Assess Hayek’s claim that the market is to be preferred to any system based on planning.

Friedrich Hayek's claim, most influentially espoused in his 1944 book 'The Road to Serfdom', has had an incalculable impact on western economic policy since the 'stagflation' and subsequent neoliberal economic realignment of the 1970's. I will be comparing Hayek's view with that of the economic historian Karl Polanyi's in 'The Great Transformation', written in the same year. A salient observation here is how ideologically polarised the globe was at the time of writing; both fascism and communism were competing with the now prevalent market capitalism as the defining ideology of the age. Both writers were concerned with the maximisation of political freedom in a world where it was being pervasively eroded from both sides of the traditional political spectrum.

The key tension between the pair is that Hayek viewed economic freedom as a necessary condition of political freedom, whereas Polanyi viewed hinging political on economic freedom like this as restrictive at best, oppressive at worst. Polanyi thought political freedom would be better achieved by instead abolishing the idea of the free market as we currently perceive it. This in turn would lead to a broader societal freedom where a greater number could flourish.

I will be arguing for Polanyi's account, and that, in light of contemporary ecological and social concerns, the logical progression of this is a radical restructuring of economic affairs around a zero-growth, low emission paradigm similar to that espoused by Tim Jackson in 'Prosperity Without Growth'. I believe only a heteronomous economy can provide us and future generations with true freedom.

The nature of Hayek's claim is of some significance to my analysis. By 'planning', he meant specifically 'the planning which is to be substituted for competition'¹ and not the planning which allows for effective competition, for example property laws or patents; he viewed competition-

facilitating planning as necessary for an effective system. His notion of 'the market' has, in my opinion, 2 facets: a traditional market economy in the neoclassical paradigm; a largely self-regulating entity based upon a negative legal framework where rational consumers calculate maximal utility when buying a good from many competitive producers; it is also a view of wider society based on said system, where political freedom comes about as a result of the lack of economic imposition. These two facets can be called the market economy and the market society respectively.

The basis of Hayek's claim, broadly, is that the market promotes freedom, whereas planning does not. This claim manifests itself variously. Firstly, the market economy provides an organic price-regulating mechanism that fluctuates according to the demands of consumers. Thus an emergent, complex spontaneous order (market society) forms out of many simple economic interactions, like a dune formed from grains of sand. This order is self-regulating, competitive, able to cope with sudden changes, not subject to the whim of any one particular powerful individual and, importantly, is based upon free choices.

Hayek believes that a planned economy cannot provide any of these things. It is regulated by some person or persons other than itself (which may not be undesirable, as I shall explore later), and as a result is uncompetitive. It cannot cope with sudden changes, as it is externally regulated and thus will 'always be a day late and a dollar short'. The key point for Hayek is that it is not free; a planned economy (in Hayek’s use of the term) does not allow for each individual to make an uninhibited choice, rather for one individual or group of individuals to restrict choices through enforcing set price and quantity levels that may not reflect the best interests of society.

Polanyi has an entirely different definition of planning. Instead of relating it to competition, he more holistically relates it to society itself. As a result, economic planning can be preferable if it benefits the substance of society. More broadly, he believes that economics as a whole is necessarily

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embedded and intertwined with the interests of society itself, and as such should serve its interests. This may seem like a self-evident observation. But, taking up a dialectical approach, he emphasises how throughout the 19th and early 20th century, market capitalism has disengaged itself from societal structure by pursuing the Hayekian goal of unfettered competition, and as a result has caused the ‘enfeebling [of] non-economic systems of relations’[^3], or, more simply, the popular notion of the 'breakdown of society'. Polanyi argues that institutions to combat said breakdown, such as a welfare state or tighter financial regulations, arise organically from the interests and actions of society itself. Such responses clearly necessitate economic planning in the Hayekian sense. On this reading, a societal order of competition where the market economy is not detrimental to societal welfare, and planning where it is, may maximise the potential combination of liberty and utility in a society.

But, for both thinkers, this ordering of society is undesirable. And, for both, (in different ways), this is because the idea of the market economy is irreducible; it either exists and has all of its effects or does not and has none at all. As stated before, Hayek thought of any competition-reducing planning as irresponsible on the part of policy-makers; furthermore, he thought that originally mild planning could become dictatorial, incrementally leading to totalitarian government, coercion and repression through the same preference-satisfying individualism that he thinks the market economy (and human nature) is based on. In his analysis, a rational, self interested leader or group who advocates planning would extend their influence to the point where they had total social control, as that most befits their interests. I believe Polanyian analysis can effectively counter this with the aforementioned belief that planning arises not out of the interests of a specific group but organically out of the whole of society, and as such can be a collective process that seeks to best serve holistic, not specific interests. As such, in my opinion Hayek's dictatorial element of planning is an

ineffective straw man.

Returning to the irreducibility of market effects, Polanyi believes that any form of the market economy is detrimental to societal welfare, regardless of whether it has restricting institutions in place. This is because the market economy is based on a triple-faceted 'commodity fiction' with regards to land, money and labour. In economics, a commodity is any item used to satisfy preferences that is subject to the laws of the market. Polanyi holds that neither land, labour or money are subject to the laws of the market; rather they exist in and of themselves. Making any appeal to the notion of the 'labour market' is creating a false dichotomy between a person and the work they do, where as in actual fact an individuals work is necessarily part of their person. Similarly, any appeal to land ownership is wrongly separating the benefits that using land and, more generally, the Earth may provide from the existence of the Earth itself. As Polanyi says, 'to include [the false commodities] in the market mechanism means to subordinate the substance of society itself to the laws of the market'. This is a salient point. Humans and the Earth are and will continue to be the fundamentals of all societies, and exist regardless of economics of any variety. Economics should not separate the use of these things from the things themselves. Hayekian market economics does this, and is therefore flawed. Arild Vatn emphasises this point in relation to the environment, stating traditional economic concepts such as 'marginal benefit', and property or of 'willingness-to-pay' for it do not apply to the environment, as it exists as a system that must be preserved for all other systems to exist, and not necessarily a system that can be used as a commodity for other systems. Whilst it is clearly 'of use', if it is perturbed (as it currently is) then it must be of the highest priority, regardless of economics or any other system.6

To me, it is clear that society is a necessary condition of economics, and not *vice versa*. Indeed, Hayek seems to say as much in chapter VII of 'Road', where he states that 'the ultimate ends of the

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5 Ibid. pp.71.
activities of reasonable beings are never economic’.7 Whilst he uses this argument to further his belief that economic goals are the common secondary goals to our many and varied primary goals (e.g shelter, food) and as such we should be as free to pursue economic goals as we are any other, I think it may be better employed in a Polanyian sense, such that as they are secondary they should never interfere with our capacity to reach any of our primary goals. There is clear and overwhelming evidence that, on a global scale, through widening inequalities, worker exploitation and an over-reliance on financial sectors, our capacities for attaining primary goals are being eroded in pursuit of secondary, purely economic goals. As such, Hayek’s analysis is flawed; a Polanyian economic paradigm is needed.

I believe the answer to what form this paradigm should take is more obvious than one might imagine. It needs to recognise two main theories: that societies freedoms should be maximised in terms of primary goals and that human actions and particularly the Earth are more fundamental to society than economics. Broadly, it needs to allow humans to flourish in a world with scarce and declining natural resources. I think this paradigm is most effectively conceptualised in Tim Jackson’s 2009 book ‘Prosperity Without Growth’.

Jackson's negative argument offers further arguments for the ineffectiveness of the Hayekian free market paradigm, focussing particularly on environmental economic issues such as decoupling and throughput but also taking into account inequalities and consumer culture.8 His positive argument deals with the economic and governmental consequences of a transition to and eventual founding of a zero-growth, economically sustainable paradigm that overcomes the current, flawed primacy of economic goals.9

It is important to note here that Hayek's market economics is entirely dependent on perpetual

9 Ibid. Chapters VII-XII pp 103-204
economic growth. An economy that does not grow will fail, as the market is built on a consumer's willing to pay now, and not later. If a rational consumer believes that a good may cost less in the future, they will not buy it. Extrapolated, this would cause economic chaos. This is how cycles of boom and bust are formed. It is therefore necessary for a Hayekian economy to grow, and it is growth that Jackson's argument is levelled against.

It is the environmental flaws that I feel are most damning in Hayekian analysis, so I will focus on Jackson's interpretation of them. He points to the clear existence of ecological limits, and then argues that free market economics massively neglects them. For example, at current consumption levels some 'strategic minerals' found on earth will be exhausted in a decade, whilst many will be depleted in fourty years. Further examples can be found in the inflation of carbon levels in the atmosphere and decline in oil levels. In each case, irresponsible Hayekian market growth-based capitalism has separated the use of natural resources from the scarce existence of the resources themselves, and is thus further endangering our capacity to flourish.

A contemporary Hayekian's solution to this problem of declining resources may be to propose decoupling as a policy goal. Decoupling is reducing the environmental effects of growth; separating economic growth and environmental resources through technological developments that reduce the throughput of products. Eventually, the argument goes, through this method we will reach a resource-neutral state. But Jackson debunks this. He first distinguishes between relative (reducing resource intensity with respect to GDP) and absolute (reducing resource intensity, regardless of GDP) decoupling, saying absolute decoupling is needed. Jackson argues that in order to secure a carbon-neutral growth-based economy by 2050, we would need to reduce average global levels of carbon dioxide production per dollar of GDP by 2000% at the least radical estimate, and up to


12 Ibid, pp.10

13 Ibid. pp.68
20000% at the most. Looked at rationally, this is clearly unfeasible. A recently published paper supports this theory, suggesting that there exists a 'technological optimism' around the effects of decoupling due to the lack of consideration of complex indirect environmental effects, such as future demand for energy or links between environmental pressures.

So, we can now clearly see the ineffectiveness of Hayek's analysis. But a positive argument is needed to substantiate the superiority of this paradigm. Summarised, Jackson's positive argument is thus: an ideal economy is ecologically and socially literate. To achieve this, the Hayekian concept of perpetual increases in GDP and labour productivity should be refuted. Instead, working hours should be reduced and available work should be spread more evenly about the workforce. Any major investments should focus on reducing ecological impacts e.g. ecosystem enhancement or low-carbon technologies. This paradigm resolves the aforementioned problems of Hayekian economics by de-commodifying labour and the environment and recognising economics as part of and subsidiary to the whole. It is clearly therefore preferred to Hayek's model. But how much planning would such a model necessitate, and how would it be achieved? These are two interlocking questions.

The answer is that in the short term, large-scale government planning may be required. In chapter 11, Jackson sets out policies that governments should follow. Many of these, such as ecological infrastructure, emission caps and decreasing financial speculation seem to necessitate the Hayekian anathema of 'that planning which is to be substituted for competition', in terms of restricting the freedom of action of certain sellers in the market, or even the choice of individuals. Hayek would say that this restrictive planning is contrary to societal interests and leads to totalitarianism. But we

14 Ibid. pp. 80.

have already seen that argument debunked by a Polanyian analysis of collective action to reduce the negative effects on society. With Polanyi, as with Jackson, planning comes from everyone's interests, for everyone's interests.

It is clear to me that, whether the ultimate goal of policy-makers is human happiness, freedom or progress, there needs to be a place for humanity to achieve these things. This 'place' is found in both human society and the Earth; without either, we would have no hope of attaining these goals. It is therefore clear to me that an economic system that is of detriment to one or both of these 'places' cannot be a preferable one. Hayek's market economics has here been shown to be detrimental to both of these things. Instead, a more planned economy should form; not planned in the pejorative Hayekian sense of the word, but planned by all of society to recognise the place of economics within our 'places'. Such an economy will contravene Hayekian principles, but will allow much more scope for human goal capacity than his principles ever could.