

Hayek & the Free Market

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Hayek Against Central Planning

The main task of an economic system is to produce goods and services and a scheme of distribution that does a good job of satisfying people's preferences. Here are two ways of doing it: **Central Planner** vs **Free Market**.

HAYEK'S ARGUMENT AGAINST CENTRAL PLANNING

- P1** In order for Central Planning to be effective, it would have to be that all human needs/wants can be rank-ordered, and that information about these orderings can be obtained and processed in order to arrive at specific plan.
- P2** It's not the case that all human needs/wants can be rank-ordered in terms of importance.
- P3** It's not possible to obtain and process this kind of information.
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- C** Central Planning cannot be done effectively.

Is Hayek right about this? What are his reasons for **P2**? What are his reasons for **P3**?

Is Socialism the Road to Serfdom?

Hayek's Argument Against Central Planning tells against a particular kind of socialism: *State Socialism with a centrally planned, command economy.*

But Hayek is not a fan of other kinds of socialism (and capitalistic systems with too much government intervention), either. He worries that any impediments to the workings of the Free Market will lead us back to the kind of centralized planning critiqued above.

Hayek is not against any kind of government intervention whatsoever. Sometimes the government must intervene in order to keep the Free Market free: bust up Monopolies, correct for externalities, enforce property rights, etc.

THE ROAD TO SERFDOM

- P1** "The close interdependence of all economic phenomena makes it difficult to stop planning just where we wish and [...] once the free working of the market is impeded beyond a certain degree, the planner will be forced to extend his controls until they become all-comprehensive."
- P2** If the planner is forced to extend his controls until they become all-comprehensive, we will face the same rank-ordering and information-processing problems that the Central Planner faces.
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- C** We should avoid impeding the Free Market beyond a certain degree.

Is Hayek right about this? Why does he think that impeding the Free Market will lead to all-encompassing control?

Is Hayek making a *Slippery Slope Argument* here? Are arguments of this kind convincing?