportunities of health care, or functional education, or gainful employment, or economic and social security”.⁵² In addition to the conventional conceptualization of freedom “it is very important to see freedom in a sufficiently broad way” in contrast to libertarians, because “unfreedom can arise...through inadequate opportunities that some people have for achieving what they minimally would like to achieve.”⁵³

Members of the Frankfurt school were also critical of the dehumanizing aspects of the economic system, “an apparatus which they do not control, which operates as an independent power to which individuals must submit if they want to live.... Men do not live their own lives but perform pre-established functions.”⁵⁴ Individuality is lost in the process and the typical consumer “desires what he is supposed to desire.”⁵⁵ The manipulation of desires has become an important science so that the individual submits seamlessly to the system’s domination. Like Sen, Marcuse also writes about “unfreedom” in advanced industrial societies and notices some salient features such as the “suppression of individuality” and “the manipulation of needs by vested interests.”⁵⁶ “Thus economic freedom would mean freedom... from being controlled by economic forces and relationships;.... Intellectual freedom would mean the restoration of individual thought now absorbed by mass communication and indoctrination...”⁵⁷ One of the forms of repression is the inculcation of “false needs” into the population. “‘False’ are those which are superimposed upon the individual by particular social interests in his repression: the needs which perpetuate toil, aggressiveness, misery,.... Most of the prevailing needs to relax, to have fun, to behave and

consume in accordance with the advertisements, to love and hate what others love and hate, belong to this category of false needs.”⁵⁸ “As long as they are kept incapable of being autonomous, as long as they are indoctrinated and manipulated...” they are unable to distinguish between “true and false needs”.⁵⁹ It is unreasonable to think that people who have been dominated “might break their servitude and seize their own liberation.”⁶⁰

Although Hayek realizes that the poor have fewer opportunities, he is not particularly concerned by it, claiming that they still have plenty of freedoms: “The fact that the opportunities open to the poor in a competitive society are much more restricted than those open to the rich does not make it less true that in such a society the poor are much more free than a person commanding much greater material comfort in a different type of society (p. 135).” However, he provides no evidence to support this sweeping generalization. He realizes neither how devastating relative deprivation is nor how the market can subjugate those who are at a disadvantage and have little or nothing to offer the market.

Hayek provides an apotheosis of private property as the fundamental pillar of our freedoms, a message that Friedman repeated frequently: “...the system of private property is the most important guaranty of freedom, not only for those who own property, but scarcely less for those who do not. It is only because the control of the means of production is divided among many people acting independently that nobody has complete power over us, that we as individuals can decide what to do with ourselves (p. 136).” To be sure, no one has complete power over us, but the system has sufficient power to force a very large segment of the population to live demeaning lives without dignity at the mercy of those who wield power, with anxiety subjected to the vagaries of the market and ultimately unfulfilled lives. That is not freedom. This is unfreedom and subjugation as real as that of the serfs by other means.

The Alleged Supremacy of Markets

Hayek's thinking of the market mechanism can best be characterized as created by a supreme being. It seems to be infallible. Yet, markets are created by human beings and not by a deity. Spontaneous order is to economics what the Immaculate Conception is to Catholicism. Markets are by no means natural.¹ Rather, they are man-made institutions and hence can be formed and reformed to suit our purposes; they ought not be above criticism or above the democratic process. Being man-made, they cannot possibly be flawless. They are not infallible and should not be idolized. They are a means to an end and not an end in themselves. Thus, we should remain the masters of markets, and not vice versa. Hayek's belief in the power of markets makes it appear supernatural certainly superior to democratic processes.

Furthermore, Hayek never thinks seriously about inequality, poverty, wealth distribution, concentration of power, imperfect information, opportunistic behavior, instability, safety, manipulation, that is to say the kind of imperfections the real economy is made of. He does not believe in the privilege of birth, i.e., that the unequal distribution of wealth at birth: "To call private property as such, which all can acquire under the same rules, a privilege, because only some succeed in acquiring it, is depriving the word 'privilege' of its meaning (p. 118)." Of course, some people have acquired it at birth by luck, or they acquired it because of some abilities that they were lucky enough to be born with. That is precisely why it is a privilege. Subsequently he does qualify the above assertions: "inheritance, with the differences in opportunity which these create... a strong case for reducing this inequality of opportunity... (p. 134)." However, he does not go beyond and draw any implications from it.

He provides very little evidence to back up his sweeping generalizations and most of the little evidence that he does offer is rather trivial. He proposes conjectures as they were

proven facts: “Although under competition the probability that a man who start poor will reach great wealth is much smaller than is true of the man who has inherited property, it is not only possible for the former, but the competitive system is the one where it depends solely on him and not on the favors of the mighty, and where nobody can prevent a man from attempting to achieve this result (p. 135).” At least he acknowledges that poverty is a disadvantage for social mobility but he does not realize that there are various types of competitive systems. For him there is only one: the one that exists in his fantasy. Moreover, he does not realize that mobility depends not only on the individual, because in order to acquire the necessary attributes to break through the debilitating ballasts of poverty one needs certain attributes that one acquires in the process of growing up in the first two decades of life. During this time the society and the family needs to provide the necessary nurturing and educational opportunities that are absolute prerequisites of acquiring the needed preconditions for succeeding in a highly competitive market. Thus, the poor who grow up in a slum environment are deprived of the opportunity to acquire those crucial characteristics and end up in the shadow economy or in jail or are prey to being exploited by those with greater advantages.

Moreover, Hayek exaggerates and continues to focus on the three famous dictatorships of the time disregarding the Scandinavian model: “It is only because we have forgotten what unfreedom means that we often overlook the patent fact that in every real sense a badly paid unskilled worker in this country has more freedom to shape his life than many a small entrepreneur in Germany or a much better paid engineer or manager in Russia (p. 135).” This is not very convincing comparison, because he overlooks the Scandinavian model and because he seems to have no idea at all about racial discrimination at the time or how constricting poverty is in a free-market economy. Poverty robs millions of hope.

“Economic Dictatorship”⁶¹

In Hayek’s thinking the “impersonal forces” of the market invariably lead to benevolent outcomes (p. 137) and he always thinks of authority as an arbitrary dictator rather than as a benevolent authority derived from the common will. He also fails to see that markets can coerce. Even inequality is more bearable in his mind if it is determined by the market: “Inequality is undoubtedly more readily borne, and affects the dignity of the person much less, if it is determined by impersonal forces than when it is due to design. In a competitive society it is no slight to a person, no offense to his dignity, to be told by any particular firm that it has no need for his services or that it cannot offer him a better job.... (p. 137).” Tell that to an African American who suffers from racial discrimination. And where is the evidence for the “undoubtedly”? And why would we want to design a system that was unequal? He continues with his dizzying fantasies: unemployment or the loss of income which will always affect some in any society is certainly less degrading if it is the result of misfortune and not deliberately imposed by authority (p. 137).” But why would a democratically elected authority impose unemployment? It would make no sense and of course he does not provide an example of an authority that imposed unemployment. He also neglects to explain why unemployment imposed by the market would be less degrading. He continues, “However bitter the experience, it would be very much worse in a planned society (p. 137).” He again does not explain how he came to this conclusion. On the face of it, one would think that hunger is as difficult to bear in one system as in another.

Power

Hayek rightly sees the concentration of power as a threat to individual freedom but erred enormously in thinking that such threats can only emanate from the state. No doubt that in 1944 that threat appeared the most imminent and most dangerous. Yet, he did not possess

the vision of Aldous Huxley who 14 years later saw that there are numerous threats to our freedoms. He saw that any concentration of power can lead to unfreedom.

This is not a benign oversight by any means. It has immense consequences for our understanding of how we became neo-serfs of the oligarchs. For one of the principles of free markets is that it concentrates wealth which in turn leads to the concentration of political and social power.⁶² Thus, the only way to maintain democratic political institutions in the long run is if the government levels the playing field from time to time as it did in the New Deal. Otherwise the concentration of wealth will lead to the concentration of political power through a feedback loop as Robert Reich points out: “the increasing concentration of political power in a corporate and financial elite that has been able to influence the rules by which the economy runs.”⁶³ Joseph Stiglitz makes the same point repeatedly.⁶⁴

But government seldom has the right constellation of leadership and legislative support to muster the will and the courage to bring about such leveling in face of vested interests. For that a crisis is needed like the one in the Great Depression. Franklin Roosevelt understood the influence of misplaced power well. He warned us about the “industrial dictatorship” imposing wages on working people, about “economic royalty” expropriating other people’s money.⁶⁵ The New Deal “was remarkably successful at creating a middle-class nation...” and similarly successful was “the de facto anti-New Deal that has prevailed since the 1970s at creating an oligarchy.”⁶⁶ “No one doubts that the children and grandchildren of today’s top hedge fund managers and Internet entrepreneurs will enjoy privileged positions for generations to come.”⁶⁷

Power is the ability to control the action or thought of others. It can consist of coercion or the threat thereof; it can be overt or covert; it can be perceived as legitimate by the society or not. Wealth provides irresistible incentives for politicians to act on behalf of people with money. Thus, wealth translates directly into power insofar as wealth is invariably

used to influence politicians in such a way as to make the further acquisition of wealth possible. In addition, wealth is used to control the action of others through manipulation by conditioning. Hence, power constrains and makes some actions more likely than others.

Power does not exist in perfectly competitive markets insofar as there are many sellers and many buyers; in such a market, power is diffused until it becomes negligible and strategic behavior does not pay. While this is the default model used Hayek uses without explicitly stating it, it is obviously misleading because the perfectly competitive model is of negligible importance in today's real existing economy. Instead, oligopolies and monopolies rule the day which lead to the concentration of wealth and power. This is not new by any means: Adam Smith knew it, as did the founding fathers.⁶⁸

In the laissez-faire economy of the late-19th and early-20th century, wealth became concentrated in the hands of the “robber barons”: with the expansion of railroads, finance, petroleum, and steel, a new wealthy class gained prominence using questionable business practices to make their fortune. An early warning came from President Dwight Eisenhower, who spoke unabashedly in his farewell address to the nation of the “unwarranted influence” of the “military-industrial complex,” and the “potential for the disastrous rise of misplaced power.”²

In the half-century since this prognosis, mega-corporations have extended their control over society beyond the military-industrial complex to encompass the financial sector, the media, culture, and to capture government to a greater extent than ever before. This metamorphosis took place so slowly that it was hardly noticeable in our day-to-day activities. However, the cumulative effect was to transfer both political and economic power from middle class to mega-corporations and the ultra-rich. “. . . executives of large corporations and their ubiquitous lawyers and lobbyists, denizens of Wall Street and their political lackeys, and numerous multi-millionaires and billionaires—have for many years been actively reorganizing the market. . . .”⁶⁹ “Simultaneously, centers of countervailing power that between

the 1930s and late 1970s enabled America's middle and lower-middle classes to exert their own influence—labor unions... have withered. The consequence has been a market organized by those with great wealth for the purpose of further enhancing their wealth.”⁷⁰

“Rising wealth at the top buys growing political influence, via campaign contributions, lobbying, and the rewards of the revolving door. Political influence in turn is used to rewrite the rules of the game—antitrust laws, deregulation, changes in contract law, union busting—in a way that reinforces income concentration. The result is a sort of spiral, a vicious circle of oligarchy.”⁷¹ And of course, Wall Street can also repay the favors to the likes of Timothy Geithner and Ben Bernanke who did them the favor of bailing them out. They are now drawing many million dollar salaries from the Lords of Finance.

The problem starts with the fact that according to our legal tradition, corporations are legal persons. This makes perfect sense from the point of view of conducting business. However, it makes absolutely no sense to consider a business incorporated for the purposes of conducting production, trade, or finance as a person empowered to exert an influence in the realm of politics or of culture. There are harmful elements in this legal fiction, namely that the political rights of individuals are extended to a fictitious entity.

The First (1791) and the Fourteenth (1868) amendments of the U.S. Constitution were originally intended, respectively, to guarantee the basic rights of free speech to flesh-and-blood human beings and to protect the rights of freed slaves. They had nothing to do with businesses. However, the extension of these rights to inanimate entities made the concentration of power much more threatening to individuals. Insofar as inanimate entities are unable to speak, they ought not be protected by the First Amendment. To be sure, corporations can have employees speak for them, but that implies that flesh-and-blood individuals have multiple voices in society: both as their real selves and as spokespersons for a powerful inanimate entity. This in itself brings about an uneven distribution of power that is

exacerbated, of course, by the imbalance in distribution of financial resources. In this way, profits are translated into political and social power with strong feedback effects to the economic structure and its institutions. It is also ridiculous to equate money with free speech, which allows corporations to wield undue influence in elections.

In this manner, oligopolies such as Goldman Sachs and JPMorgan Chase gained lots of clout to set prices and to manipulate the market to their benefit by exerting their influence on the political process.⁷² This is precisely what is happening to Congress with substantial feedback effects to the economy.⁷³ The financial sector spent \$2,700 million on lobbying from 1999 to 2008, while individuals and committees affiliated with the industry made more than \$1 billion in campaign contributions in order to gain further economic advantage.⁷⁴ It is unjust and dangerous that corporations are allowed to donate unlimited funds to influence political campaigns without disclosing their contributions even to their shareholders. Thus, CEOs can use the shareholder's money and lobby even against the interests of their shareholders without them ever knowing it.⁷⁵ In the meanwhile, the underemployed have no lobbyists and can make no campaign contributions whatsoever. Under such unbalanced circumstances, the market's playing field could not possibly remain level.⁷⁶ No wonder corporations have received many benefits from government: "Nationwide state and local subsidies for corporations totaled more than \$70 billion in 2010."⁷⁷ And trillions of dollars have been pumped into the financial sector by the Federal Reserve since the Meltdown of 2008.

In addition, designing the market system to their benefit, powerful oligopolies squelch competition and thereby reap near-monopolistic profits. The invisible hand could lead to efficient outcomes only to the extent that power is decentralized. Concentration of power works in the opposite direction by infringing on our rights so that we have to compete on the oligarchists' terms rather than on ours.

The Domination of the Economic Elite

“Who governs? Who really rules? To what extent is the broad body of U.S. citizens sovereign, semi-sovereign, or largely powerless?” asks a recent study of the American political system.⁷⁸ The authors’ answer is clear: “economic elites and organized groups representing business interests have substantial independent impacts on U.S. government policy, while average citizens and mass-based interests groups have little or no independent influence. The results provide substantial support for theories of Economic-Elite Domination and for theories of Biased Pluralism, but not for theories of Majoritarian Electoral Democracy or Majoritarian Pluralism.”⁷⁹ In plain text the preferences of the average American voter on Main Street have no influence in the halls of Congress. The majority does not rule. The authors continue: “What do our findings say about democracy in America? They certainly constitute troubling news for advocates of “populistic” democracy, who want governments to respond primarily or exclusively to the policy preferences of their citizens. In the United States, our findings indicate, the majority does not rule—at least not in the causal sense of actually determining policy outcomes.... even when fairly large majorities of Americans favor policy change, they generally do not get it.” The authors conclude: “our analysis suggests that majorities of the American public actually have little influence over the policies our government adopts. Americans do enjoy many features central to democratic governance, such as regular elections, freedom of speech and association, and a wide-spread (if still contested) franchise. But we believe that if policymaking is dominated by powerful business organizations and a small number of affluent Americans, then American’s claims to being a democratic society are seriously threatened.” One could not state it more clearly. This is the new serfdom.

How did it happen? Domination is based on profits. Profits are the basis of the astronomical salaries of the managerial elite. Profits are the residual from revenues after the

costs of labor, raw materials, and capital are subtracted. In perfect competition, there would not be any profits at all, but that is irrelevant to today's economy as almost all of it is concentrated in oligopolistic firms. And there has been plenty of profits. For instance, Apple had \$8.2 billion profits in 2008 on assets of \$47.5 billion. As a whole, the U.S. commercial banks earned a 14% return on equity between 1994 and 2007.⁸⁰ Even during the Great Recession (in 2009), the profits of the financial sector were \$242 billion, 17% of all corporate profits, as a consequence of the fact that the taxpayers paid for their losses.⁸¹ Furthermore, profits have been growing: after-tax profits of the corporate sector more than doubled between 2003 and 2010 from \$660 billion to \$1.4 trillion,⁸² but only because it was bailed out at taxpayers' expense.

Planning

Hayek is obsessed with planning and associates his conceptualization of a socialist economy with a planner. He does not consider that democratic governments can improve market outcomes by reigning in excesses in the market place, providing stability, especially financial stability which is the most precarious of the sectors because of fractional reserves, and create institutions such that the welfare of the population can be improved. Again his vision is binary: planning or not. He does not contemplate the middle ground.

In Hayek's opinion the complexity of the modern economy implies that planning by a central authority leads to inferior outcomes: "it is the very complexity of the division of labor under modern conditions which makes competition the only method by which such coordination can be adequately brought about.... It is only as the factors which have to be taken into account become so numerous that it is impossible to gain a synoptic view of them that decentralization becomes imperative (p. 95)." In his view, the only coordination we need is that brought about by the price system. "It enables entrepreneurs, by watching the movement of comparatively few prices,... to adjust their activities [appropriately] (p. 95)."

The coordination is done “by the impersonal mechanism for transmitting the relevant information known by us as the price system.”

“Planning leads to dictatorship because dictatorship is the most effective instrument of coercion and the enforcement of ideals and, as such, essential if central planning on a large scale is to be possible (p. 110).” Of course, this does not follow at all, because planning can also be on a small scale and can also be an outcome of a democratic legislative process so that coercion is not necessary at all. Indeed, dictatorship did not emerge in Western Europe after the Second World War. He repeats this point: “Most planners who have seriously considered the practical aspects of their task have little doubt that a directed economy must be run on more or less dictatorial lines (p. 124).” That’s a strange assertion because he gives no indication of which planners he has in mind.

Hayek’s apotheosis of competition

Competition has magical powers in Hayek’s thinking. He overlooks the fact that firms can also compete in the quality dimension in ways that are not immediately discernable and thereby entice customers to buy their inferior products. He does not consider market imperfections and always has the perfectly competing model in mind.

Conclusion

Hayek believed uncompromisingly in the efficacy of the market and failed to see any of its shortcomings. He thought that the price system was a perfect coordination mechanism and therefore any interference with it can only detract from its effectiveness and in the long run become disastrous. His thinking was basically binary: we can have the free market or we can have the planner in charge of the economy but there was nothing in between. He was pathologically afraid of state power and feared that any sort of planning will lead directly to an autocrat as happened in Europe of the 1930s.

His impact endured and was considerably magnified by Milton Friedman and many other followers who persevered in creating an anti-government ideology that over the years became the dominant in a significant segment of the population including the political elite. In turn, this weakened government's ability to safeguard the balance of power in the economy so that no entity gained unfair advantages in the marketplace. Without such oversight countervailing power evaporated until the establishment of a different kind of serfdom.

What is the means by which we are subjugated? We are free to move about. We wear no shackles. We are free to speak. Nonetheless, we are not in control of our destinies. The powerful are. It is an invisible form of subjugation that works through manipulating our mind, our wants, and our desires based on the destruction of our autonomy and the establishment of a commercial culture. The business elite through their advertisement entice us with products beginning in early childhood.⁸³ They influence the culture in profound ways so that they can profit from them. They've destroyed our self-control and established instant gratification as the norm. That is how we've lost control. In contrast to Huxley, Hayek failed to see that any concentration of power is a threat to freedom. The free market that he advocated allowed and enabled the concentration of power in the hands of a powerful elite. Hayek feared that democratic socialism would lead to serfdom but he failed not realize that there were other roads to serfdom as well. We have taken another road.

Endnotes

¹ Apostolic exhortation, *Evangelii Gaudium*, http://w2.vatican.va/content/francesco/en/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-gaudium.html, accessed January 22, 2013.

² Tony Judt suggests that Hayek is among the "five foreign-born thinkers" "who exercised the greatest influence over contemporary Anglophone economic thought". "What Is Living and What Is Dead in Social Democracy," *The New York Review of Books*, December 17, 2009.

³ Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

⁴ Milton & Rose Friedman, *Free to Choose. A Personal Statement* (Harcourt: 1980).

⁵ It is quite a coincidence that both Hayek and Friedman's parents were born in the Habsburg Monarchy about 400 miles apart and that after fleeing half way around the world they both ended up at the University of Chicago.

⁶ They are available for viewing at <http://www.freetochoose.tv/ftc80.php> accessed June 10, 2016.

⁷ Interview with Milton Friedman on the 50th anniversary of F.A. Hayek's *Road to Serfdom*, November 20, 1994. <http://www.booknotes.org/Watch/61272-1/Milton+Friedman.aspx> accessed January 11, 2016.

⁸ John Komlos, "Growth of income and welfare in the U.S., 1979-2011," NBER working paper, 2016, no. 22211; <http://www.nber.org/papers/w22211>;

⁹ Hedrick Smith, *Who Stole the American Dream?* (New York: Random House, 2012).

¹⁰ Charles Wright Mills, *The Power Elite* (Oxford: Oxford University Press, 1956); G. William Domhoff, *Who Rules America?* (Englewood Cliffs, NJ: Prentice-Hall, 1967).

¹¹ Hedrick Smith, *Who Stole the American Dream?* (New York: Random House, 2012), p. xix.

¹² Hedrick Smith, *Who Stole the American Dream?* (New York: Random House, 2012), p. xix.

¹³ 38 governors were also elected. "2014 November General Election: Turnout Rates," <http://www.electproject.org/2014g> accessed January 9, 2016. But even in presidential elections the turnout has been about 55% since 1972. In the 19th century it was closer to 80%. Wikipedia contributors, "Voter turnout in the United States presidential elections."

¹⁴ Economists can be also captured by wealth, as is so vividly portrayed in the award-winning film *Inside Job*.

¹⁵ "The Mike Wallace Interview: Aldous Huxley (1958-05-18)."

<http://www.youtube.com/watch?v=1ePNGa0m3XA>, accessed January 9, 2014.

¹⁶ "The Mike Wallace Interview: Aldous Huxley (1958-05-18)."

<http://www.youtube.com/watch?v=1ePNGa0m3XA>, accessed January 9, 2014.

¹⁷ Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future*. W.W. Norton & Co., 2012.

¹⁸ On January 21, 2016 it was no. 5 in Business encyclopedias and subject Guides, no. 10 Economic Theory, and no. 11 in Economic Policy. In addition the 1994 edition was independently selling well, as was the condensed and Kindle versions.

¹⁹ "...it would be a mistake to believe that the specific German rather than the socialist element produced totalitarianism. It was the prevalence of socialist views and not Prussianism that Germany had in common with Italy and Russia... (p. 63)" "...by the time Hitler came to power, liberalism was to all intents and purposes dead in Germany. And it was socialism that had killed it. (p. 81)". Caldwell dismisses these important ideas cavalierly as being "overstated" (p. 23). However, they are fundamental to understanding Hayek's thesis.

²⁰ Hans Ulrich Wehler, *Deutsche Gesellschaftsgeschichte: Vom Beginn des Ersten Weltkrieges bis zur Gründung der Beiden deutschen Staaten 1914-1949* (Munich: C.H. Beck, 2003).

²¹ "If Social Democracy is opposed by a doctrine of greater truth, but equal brutality of methods, the latter will conquer, though this may require the bitterest struggle.... I

understood the infamous spiritual terror which this movement exerts...; at a given sign it unleashes a veritable barrage of lies and slanders against whatever adversary seems most dangerous,...” Adolf Hitler, *Mein Kampf*, originally published in 1925; The Noonday Press: Books on-Line, p. 34. “Only a knowledge of the Jews provides the key with which to comprehend the inner, and consequently real, aims of Social Democracy. The erroneous conceptions of the aim and meaning of this party fall from our eyes like veils, once we come to know this people, and from the fog and mist of social phrases rises the leering grimace of Marxism.” p. 40. “When I recognized the Jew as the leader of the Social Democracy, the scales dropped from my eyes.” p. 47. “now for the first time really achieved an understanding of the content of the Jew Karl Marx’s life effort. Only now did his Capital become really intelligible to me, and also the struggle of the Social Democracy against the national economy, which aims only to prepare the ground for the domination of truly international finance and stock exchange capital.” p. 160.

²² Thomas H. Marshall, for instance, introduced the concept of social rights which accrue to every citizen and are not needs tested in his *Citizenship and Social Class and other essays*, (Cambridge: Cambridge University Press, 1950).

²³ “The Declaration of Independence,”

http://www.archives.gov/exhibits/charters/declaration_transcript.html, accessed January 23, 2016.

²⁴ “The Constitution of the United States,”

<http://constitutioncenter.org/media/files/constitution.pdf>, accessed January 23, 2016.

²⁵ Richard A. Easterlin, “Happiness and Economic Growth — The Evidence,” in Wolfgang Glatzer, Laura Camfield, Valerie Moller, and Mariano Rojas, eds., *Global Handbook of Quality of Life* (Dordrecht, NL: Springer, 2015), pp. 283-299.

²⁶ Jae-Hung Ahn, “Ideology and Interest: The case of Swedish Social Democracy,” *Politics & Society* 24 (1996) 2: 153-187; Francis Sejersted, *The Age of Social Democracy. Norway and Sweden in the Twentieth Century* (Princeton: Princeton University Press, 2011).

²⁷ Lane Kenworthy, *Social Democratic America* (Oxford: Oxford University Press, 2014).

²⁸ Sir William Beveridge, *Social Insurance and Allied Services*, (London: Published by his Majesty’s Stationery Office, 1942).

²⁹ Correlli Barnett, *The Audit of War: The Illusion and Reality of Britain as a Great Nation* (London: Pan Books, 2001), p. 26.

³⁰ Sejersted, *The Age of Social Democracy*, p. 5.

³¹ *Rerum novarum. Encyclical of Pope Leo XIII on Capital and Labor* p. 3.

http://w2.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html, accessed January 22, 2016.

³² These principles were reiterated in the encyclical of 1931 *Quadragesimo anno* on the 40th anniversary of *Rerum novarum*. http://w2.vatican.va/content/pius-xi/en/encyclicals/documents/hf_p-xi_enc_19310515_quadragesimo-anno.html, accessed January 22, 2016.

³³ Americans would like to have all that but they just do not want to pay for it through higher taxes. Tony Judt, “What Is Living and What Is Dead in Social Democracy,” *The New York Review of Books*, December 17, 2009.

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- ³⁴ Georg H. Fromm, William Leiss, John David Ober, Arno Waserman, and Edward J. Wilkins, "One-Dimensional Man," *The New York Review of Books*, March 19, 1964.
- ³⁵ Quoted by Raymond Lonergan (pseudonym for Edward Keating) in Irving Dilliard (ed.), *Mr. Justice Brandeis, Great American* (St. Louis, The Modern View Press, 1941), p. 42
- ³⁶ Today, February 7, 2016, Friedman's *Capitalism and Freedom* is ranked number one on Amazon's website under "economic theory" and number three under "free enterprise" where number two was the Kindle edition of the same book!
- ³⁷ Amartya Sen, *Development as Freedom* (Oxford University Press, 1999).
- ³⁸ Erich Fromm, *The Art of Loving*, New York: Harper & Row, p. 85.
- ³⁹ Erich Fromm, *The Sane Society*, London: Routledge, 1955, p. 148.
- ⁴⁰ Fromm, *The Sane Society*, p. 148.
- ⁴¹ Fromm, *The Sane Society*, p. 149-151.
- ⁴² Herbert Marcuse, *One-dimensional man: studies in the ideology of advanced industrial society*, Beacon Press, 2nd edition 1991. First published in 1964, p. 8.
- ⁴³ Herbert Marcuse, *One-dimensional man: studies in the ideology of advanced industrial society*, (Beacon Press, 2nd edition 1991). First published in 1964, p. 10.
- ⁴⁴ Herbert Marcuse, *Eros and Civilization: A Philosophical Inquiry into Freud*, Boston: Beacon Press, p. 96.
- ⁴⁵ Fromm, *The Sane Society*, p. 159.
- ⁴⁶ Marcuse, *One-dimensional man*, 2nd edition 1991, p. 11.
- ⁴⁷ David Riesman with Nathan Glazer and Reuel Denney, *The Lonely Crowd: a study of the changing American Character* (New Haven: Yale University Press, 1950), pp. 21-22.
- ⁴⁸ Fromm, *The Sane Society*, p. 160.
- ⁴⁹ Fromm, *The Sane Society*, p. 161.
- ⁵⁰ Amartya Sen, *Development as Freedom* (New York: Alfred A. Knopf, 1999), p. xii.
- ⁵¹ Sen, *Development as Freedom*, pp. 3-4.
- ⁵² Sen, *Development as Freedom*, p. 15.
- ⁵³ Sen, *Development as Freedom*, p. 17.
- ⁵⁴ Herbert Marcuse, *Eros and Civilization: A Philosophical Inquiry into Freud*, Boston: Beacon Press, p. 45.
- ⁵⁵ Marcuse, *Eros and Civilization*, p. 46.
- ⁵⁶ Marcuse, *One-dimensional man*, pp. 2-3.
- ⁵⁷ Marcuse, *One-dimensional man*, p. 4.
- ⁵⁸ Marcuse, *One-dimensional man*, p. 5.
- ⁵⁹ Marcuse, *One-dimensional man*, p. 6.
- ⁶⁰ It might be mentioned in passing that according to post-modernists Michael Foucault freedom is elusive in human societies and therefore it is useless to think about reforms or alternative systems. This kind of nihilism argues also in binary terms. In my view, there are gradations of freedom and the goal should be to organize society in such a way as to decrease the power of Fromm's "invisible authority" or Sen's "unfreedoms". Given the extensive variations in freedom in the world, as well as in a historical context, there is no doubt in my mind that a society in which the individual is more autonomous is possible even if not in the short term.

⁶¹ *Quadragesimo anno* http://w2.vatican.va/content/pius-xi/en/encyclicals/documents/hf_p-xi_enc_19310515_quadragesimo-anno.html accessed January 22, 2016

⁶² Thomas Piketty, *Capital for the Twenty-First Century* (Harvard University Press, 2014).

⁶³ Robert Reich, *Saving Capitalism: For the Many, Not the Few*, (New York: Knopf, 2015), p. xiii.

⁶⁴ Stiglitz, *The Price of Inequality*.

⁶⁵ “A small group had concentrated into their own hands an almost complete control over other people’s property, other people’s money, other people’s labor—other people’s lives. For too many of us life was no longer free; liberty no longer real; men could no longer follow the pursuit of happiness. Against economic tyranny such as this, the American citizen could appeal only to the organized power of government. The collapse of 1929 showed up the despotism for what it was. The election of 1932 was the people’s mandate to end it. Under that mandate it is being ended. The royalists of the economic order have conceded that political freedom was the business of the government, but they have maintained that economic slavery was nobody’s business. They granted that the government could protect the citizen in his right to vote, but they denied that the government could do anything to protect the citizen in his right to work and his right to live. . . . If the average citizen is guaranteed equal opportunity in the polling place, he must have equal opportunity in the market place. These economic royalists complain that we seek to overthrow the institutions of America. What they really complain of is that we seek to take away their power. Our allegiance to American institutions requires the overthrow of this kind of power. In vain they seek to hide behind the flag and the Constitution. In their blindness they forget what the flag and the Constitution stand for. Now, as always, they stand for democracy, not tyranny; for freedom, not subjection; and against a dictatorship by mob rule and the over-privileged alike.” Franklin D. Roosevelt, “Speech before the 1936 Democratic National Convention,” (Philadelphia, PA, June 27, 1936).

⁶⁶ Paul Krugman, “Challenging the Oligarchy,” *The New York Review of Books*, December 17, 2015.

⁶⁷ Benjamin Friedman, “The Oligarchy in America Today,” *The New York Review of Books*, October 11, 2012.

⁶⁸ “Wealth, as Mr. Hobbes says, is power.” See Adam Smith, “Of the Real and Nominal Price of Commodities, or Their Price in Labour, and Their Price in Money,” Book I, Chapter V, in *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (London: Methuen, 1904), available online at Library of Economics and Liberty.

⁶⁹ Reich, *Saving Capitalism*, p. xiii.

⁷⁰ Reich, *Saving Capitalism*, p. xiv.

⁷¹ Paul Krugman, “Challenging the Oligarchy,” *The New York Review of Books*, December 17, 2015.

⁷² Barclays and UBS were caught manipulating interest rates and fined \$450 million and \$1,500 million respectively but the damage they have done extends well beyond the fines they paid. Alexandra Alper and Kirstin Ridley, “Barclays Paying \$435 Million to Settle Libor Probe,” *Reuters*, June 27, 2012.

⁷³ Bill Moyers Journal, “Simon Johnson and Marcy Kaptur, interview,” October 9, 2009.

⁷⁴ Sewell Chan, "Financial Crisis Was Avoidable, Inquiry Finds," *The New York Times*, January 25, 2011.

⁷⁵ Mike McIntire and Nicholas Confessore, "Groups Shield Political Gifts of Businesses," *The New York Times*, July 8, 2012.

⁷⁶ In a revealing Freudian slip, Representative Spencer Bachus of Alabama, the chairman of the House Financial Services Committee, told *The Birmingham News* that "Washington and the regulators are there to serve the banks." He could not have made it clearer that the banks have captured Washington for all intents and purposes. See Editorial, "How to Derail Financial Reform," *The New York Times*, December 26, 2010.

⁷⁷ David Cay Johnston, "How Corporate Socialism Destroys," Reuters, June 1, 2012.

⁷⁸ Martin Gilens and Benjamin I. Page, "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens," *Perspectives on Politics* 12 (2014), 3:564-581.

⁷⁹ The authors define "Majoritarian Pluralism in which the interests of all citizens are more or less equally represented, and Biased Pluralism, in which corporations, business associations, and professional groups predominate. Martin Gilens and Benjamin I. Page, "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens," *Perspectives on Politics* 12 (2014), 3:564-581.

⁸⁰ Morten L. Bech and Tara Rice, "Profits and Balance Sheet Developments at U.S. Commercial Banks in 2008," *Federal Reserve Bulletin*, June 2009.

⁸¹ U.S. Department of Commerce, Bureau of Economic Analysis, *Fixed Assets Accounts Tables: Table 12. Chain-Type Quantity Indexes for Net Stock of Government Fixed Assets*, last revised August 15, 2012. In 2007 it had \$323 billion profit.

⁸² U.S. Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts Tables: Table 7.16. Relation of Corporate Profits, Taxes, and Dividends in the National Income and Product Accounts to Corresponding Measures as Published by the Internal Revenue Service*, last revised August 2, 2012.

⁸³ Juliet Schor, *Born to Buy: The Commercialized Child and the New Consumer Culture* (New York: Scribner, 2005).