

The Role of the Welfare State in Hayek's Great Society

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Abstract

Even though Austro-British economist and philosopher F.A. Hayek is often portrayed as a persistent opponent of any form of social policy, his position on the welfare state was actually a lot more nuanced and open-minded. The paper gives a broad overview of Hayek's position on the matter and tries to distil the core principles and mechanisms of a Hayekian welfare state. Social policy of a Hayekian variety would put great emphasis on the knowledge problem faced by its administrators and practitioners, the dangerous dynamics of political interventions into a market economy and ethical justification for the existence of a welfare state. It is further argued that a proper theory of a Hayekian welfare state – albeit probably not desirable to be realized in contemporary societies in its entirety – could serve as a useful blueprint as to in what direction current welfare states should be reformed. As such, a shift in focus from economic regulation and the redistribution of income and wealth should give way to the satisfaction of the most basic needs, establishing of equal opportunities for everyone, build-up of capabilities and the simplification of prevailing welfare-bureaucracies. Those changes might succeed to solve current financing problems, renew trust in the institutions of the welfare state, increase self-responsibility and entrepreneurial activity among those subjected to it and reduce political instrumentalization of welfare policies – all the while keeping alive the promise to care for society's weakest and actively promote the abilities of those who have been left behind. By enabling people to be responsible for their own affairs rather than permanently confining them to a life at the mercy of welfare-bureaucracies, a Hayekian welfare state can act as a countermeasure against the recent intensification of phenomena such as populism, xenophobia and authoritarianism.

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1) Scope, aims and relevance of the paper

It would not be an exaggeration to say that Friedrich Hayek was one of the most influential economists of the 20th century. Despite having won the Nobel Prize in 1974 and usually being highly regarded within the profession, a considerable amount of Hayek’s influence – as well as fierce critique directed at him and his ideas – clearly stems from the applicability of his ideas to political purposes. With that in mind, Hayek’s lifelong devotion to classical liberal ideas and skepticism about government policies are often the forefront of the interpretation of his oeuvre. Especially with people who criticize Hayek’s ideas, he is often presented as rather being an ideologue than an academic¹, who took extreme positions on question of public policy, not the least on matters of the welfare state.

Thus, the purpose of the paper at hand is to present Hayek’s critique of (certain) elements of the welfare state in concise and comprehensible form. Chapter two shall provide this task. Chapter three will then present – contrary to the widespread believe that Hayek renounced any form of governmental intervention and advocated for pure *laissez faire* – which measures Hayek deemed feasible in order to create a more just, equitable and indeed efficient society, at

¹ Cf. Witt 2015 or Solow 2012 for instance.

the end of which a coherent “Hayekian welfare state” shall have become visible to the reader. Hereby, emphasis will be put on the idea of Hayek’s “Great Society” and the ways in which a – albeit limited – welfare state can be seen as a prerequisite for the proper operation of human conduct in an individualistic, complex and anonymous society. Chapter four then highlights a few shortcomings and inconsistencies of this Hayekian approach to social policy and proposes some extensions of Hayek’s original framework in order to better fit Hayek-styled welfare measures to the needs and requirements of the 21st century. However, it is still maintained that many elements of Hayek’s thinking about the welfare state can be used to stimulate constructive discussion about potential reforms to present-day welfare states.

Before being able to properly write about social policy, a thorough definition of the concepts to be dealt with must be undertaken. Even though the welfare state has often been described as an “*indefinable abstraction*”² and definitions of social policy being as numerous as “*grains of sand at the beach*”³, it should be possible to define some commonalities.⁴ A welfare state may be defined as “*a social system in which a government is responsible for the economic and social welfare of its citizens and has policies to provide free health care, money for people without jobs, etc.*”⁵ Alternatively, we may understand it as measures of a state that “*are directed at protection of citizens from the hardships of life and impoverishment and/or promote the equality of their opportunities in life.*”⁶ Social policy in turn may refer to “*governmental measures (...) that aim at establishing security of adequate incomes in the event of sickness, premature occupational disability by accident or invalidity, in old age, in case of death of a family’s breadwinner or by unemployment*”.⁷ The linking element between the definition of the terms may thus be seen in the fact that in both cases measures are being set that try elevating the living standards and lifting the distribution of life chances and wealth to a higher level than at which they would be without their existence. Given the relative similarity of these two terms we shall be using the terms “welfare state” and “social policy” as synonyms throughout this paper.

² Titmuss 1968: 124.

³ Cf. Ribhegge 2004: 13, my translation.

⁴ For a thorough discussion of problems with defining welfare states cf. Glennerster 1997.

⁵ Merriam Webster Dictionary.

⁶ Schmidt and Ostheim 2007:21, my translation.

⁷ Lampert and Althammer 2004:3, my translation.

2) Hayekian critique of the welfare state

Hayek's critique of the welfare state is nourished by three separate, yet complementary arguments. That being said, it merits mentioning that Hayek never produced a coherent and encompassing critique of the welfare state⁸, but that his arguments against various forms of social policy have to be brought together from various works of his. In the following section, the three most prominent Hayekian objection against the welfare state are briefly presented. In doing so, I shall deal with Hayek's application of the famous "knowledge problem" onto questions of social policy, his theory of interventionism as well as his critique of the concept of social justice.

The knowledge problem in social policy

The idea that knowledge is necessarily decentralized and dispersed among heterogeneous (groups of) people can surely be described as one of Hayek's most important insights. It can also be considered as the one element of his thought that is universally accepted across the political and ideological borders. His first formulations along those lines from 1937⁹ and 1945¹⁰ were directed at strictly economic problems and aimed at demonstrating the faulty dealings of neoclassical economic theory. In his later works however, Hayek also extended his analysis of the role of knowledge onto political theory and social evolution.¹¹ The basic idea of knowledge being highly dispersed within society and the impossibility of properly centralizing said knowledge¹², also has serious consequences for social policy. Can state-bureaucracies even achieve the goals (e.g. the reduction of poverty or the diminution of time spent in unemployment) they set themselves? Is the result of the carrying out of social policy to be considered as socially efficient? And can policy makers – given the enormous complexity of

⁸ His book „The Constitution of Liberty“ (cf. Hayek 2011[1960]) probably comes closest to this aim.

⁹ Cf. Hayek 1937.

¹⁰ Cf. Hayek 1945.

¹¹ Cf. Hayek 1960 and 1977, respectively.

¹² Not only is the undertaking of centralizing all socially available knowledge a task too complex to ever be satisfactorily achieved, there also are elements of an individual's stock of knowledge, that the owner may not even be aware of. Hayek calls this type of knowledge as "tacit" or "implicit" and describes it as knowledge, which enables individuals to act approximately rationally or correct without them ever being in a position to be able to explain why they actually took the action that they did take in order to achieve their aims. (cf. Hayek 1945: 522. For a more detailed discussion on this topic cf. Oguz 2010)

present day welfare state – even take heed about what people subjected to welfare measures would actually wish for themselves?

As such, the Hayekian knowledge problem is mainly directed at providers and organizers of social policies and may ask whether these entities really are the best ways in order to solve the problems at hand. In that sense, a Hayekian analysis would firstly carefully analyze whether people in charge of the execution of social policies actually face strong enough incentives to actually be interested in having them be successful. If this question can be answered in the affirmative, this would still not mean that the implemented measures would necessarily be successful, Hayek thought. This line of critique would pertain especially to forms of social policy that are knowledge-intense. A good example for this type of policy would be labour market activation, for which's planning and proper implementation vast amounts of information about the preferences of job seekers, their abilities and motivations, but also the societal demand for labour as well as future developments on labour markets (caused by e.g. technical or social change) need to be ascertained and/or estimated. Whether this is possible in a particular case will have to remain an empirical question.¹³ But Hayek's theory of knowledge definitely warns against excessive generalizations and the all too common assumption that almost any aim of welfare state- policy can be accurately scribbled up on a drawing board and subsequently put into practice par-for-par without creating any problems. At the very least the Hayekian knowledge problem puts some sort of obligation onto entities commissioned to orchestrate social policy to be humble in the face of the manifold and highly complex nature of the world. Refusal to accept this complexity could, so Hayek thought, easily lead to legitimate individual interests being completely overridden in the political process: *“The recognition of the insuperable limits to his knowledge ought indeed to teach the student of society a lesson in humility which should guard him against becoming an accomplice in men's fatal striving to control society – a striving which makes him not only a tyrant over his fellows, butch which may well make him the destroyer of a civilization which no brain has designed but which has grown from the free efforts of millions of individuals.”*¹⁴ Compliance with the Hayekian maxim would mean in concreto that social policy should refrain from making promises that are too far-

¹³ And indeed this paper will present some empirical results in chapter 4, which may at least hint at the possibility that the Hayekian knowledge problem can be – under some circumstances – partially solved, mitigated or at least avoided.

¹⁴ Hayek 1989[1974]: 6.

reaching or proclaim unrealistic utopias, such as the “end of poverty”¹⁵ or the dawning of a completely new form of society.¹⁶ The Hayekian framework much rather leads to the conclusion, that social policy should mainly be used to cushion the present, most severe cases of hardship within any society. The long-term solution of the economic problem of mankind may always be in the back of the minds of those conducting social policy, but they should refrain from trying to force this solution into being at all costs.¹⁷

The slippery slope of interventionism

The second major Hayekian objection to the welfare state is its potential to lastingly transform the political order and lead to very unfavorable outcomes, among which the abolition of democracy and individual liberty are most pressing. In his 1944 classic “The Road to Serfdom”¹⁸, Hayek first elaborated on the concept of the “slippery slope” and his theory of interventionism. In this, his main focus was on the detrimental effects of economic planning on a society’s ability to withstand the temptation of totalitarian politics. Hereby, the background is to be seen in the context of the British “war economy” of the early 1940s and the extensive amount of economic planning introduced during WW2. Hayek worried that many of the introduced measures would not be reversed after the end of the war and may thus set the country

¹⁵ Cf. for instance Sachs 2005 or United Nations 2016. With respect to these, Hayek would not deny the general desirability of the goals pursued of these conceptions, but he would presumably be critical of the means devised in order to achieve them. Large-scale interventions by international organizations and the widespread use of general templates for economic development, which have been designed without any consideration of local cultural or institutional conditions are – in the Hayekian perspective about the huge importance of the role of knowledge in economics – destined to fail.

¹⁶ Such as Robert Owen’s (1813) „A New View of Society“

¹⁷ In this sense there certainly is some similarity between Hayek’s outlook and Popper’s „Piecemeal Engineering“ (cf. Popper 1947[1945]: 143ff), even though the former always displayed considerable suspicion vis-à-vis his countryman’s project. (For a detailed discussion about the matter, cf. Notturmo 2014: 18-22 and Caldwell 2006: 115ff) A connectional commonality of the two approaches though can be seen in the conviction, that decision makers guiding the direction and modalities of the welfare state only have a very limited capacity to evaluate the consequences of their decisions. A practical corollary stemming from this insight is the conviction that social reforms should always be implemented in small steps, which would leave open the possibility to modify or reverse said policies if their consequences ex post turn out to be detrimental to human flourishing.

¹⁸ Cf. Hayek 2009[1944], though many of the ideas presented there are based on “Freedom and the Economic System”, cf. Hayek 1939.

up for an intervention spiral¹⁹ onto the “road to serfdom”. Hereby, a badly implemented intervention creates economic distortions²⁰, through which rarely leads to a change or abolition of the initial faulty policy. Rather it is likely that further interventions are devised and implemented in order to cover up the detrimental effects of the initial intervention – which is of course sure to improve the situation even further.²¹ Besides these unwelcome economic effects, it can be expected that over time personal freedom as well as the freedom of the press may be restricted in order to make criticism of the plan – which might endanger its success – impossible. In addition, career choice and free movement may eventually be compromised to the “greater goals” set by state.²²

After the end of World War II and thus without the imminent danger of what Hayek called “hot socialism”, the focus of his attention shifted. He increasingly began to view the “cold socialism” of western welfare states as the most prominent dangers for economic liberty, material welfare and human flourishing. Thus he adapted his argument about economic planning onto the welfare state. Now topics such as electoral and client politics, progressive taxation, promotion of special interests and unnecessary unemployment take the center stage of his worries. Through faulty measures of the welfare state and resulting distribution battles, even innocent welfare states could – Hayek thought – lead to totalitarian outcomes. However, this process is described as a lot more subtle and less certain by Hayek and further complicated by the fact that – as opposed to “hot” socialism – “cold” socialism would not offer a clear goal and lay out the means for achieving it.²³ Furthermore, as will still be seen, Hayek did of course not think that all measures of the welfare state need necessarily lead to totalitarianism. Thus the identification of the uncritical measures²⁴ and differentiation from the more problematic ones – the drawing of the line between what is helpful, tolerable or outright destructive – becomes crucially important. Further complicating the issue is Hayek’s conviction that even those goals of the welfare state that can legitimately be pursued with adequate means, may of course also be pursued with

¹⁹ The term was first introduced by Mises 1929.

²⁰ Such as raised prices, shortages or deteriorating product quality.

²¹ As an example Hayek presents price ceilings, which – as most economists would agree – are rather likely to reduce supply than to make the good more affordable. If the initial price ceiling – for say milk – does not produce the intended effect, it is very likely that the price ceiling will actually be extended to production factors of milk.

²² Cf. Hayek 1982 [1944]: 90-94.

²³ Cf. Hayek 1971[1960]: 328ff.

²⁴ Those that may even promote overall societal welfare and are in a position to “make a free society more attractive”. (Hayek 2011 [1960]: 375.

means that will – over short or long – have unfavorable consequences.²⁵ This is especially problematic with issues for which no sane person could potentially object to the underlying goal, such is the case with “the abolition of poverty”, for instance. But despite everyone could agree that the pursuit of this goal was indeed worthy, Hayek thought, it does not follow that every measure intended to achieve this aim should be considered as justified.²⁶

The problematic nature of “social justice”

A Hayekian critique of the welfare state however does not only rest on arguments about the practical feasibility of taking the right measures and the gloomy consequences that can result if this is not done adequately. Hayek also worried about the justifications offered for why social policies should be carried out at all – about their normative underpinnings, that is. With respect to this, we can observe a very strong disdain for the epithet “social”, which Hayek deemed to be used far too inflationary among most members of the public. He thought that this particular prefix quite often served to hi-jack the word it was combined with and managed to change the original meaning of the noun it was combined with.²⁷

Furthermore, to him questions ordinarily discussed under the label of “social justice” quite often entailed debates about the desired distribution of income and/or wealth in a society. To Hayek however, justice necessarily was an attribute of human action, an evaluation of the individual conduct of single individuals. On the other hand, the distribution of income or wealth could – according to Hayek – not be understood as a situation that had been brought about deliberately, but should rather be viewed as the non-intended outcome of the independent actions of all members of society²⁸ - which is why the concept of justice should not be applied to evaluate things of that sort.

Additionally, Hayek also thought that people actually did not really know what they talking about when they referred to “social justice”, because there was universally understood meaning

²⁵ Cf. Hayek 2011[1960]: 376, “*though some of the aims of the welfare state can be achieved only by methods inimical to liberty, all its aims may be pursued by such methods.*”

²⁶ Cf. Hayek 1971[1960]: 329.

²⁷ Hence the designation of these words as “weasel words” who, just like a weasel, suck the content out of something (an egg, in the case of a weasel), while leaving the outside appearance fully unchanged. (source)

²⁸ First and foremost on the part of the sum of ordinary citizens, who, in their aggregated function as consumers, ultimately determine the size of wages and profits that will be passed over to every member of society.

of the term. What is considered to be “socially just” by one single individual or a group of them may actually be considered diametrically opposed to anything resembling justice by another one. What Hayek thus urges is a return to a clearer, more traditional, terminology with which to understand the concept of “justice”.²⁹

Hayek drew the practical conclusion from this that governments should not conduct social policy with the aim of making people equal in a material sense, but only to lift up the most unfortunate members of society and try to provide roughly equal starting points, at least as far that is possible. Thus his rejection of the concept of “social justice” does not per se entail a rejection of social policy, but it does severely limit the scope of actions that a Hayekian welfare state may undertake. Measures specifically designed to alter the distribution of income or wealth are thus by definition excluded in the Hayekian framework. However, it also warns about an inflationary and imprecise use of words such as “social” in order to legitimize the welfare state. Too easily this would help create the impression that measures of the welfare state actually are society’s liabilities vis a vis the recipients. And lastly, Hayek’s critique should limit the optimistic rhetoric of many uncritical supporters of the welfare state, who sometimes seem to believe that a social policy measure can automatically be considered to be “social” if it is legitimized by noble intentions.

It will not come as a surprise that Hayek’s critique of the concept of social justice is highly contested.³⁰ In the course of chapter 4, we will pick up some of the potential objections to Hayek’s narrative and offer potential improvements and mitigations of the Hayekian critique.

3) Goals and Characteristics of a Hayekian Welfare State

The role of the state and the justification for social policy in a free society

²⁹ In this context, Hayek follows a conception of justice could be labelled as “procedural”. For him, it represents a major break from all historic conceptions of justice that the concept now should supposedly be defined in such a way that its implementation would require the accomplishment of certain goals, as opposed to just defining the rules under which the acting individuals need to make their decisions. According to Hayek, legal positivism – and especially Hans Kelsen’s conception of it – can be blamed for chiefly having brought about this change of meaning in the term “justice”. With respect to this, especially the notion that objectively determinable criteria of justice would not exist and the rules for “just” conduct could thus just be arbitrarily – in the best positivistic spirit – altered by societies, strikes Hayek as very problematic.

³⁰ For prominent criticisms, for instance cf. Tebble 2009, Lister 2011, Vanberg 2012: 4 or Morison 2007:244ff.

Despite his vigorous critique of certain elements of social policy and many accounts to the contrary, Hayek did not oppose the welfare state in its entirety, but thought that governmental measures could – under some circumstances – lead to greater welfare for its citizens. In order to fully understand Hayek’s view of the welfare state, it is paramount to first deal with his general outlook on the proper duties of the state. With respect to this, it is first and foremost important to realize that Hayek was no proponent of *laissez faire*. He clearly saw a role for a strong, albeit limited, state. First and foremost, a state is responsible for institutionalizing and operating a working legal system, which is the base of any market economy and which – as Hayek was convinced – can not be created by the market itself.³¹ Undoubtedly, this also includes the enforcement of said legal order via executive power.³² Also the legitimacy of defending the state’s borders is not in dispute for Hayek.³³ Furthermore, he was quite clear on the question about the existence of certain public goods, which could only be provided via state action. Here he mentions the construction and maintenance of roads and the internalization of externalities.³⁴ Furthermore, he mentions the normalization of weights and measures, mapping, the keeping of land registers as well as the provision of official statistics as legitimate fields of governmental activity.³⁵ His take on the question whether money needs to be provided by the state differed over the course of his lifetime, but it is safe to state that Hayek did see a role for the state as well.³⁶ Thus, it should also be noted that Hayek – in many phases of his writing – explicitly stated that he was not in favour of a completely free and unregulated economic order.³⁷

³¹ Cf. Hayek 1971[1960]: 288f.

³² Cf. Hayek 1982[1945]: 61f.

³³ Ibid.: 272f.

³⁴ Ibid.: 61f..

³⁵ Cf. Hayek 1971[1960]: 288.

³⁶ Cf. ao. Hayek 1971:288, for his later “Denationalization of money” cf. Hayek 1977a.

³⁷ This can be seen most strongly in Hayek 1947: 110f, where he claims that “*it would not be altogether untrue to say that the interpretation of the fundamental principle of liberalism as absence of state activity rather than as a policy which deliberately adopts competition, the market, and prices as its ordering principle and used the legal framework enforced by the state in order to make competition as effective and beneficial as possible – and to supplement it where, and only where, it cannot be made effective, is as much responsible for the decline of competition as the active support which governments have given directly and indirectly to the growth of monopoly*”, which seems to equal the consequences of *laissez faire* with those of advanced government-interventionism. This should certainly be read as a devastating critique of the former.

With Kolev³⁸ we can describe Hayek's analogy of the ideal state as being one with an (English) gardener³⁹, who defines the broad structure and order of his garden, but does not substantially interfere with the growth and dispersion of individual plants. Only when their development seems to be getting into conflict with broad structure of the garden, the gardener may interfere and direct their growth into other realms of the garden. Thus, Hayek's position can – at least in some respect and especially so during the 40s and 50s – compared to the main tenets of German Ordoliberalism.⁴⁰ And lastly we need to refer to Hayek's focus on the quality, as opposed to the mere quantity, of state action. For him, the concrete design and the principles underlying an intervention were much more important than its quantitative effect.⁴¹

Now, why – Hayek thought – did welfare states exist? And how could they be legitimized? For him, the single most important reason why welfare states existed was the citizenry's wish – and consequently their voting and active measures – to implement them.⁴² Hereby, the size of a welfare state should usually be seen as a function of the wealth level of the country in question: only when societies get richer, they start caring about the establishment of a welfare state and scope as well as generosity of services should expand in line with income levels.⁴³ Hayek is quite firm⁴⁴ in establishing that he deems this state of affairs as being quite natural and that he generally supports it. A further reason as to why social policy was not viewed very critically by Hayek was his observation that social structures, norms, values as well as living-conditions had changed a lot since pre-industrial times and that traditional networks for support, such as the family, had decreased in importance and thus were not willing – or capable – of carrying out

³⁸ Cf. Kolev 2013:142, the distinction between an English and French garden being made in footnote 142.

³⁹ But definitely not a French one!

⁴⁰ Cf. Kolev 2010: 8-16 or Klausinger 2013:103, who maintains that for Hayek, the state should define the rules of the game, but should refrain from defining the single moves of the game, let alone its outcome.

⁴¹ Cf. Hayek 2011[1960]: 331, where we may also read: "*In other words, it is the character rather than the volume of government activity that is important.*"

⁴² Cf. Hayek 1971 [1960]: 361.

⁴³ Cowen 2007 seems to confirm these considerations.

⁴⁴ Indeed he describes the notion, according to which states should not conduct social policy at all, as a position "*which is defensible but has little to do with freedom*". (Hayek 2011[1960]:375) As such, one may be tempted to view in the best, anti-constructivist manner – the insistence on ending the welfare state in its entirety, as one can sometimes hear it from certain ultra-libertarian outposts, as an outright "fatal conceit".

social policy.⁴⁵ In present-day societies, which he termed as being “Great Societies”⁴⁶, individuals did not largely orient their endeavors along those lines, but instead follow their own goals and trust anonymous forces to help them achieve them. Thus, Hayek thought, states were necessary to preserve rudimentary forms of social security.⁴⁷ However, once this vital societal need for protection against grave life-risk was recognized, governments had to make sure to prevent individuals from freeriding on this societal promise – which is the reason for pervasive use of obligatory insurance in western welfare states.⁴⁸

Interestingly, Hayek could see one more legitimization of the welfare state in the fact that it would create some redistribution. Irrespective of all other arguments for redistribution, Hayek thought that it was “only in the interest of those who require protection against acts of desperation on the part of the needy.”⁴⁹ In that sense, measures of social policy can – even in a Hayekian framework – be understood not only as mere handouts or as plundering raids, but also as a compensation paid out to the losers of “game” about the societal distribution of wealth. The return service of recipients of these payments is of course the acceptance of the status quo. This conception brings us one step away from the notion that policies intended to strengthen the market economy almost per definition have to position themselves against programs of the welfare state. In some sense – and respecting some quantitative boundaries – the interests of recipients and financiers of handouts can certainly align.⁵⁰ Hayek seems to have been aware of this.

One will look in vain though, for an ethical justification of the welfare state on Hayekian grounds. Because he was not willing to use the concept of “justice” to describe the outcomes of societal processes, he did not use it himself to legitimize certain programs of the welfare thus. Thus we find in Hayek the idea that the legitimacy of welfare states will largely be determined by the wealth levels of a society and public opinion about the necessity of social policy. The concrete manifestation of a welfare state thus is not a constant, but in a certain way

⁴⁵ Cf. Hayek 2005[1960]: 386.

⁴⁶ Cf. for instance Hayek 2011[1960]: 333.

⁴⁷ Cf. Hayek 2005[1960]: 386f.

⁴⁸ Hayek was keen on mentioning, that this is not taking place in the interest of the insured, but mostly to protect all other contributors from freeriding. He uses an analogy to liability insurance for car drivers.

⁴⁹ Cf. Hayek 2011[1960]: 405.

⁵⁰ Cf. Sautter 2012: 167ff.

every society gets the welfare state it desires and thus deserves – with all the blessings and dangers that go along with this.

Social assistance and unemployment protection

Labour market policy and the provision of social assistance can certainly be described as the pillars of most welfare states around the world and are usually considered among the most legitimate measures of those.

For Hayek, social assistance is usually legitimate and discussed in many places of his oeuvre. Here we again find quite a benevolent view of (some) measures of the welfare state: “The preservation of competition (is not) incompatible with an extensive system of social services – so long as the organisation of these services is not designed in such a way as to make competition ineffective over wide fields.”⁵¹ At the end of the day however, Hayek still wants to reduce the role of the state in the prevention of unemployment and the relief for individuals that are subjected to it, to a minimum. In order to achieve this, a Hayekian welfare state would put at disposal some sort of universally available minimal income for everybody, which can be obtained in the case of unemployment that is not one’s own fault.⁵² Additionally, a political system will of course have to try to keep the level of unemployment as low as possible. With respect to this Hayek saw stable monetary policy as paramount⁵³, while certainly also the institutional arrangement of labour markets does play a decisive role.⁵⁴

Thus, it can be confidently argued that Hayek was no principled opponent of modest support for unemployed individuals in the sense of some sort of social assistance. Unemployment insurance however, as it is common in many European welfare states, did not win his approval. Firstly, contrary to the aim of social assistance to preserve some sort of socio-cultural minimum for everybody (a goal that can be applied to every person in the exact same way), unemployment insurance tries to maintain the former standard of living of the now unemployed person – an

⁵¹ Hayek 2006[1944]: 39, where it becomes quite clear again that Hayek is not so much concerned with the quantitative dimension of a welfare state, but rather about its quality and the way how social assistance programs are designed.

⁵² Cf. Hayek 1971[1960]: 382.

⁵³ Ibid.:408

⁵⁴ Ibid.: 381.

aim which, according to Hayek, must necessarily lead to the unequal treatment of people.⁵⁵ An even more obvious fault can be seen in the fact that the incentives to seek new work should be lower the higher unemployment benefits are. Generous payments will inevitably lead to individuals remaining in unemployment for longer, thus hampering the adaptive mechanisms of the market process. This could potentially initiate a vicious circle, in the sense that it could cause further unemployment, which in turn would shift the political weights in a society and actually lead to claims for an ever-higher unemployment assistance. It is also characteristic for the Hayekian view of the issue that unemployment is not seen as a universal phenomenon of an economy, but that one has to differentiate between its separate sectors. Thus, Hayek saw generous unemployment insurance also as a form of redistribution from thriving sectors of an economy to its stagnating and shrinking ones.⁵⁶ Hayek does not lose words about the exact height of the aforementioned “minimum”, but one can suspect that he is not talking about very generous contribution in the sense of a “universal basic income”, but rather about basic support in the sense of social assistance as it is common in many countries today.

Education

The chief problem with public schooling located by Hayek was that school systems relying too heavily on this form of the provision of education usually lack a reliable feedback-system for school performance. Additionally, public schooling may be more prone to lead to indoctrination of pupils and to one-sided teaching. While Hayek reckoned that this may also be a problem in private schools, he deemed the likelihood that public schools could be used as a tool to legitimize the (mis-)deeds of governments and paint the history of a given society in a particular way as being much higher.⁵⁷

As a remedy to these Problems, Hayek proposed a shift from governmental provision of education to states merely financing (and perhaps overseeing) education services delivered by the private sector. In concreto, he advocated Friedman’s school-voucher program⁵⁸, which

⁵⁵ Ibid.: 407.

⁵⁶ Ibid.: 409, where close parallels to Hayek’s business cycle theory become apparent, in which high unemployment during economic downturns is also seen as a sectoral problem, which can be traced back to previous malinvestments in that sector.

⁵⁷ Cf. Hayek 2011[1960]: 502.

⁵⁸ Cf. Friedman 1982[1962].

envisages that parents receive – upon the reaching of school age of their children – vouchers which can (only) be used to enroll them in schools; the choice of the particular school is the parent’s choice. This mechanism would, Hayek thought, introduce a much more effective form of competition in the education-sector and ultimately bring down the cost for education, as well as severely improve the quality of the services delivered. It remains unclear just how much education governments should finance in the Hayekian framework. Hayek speaks of “a certain minimum”, which would be easily financeable and create very welcome societal effects, but is somewhat reluctant to clearly define what exactly he means by that. But it can without a doubt be assumed that – taking given levels of education-provision in western societies – a Hayekian program would certainly lead to a severe curtailment of public expenditure on schooling and education. Most likely, a Hayekian welfare state would find it feasible to come up with the funds to finance primary and perhaps rudimentary secondary schooling for everyone, whilst leaving more specialized forms, as well as tertiary education to be provided and financed on the market.

The role of unions

It is a commonplace that central governments are not the only relevant designer and conductor of social policies. A multitude of governmental, communal, NGOs and private organizations create the size, scope and boundaries of the welfare state and - by force of their independent action – carry out social policies. Amongst these institutions, unions are certainly the most influential ones and take important roles that go much farther than their “traditional” purpose of determining wage rates, such as the carrying out or consultation of labour market policy or worker protection.⁵⁹

Hayek’s assessment of union-activity can be described as being quite ambivalent.⁶⁰ While he could certainly see a lot of merit in the general idea of a labour union and deemed some of their functions as highly beneficial for the working of a market economy, others could easily become

⁵⁹ Cf. Ebbinghaus 2010: 206ff. It may even be argued, that the role of unions for the arrangement of social policies was actually greater in Hayek’s day, since – at least in some countries (the UK being the most prominent example here) they likely have lost some of their influence since. This facts should be considered when learning about Hayek’s views on unions – back in the day when his thoughts on the matter began to take form, union influence was perhaps more pervasive than it is today.

⁶⁰ For some thorough criticism of Hayek’s views on the matter cf. Richardson 1993.

a serious danger for the future preservation of a free and prosperous society. The chief problem that Hayek saw with present day union activity was that he deemed it to have become exempt from the rule of law.⁶¹ They had transformed from voluntary associations of workers to violence-practicing and coercive organizations. With respect to this, Hayek is not chiefly concerned about the potential coercion on employers⁶², but rather about their opportunity to exclude non-union-members from getting employment in unionized sectors, thereby all but forcing them to become members as well.⁶³ Also the right to strike – albeit perhaps inevitable in a free society – could potentially be harmful. Hayek thought that it should be suspended for certain professional groups.⁶⁴

The Hayekian skepticism over union activity chiefly rests on the assumption that they are actually not able to raise real wages for their members over the long term without also excluding free access to the particular industry they are representing. This means, that the presence of unions in a particular industry cannot be beneficial for *all* (potential) employees in that industry. Those that wish to work in the sector but are unable to find employment due to the higher wages caused by union-presence, may actually be opposed to unionization.⁶⁵

Lastly, there also are macroeconomic consequences of excessive unionization: Hayek mentions a decreased mobility of labour between sectors⁶⁶ and a decline of capital investment on the part of employers.⁶⁷ Furthermore, he believed that constant demands for pay-raises must be

⁶¹ It is noteworthy though, that Hayek recognized that this pervasive power of unions is a relatively new phenomenon: Up until the early 20th century, Hayek thought, the situation had been rather reversed: union oftentimes were not even allowed to exist, a situation which – as he mentions multiple times – Hayek explicitly did not endorse either.

⁶² Though he was of course aware that labour unions could potentially put significant pressure on employers as well, he thought that this ability only rests on their control over workers. In order to be able to coerce employers, unions have to create significant consensus about the goals the individual workers want to pursue – a situation which Hayek thought could not be achieved without the significant use of force.

⁶³ Cf. Hayek 1971 [1960]: 343.

⁶⁴ Cf. Hayek 2005[1960]: 366, where he does not really offer good examples for this. It can be assumed that what he has in mind here are industries which have become inevitable for the further upholding of social life, like e.g. the health sector or indispensable infrastructure-services. In those sectors strikes should not be seen as the justified protests against meager wages or poor working conditions, but rather as blackmailing of the public.

⁶⁵ Cf. Hayek 1971[1960]: 344.

⁶⁶ The reason for this being wage rates being leveled by unions.

⁶⁷ Cf. Hayek 1971[1960]:346.

considered as a permanent threat for a stable monetary policy within that economy.⁶⁸ All this would lead to unionized economies to operate below their potential.⁶⁹ As a remedy, he proposed to repeal any special privileges accruing to unions and making them fully subject to the rule of law again, but did not grow tired to mention the many important tasks that unions could potentially take over in a free society.⁷⁰

Health services & provision for old age

As most people presumably would, Hayek recognized the importance of people being sufficiently insured against disease and setting aside enough funds in their active years in order to support themselves during retirement. However, he differed with (most of) them about the optimal ways in which these things shall be accomplished.

According to Hayek, public pension systems are quite often the attempt of governments to mend mistakes they have committed earlier – first and foremost rapid currency depreciation – which have only created the necessity to have the state secure people’s living standard during old age.⁷¹ There are multiple reasons why Hayek thought that pay-as-you-go schemes, which already were quite common in Hayek’s day⁷², were inadequate: Firstly, they lead to one major population group receiving their incomes exclusively from the state – a state of affairs which Hayek does not find very appealing in itself.⁷³ Furthermore, he clearly recognized that pay-as-

⁶⁸ Cf. Hayek 1971[1960]: 354f.

⁶⁹ For a critical appreciation of this claim cf. Klausinger 2009: 89f.

⁷⁰ Amongst such he counted the task of explaining income-differentials within organizations to employees, the process of negotiating and contracting with employers, whether future pay-raises should be handed out in cash or in other forms of compensation as well as the building of an internal moral-compass, which could help to govern relations of the various groups of employees within the organization. All this would, as Hayek put it, improve the rule of law within the organization. (Cf. Hayek 1971[1960]: 349f.)

⁷¹ Perhaps Hayek overlooks, that the current idea of a „pension“ or „retirement“ in general actually is a fairly recent development. Up until 100 years ago, retirement was fairly unusual and employment into very old age could be described as the norm. (cf. Clark et al. 2003:2f) Thus, public pensions schemes should perhaps not be viewed as “new” solutions to an “old problem”, but rather as institutions that have actually first enabled people to make retirement possible.

⁷² Hayek thought that “(t)he whole Western world is, however, tending toward this system” (Hayek 2011 [1960]: 418), which turns out to have been a very perceptive prediction.

⁷³ Cf. Hayek 2005 [1960]: 400.

you-go systems are not only about insuring against severe poverty during old age, but more so about insuring an “adequate”, “appropriate” or “just” distribution of pensions claims. In the face of demographic change – and thus an increase in the percentage of the general population that may claim pension-benefits – Hayek feared serious distribution battles between recipients and contributors arising.

For Hayek, the biggest issue with pay-as-you-go schemes were these intergenerational conflicts that they provoke. Firstly, today’s contributors, who finance the livelihoods of current pensioners, are forced to dispense part of their income for the elderly. This procedure may be democratically legitimized, but the entire system is nevertheless built on the threat of force. It was apparent to Hayek that many people – even if they were building their own claims while contributing today – would opt out of the system if only they could. Secondly, the situation of today’s recipients of pension-contributions is – paradoxically – also not that rosy: the system all but forces them to become a supplicant to society. Even though they formally possess a legal entitlement to a pension, it factually rests on the implicit approval of the working population to actually fulfill this promise. Because Hayek thought that over time the percentage of claimants to the public pension systems would go up, he anticipated a shift in the democratic power relations, since more and more people would have an interest in ever and ever more generous pension payments. However, the current working population, who – as Hayek is quick to add – “*supply the police and the army*”, would not indefinitely accept an exploitation of that sort, which induced Hayek to draft rather dark scenarios about “*concentration camps for the aged unable to maintain themselves*” as “*the fate of an old generation whose income is entirely dependent on coercing the young.*”⁷⁴

It is a bit telling however that Hayek does not offer clear proposals of how to best reform the system.⁷⁵ It can be suspected though, that Hayek would have favoured a completely private, capital based unemployment insurance, which’s acquisition may be compulsory however. Cases of hardship would presumably be picked up by ordinary social assistance. Whether a pension-system of that sort could ever be introduced under current political conditions is

⁷⁴ Hayek 2011[1960]: 421.

⁷⁵ In light of the enormous complexity of transforming an existing pay-as-you-go scheme to a funding system, this omission perhaps becomes a bit more understandable. For a good overview about the various possibilities of solving this dilemma, cf. Herfeld 2000: 180-204.

another question, of course.⁷⁶ A perhaps more realistic approach can be found in von Weizsäcker's "Hayek-Pensions"⁷⁷, which combines a contribution based pay-as-you-go scheme for recipients of low wages and a private insurance system for high earners. The system is still designed to include distributary measures by levying progressive contributions for everyone, which may be used to finance the retirement of less fortunate people. The effects of the "Hayek-pension" are estimated to be similar to the concept of the negative income tax developed by Friedman.⁷⁸

Hayek's thoughts about provision of health services take a rather similar line, in the sense that the main points of criticism are not first and foremost of an economic nature, but focus on undesired long-term consequences of state intervention into the healthcare sector. In short, he proposes a compulsory health insurance for citizen, which should under no circumstances be provided by the state, though. The justification for this is quite similar again to Hayek's argument concerning pensions: If a society wishes to supply its members with guaranteed healthcare services, no matter their ability to actually pay for these services, provisions need to be made to curb down on freeriding – compulsory insurance is the best way to achieve this.⁷⁹

What Hayek found especially problematic about state interference in the health sector are not economic consideration, but long-term corrosive effects of governmental agencies being in charge of very intimate elements of people's lives. These were, he reckoned, more relevant in fully socialized, Beveridge-style systems like the British NHS, but could also be observed in continental, insurance-based systems. With respect to this, Hayek worried especially about the transformation of the medical professions from independent occupations to quasi-public services. It may be considered very perceptive that Hayek actually sees how this subtle change can lead to ancient institutions such as the medical confidentiality may simply have to be repealed towards institutions of the state. The "*indispensable helper of the individual*" thus

⁷⁶ However, with respect to this it needs to be mentioned that Hayek was never all to interested in a direct political implementation of his ideas.

⁷⁷ Cf. von Weizsäcker 2003.

⁷⁸ Cf. Friedman 1987.

⁷⁹ Vgl. Hayek 1971 [1960]: 377.

would rather quickly turn into an “*agent of the state*”⁸⁰ and thus open the gates for the infiltration of political considerations into one of the core elements of any individual’s private life.⁸¹

We do however find some elements in Hayek’s thought about the provision of healthcare that many people today would find quite deplorable. For instance, he thought that a healthcare system that is mostly run on private terms would spend a larger proportion on young and currently economically active people, while reducing spending on old people, who – so Hayek thought – “*who will never again contribute to the needs of the rest*”⁸² and did not hesitate to show his approval of this. While he was aware that many people would neither be able nor willing to follow him in his conclusions, he still maintained that the weighing of advantages and drawbacks was still a sensible thing even with respect to topics that are deemed to be highly sensitive.⁸³

Financing the Hayekian welfare state

Having established the main goals and properties of a Hayekian welfare state, we still may want to ask how the measures, which Hayek deemed feasible that the state take over, are to be financed.

As with many other questions as well, the Hayekian critique of taxation does not solely rest on economic factors, but more so on unfavorable long-term consequences of some policies. His argument concerning progressive taxation runs along similar lines, in the sense that he considered it undesirable not chiefly because of adverse economic effects, but rather that they – by their very nature – treat individual citizens differently and thus are not compatible with the rule of law.⁸⁴ Furthermore, Hayek worried that – once the principle that progressive tax rates

⁸⁰ Hayek 2011 [1960]: 424.

⁸¹ With respect to this, Hayek also draws parallels with the use of state-practiced medicine in order to raise work-discipline in the Soviet Union, thereby illustrating one of the core theories of his critique of interventionism – namely that also the most innocently seeming programs of the welfare state can eventually be transformed so as to serve aims that will have to be described as being utterly illiberal.

⁸² Hayek 2011 [1960]: 423.

⁸³ Hayek 1971 [1960]: 379.

⁸⁴ Cf. Hayek 1971[1960]: 399f, though he found the main unjust effects in those cases where the same amount of income is earned by two individuals over different time periods. In those cases, Hayek observed, it could be the case that the individual which earns the same amount of money over the shorter time period is taxed significantly higher for what is exactly the same income. (Cf. Hayek 1952: 265)

are just is accepted – there would be no convincing logical arguments against raising them ever higher and higher.⁸⁵ However, progressive tax rates could – quite paradoxically – also be seen as critical for the social mobility of a society. Hayek thought that extremely high tax rates would make it harder for young, aspiring professions to actually build their wealth. This would lead to tensions between people that have inherited wealth and those that need to work to build theirs.⁸⁶ And lastly Hayek was convinced that the revenues resulting from progressive taxation were actually quite negligible and thus not necessary for the funding of the welfare state.⁸⁷ As a method to practically resolve the issue and end progressing tax rates, Hayek proposed a general principle, a quasi-ethical rule in the form of a legal anchor: “*No tax rate (...) may exceed the one paid by the majority of the population.*”⁸⁸ Recipients of low incomes may – if the general public allows them this privilege – be exempt from taxation or pay lower rates, but the majority should never favour itself in comparison to well-earning minorities.

Given his fierce opposition to progressive forms of taxation, how did Hayek think the welfare state could and should be financed? With respect to this, we find in Hayek the strong conviction that, generally speaking, taxes are too high already and efforts should be made to cut back on them.⁸⁹ On the other hand, one can also find a great deal of openness for measures of taxation that generally are not chiefly associated with a libertarian political ideology, such as inheritance taxes.⁹⁰

⁸⁵ Cf. Hayek 1952: 264f. In Hayek 1971[1960]: 390f he illustrates his worries with the example the example of progressive income taxation in the United States, where the top tax rate rose from only 7 to 91% in matter of merely 30 years.

⁸⁶ Cf. Hayek 1952: 266.

⁸⁷ Cf. Hayek 1971[1960]: 395, where he cites statistics that report the proportion of government revenues from progressive taxation as being merely 8,5 (USA) and 2,5% (GB) during the 1950s.

⁸⁸ Cf. Hayek 1952: 267, my translation.

⁸⁹ Cf. Hayek 2002[1976]: 217f.

⁹⁰ Cf. Hayek 1947: 118, in which he claims that moderate inheritance taxes can be considered as a legitimate means of a “*truly liberal policy*”. It should be noted though that Hayek did not think that inheritance taxes should be levied as an addition to presently existing taxes, but rather as a substitute for other forms of taxation that he deemed to be more harmful. (Needless to say, contemporary discussion about the introduction of an inheritance tax as a general rule propose it as an additional measure, of course.) Furthermore, he was of course aware that excessive taxation of inheritance can represent very big problems, especially for family enterprises – this is why he spoke out in favour of rather low tax rates.

In concreto, we can describe Hayek's approach to questions of taxation as being focused on achieving horizontal equity/justice and neutrality vis a vis the individuals subjected to the tax.⁹¹ Additionally, it is easily seen that he deemed necessary a certain continuity with regards to tax policy, so that the economic actors within any given society are in a position to form stable expectations about future accrued taxes.⁹² And lastly we can again observe the tremendous importance Hayek attached – also with regards to matters of taxation – to the rule of law.⁹³ This would per definition exclude special privileges like better opportunities to write off expenses for certain groups or tax breaks for large enterprises.⁹⁴

Overall, it should be quite clear that the financing model of a Hayekian welfare state should be quite different from present-day ways of funding social policy. Firstly, many of the insurance expenses that are presently paid to governmental institutions would be relocated to the private sector.⁹⁵ Secondly, a Hayekian welfare state would certainly lead to economization with respect to assistance for the unemployed and the non-economically active part of the population. And thirdly it may be assumed that – because of its simplified structure and reduced levels of bureaucracy – reductions in cost of administration could be attained. And fourthly we may add that – given the diminished financial expenditure – the problem of financing the welfare state will generally loose in importance.

The Hayekian welfare state in a nutshell

A Hayekian welfare state should try to reduce to an absolute minimum the use of force, that goes beyond the levying of taxes, against its subjects. This also means giving citizens exit-options from governmental programs wherever this is possible. The legal framework regulating the welfare state should be based on very clear, but abstract rules. This should guarantee the compatibility of welfare states with the rule of law and prevent the systematic favouritism of some groups over others. Furthermore, social policy should not be conducted in the name of

⁹¹ Cf. Spicer 1995: 111.

⁹² With respect to this, he went so far as to propose the same restraint and deliberateness even with changes in the tax system that would lead to massive decreases in the tax burden. For a detailed discussion cf. Zwolinski 2013.

⁹³ Cf. Hayek 1971[1960]: 105f.

⁹⁴ Cf. Spicer 1995: 106.

⁹⁵ This must of course not automatically lead to a reduction in costs for the people insured.

“social justice” – therefore, the aim of the welfare state should never primarily be one of redistribution, but rather of inclusion of society’s weakest and protection from catastrophic events. Programs that a Hayekian welfare state would support are: a) A minimal social assistance for everyone unable to support themselves on the market, in which most current forms of social assistance (such as unemployment insurance, disability benefits or pension-subsidies) would be integrated. Hayek does not give us a precise number for the amount comprised in this mysterious “minimum”, but thinks that societies will come up with very different numbers for this. b) Compulsory insurance against old age, health problems and accidents, the provision of which should not be made by the state itself. But the latter should force individuals to purchase these forms of protection in order to prevent freeriding. c) The guaranteed financing (via vouchers) of basic schooling for children. The services should be delivered via private institutions on a competitive market. d) In terms of financing the Hayekian welfare state attempts an overall reduction in costs and is thus in a position to cut back on taxation. With respect to this, we can observe quite some openness to various forms of taxation that are usually not seen as posterchildren of liberal thought, such as the inheritance tax. e) Unions do have a role to play in the welfare state of a free society, but Hayek thinks that their dealings first have to be re-subjected to the rule of law before that.

All in all, the Hayekian welfare state will have to remain quite limited in size and scope. Some passages from Hayek’s oeuvre would seem to suggest that his support for the welfare state should actually be bigger, given how favourable he writes about social policy at times. Nevertheless we see here a genuine liberal program for a welfare state which can hardly be seen as compatible with contemporary practice in social policy.

4) Critical appreciation and extension of the Hayekian welfare state

The concluding section shall try to a) hint at potential shortcomings of the Hayekian welfare state as it was framed in the preceding chapter and b) yet demonstrate, where and how Hayek’s insights could be used to significantly alter the performance of present day welfare states.

Shortcomings of a Hayekian welfare state and potential extensions

One element of many contemporary welfare states that is largely missing from the Hayekian framework are measures that try to actively promote the inclusion of marginalized groups of society. The social assistance designated by the Hayekian welfare state may not be high enough

in order to properly integrate recipients and enable them to become full-fledged members of society. Inclusive measures such as active labour market policies, which would hardly be featured in a Hayekian welfare state, have been found to be among the most successful programs of contemporary welfare states⁹⁶ - a twist that would certainly have surprised Hayek. Also other measures that aim at the inclusion or raising of particular groups of people, such as social work or family policies are something that Hayekian social policy would probably have trouble to deliver. Given the fundamental importance of these measures and the mostly satisfactory experiences with them, this feature of the Hayekian welfare state needs to be considered as insufficient.

Furthermore, it can also be argued that a certain level of assistance might – under some circumstances – actually be conducive to economic efficiency. Proper payments during times of unemployment could enable individuals to make more productive use of the time during which they are unemployed and experience smaller depreciation of their human capital during this time. Furthermore, a (generous) welfare state can also act as catalyst for competition and innovation: Under some circumstances (first and foremost risk-averse and anti-entrepreneurial cultures) relatively generous assistance could actually lead to people becoming more venturesome and innovative, because people contemplating entrepreneurial ventures know that – in case their ventures do not turn out to be successful – they will be absorbed by a safety net and thus will not have to face potential problems in case their ventures do not turn out to be successful.

Connected with the last point is the question whether the Hayekian welfare state will be enough to ensure a tolerable level of “social peace” within societies. Contemporary welfare states are often described – among other things – as mechanisms to pacify societies and help get rid of inner tensions. Hayek believed that a guaranteed minimum for everyone would be enough to achieve this aim. Current events seem to cast a fair amount of doubt on this all too optimistic notion: The driving force behind a lot of criticism raised against the market economy does indeed not stem from the levels of absolute poverty⁹⁷, but rather from the alleged inequality it

⁹⁶ Cf. Martin 2014.

⁹⁷ In light of the immense success of contemporary market economies of all but eliminating all cases of severe poverty – developments that are especially pronounced in some developing countries, most notably China and India – a claim of that sort would seem almost ridiculous.

creates.⁹⁸ And in that sense it needs to be asked whether a Hayekian welfare state would really be in the position to address these issues and shape a society in such a way that is perceived as being just and equitable by the people comprising it.

One more additional point of critique about the Hayekian conception of the welfare state is the persistent relevance of the concept of social justice. Even if one agrees with Hayek's criticism of the everyday use of the phrase, one will have to realize that the idea still holds significant prominence for most people. Rhonheimer⁹⁹ for instance – even if he agrees with Hayek that the process of the distribution of incomes in a market economy should not be viewed under the aspect of justice – suggests that one could still use moral systems, which are subordinate to the market process, to evaluate and judge the outcomes of this process. And this indeed seems to be the way in which most people do actually evaluate the dealings on markets. Therefore, Hayek's argument about the inadequateness of the concept of social justice – no matter whether it is formally correct or not – will simply not resonate all that much with people, simply because they consult very different benchmarks when evaluating the societal distribution of wealth and income.

Some scholars¹⁰⁰ have also “applied Hayek's own weapons against him”: Hayek's famous theory of cultural evolution posits that the current institutions of any society should not be viewed as stemming chiefly from the conscious decision of human will, but rather as the unintended byproduct of an evolutionary process, which has been going on for long times and according to which more suitable forms of social organization come to gradually replace cultural and institutional patterns that have been found not to be conducive to human welfare.¹⁰¹ It can be argued however, that welfare states are also institutions that have – at least in their present form – not been instituted first and foremost by human will, but are also the product of a long-ongoing trial-and-error process, in the course of which unsuccessful programs of delivering social policies should gradually be eradicated. By denying this evolutionary

⁹⁸ Social movements that have taken a fundamental stance against the capitalist system, as for instance Occupy Wall Street, have explicitly stated that their concern is not to raise the absolute living standards of the poor, but rather to actively bring down the richest.

⁹⁹ Cf. Rhonheimer 2015: 38-42.

¹⁰⁰ Cf. for instance Prisching 2005:170 or Böhm 2009:242f.

¹⁰¹ Cf. Hayek 1981.

mechanism operating Hayek “(...) ends in point at which – given his own premises – he should not have ended.”¹⁰²

Main takeaways for current welfare policy and further outlook

Despite having established that the role of the welfare state as devised in Hayek’s “Great Society” may not be altogether satisfactory with respect to everything, this chapter will still argue that a great deal can be learned from Hayek’s works for the provision of contemporary social policy. In the following paragraphs, his insistence on the use of the market mechanism even for questions of social policy, the need to differentiate between economic regulation and redistribution and the need to simplify current welfare states is addressed. The final paragraph exhibits learning opportunities from what has been written for both, proponents and practitioners of social policies and libertarian economists.

As has been shown in this paper, the fragmentation of socially available knowledge as a fundamental fact of every economy, and the coordinating role that prices play in it, is one of the most central ideas in Hayek’s oeuvre. However, with respect to this he is mostly concerned with the question of which information prices communicate to producers, while more or less neglecting the demand-side of this process – the preference-ranking of consumers, that is. Thus, it could be argued¹⁰³ that in societies with an in-egalitarian distribution of wealth and an inadequate welfare state, dis-privileged members of society would no longer be in a position to effectively signal their preferences, thereby having production shifted to certain luxurious products for a tiny minority. Following this logic, a Hayekian welfare state ought to be concerned about an adequate level of social assistance, not only to prevent the most severe hardships of life, but also to ensure an adequate functioning of the market mechanism so highly praised by Hayek. This also implies that benefits of the welfare state should always be handed out in-cash as opposed to in-kind. Doing the opposite completely levers out the price mechanism and substitutes individuals’ preferences as an allocation-mechanism with political decision making, thereby overriding the free choice and personal sovereignty of welfare recipients.

¹⁰² Böhm 2009: 57, my translation.

¹⁰³ And it has in fact been done by Hayek’s teacher and dissertation adviser (for a thorough treatment of these two men’s relationship cf. Caldwell 2002:47f) Friedrich von Wieser in Wieser 1889:57.

As has been demonstrated, a Hayekian welfare state would help individuals to be protected against the whims of life and thereby engage in (some) redistribution, but it would be quite reluctant to regulate large segments of the underlying economy. In models of neoclassical growth theory a trade-off between the extent of the welfare state and the economic performance of an economy is often assumed.¹⁰⁴ However, there are many reasons to believe that economic regulation must be seen as much more harmful for economic performance than mere social assistance. Regulation density is found to be a solid predictor of the average time spent in unemployment¹⁰⁵, with compulsory severance payments having a particularly strong effect.¹⁰⁶ Coming from the other side, Holcombe and Boudreaux¹⁰⁷ find even quite generous level of redistribution as being impediment to stable economic development. Thus, we can join Bowman¹⁰⁸ and Bergh¹⁰⁹ in arguing that a Hayekian welfare state would optimally account for these findings.

Furthermore, contemporary welfare state are frequently described as being overly complex.¹¹⁰ This can not only mean that (potential) recipients of benefits may have a hard time finding out which services they may actually claim¹¹¹, but also pertain to the legislature's trouble of supervising and adapting the increasingly complex and hardly comprehensible bureaucratic system.¹¹² A Hayekian welfare state could provide relief here by reducing the need for oversight and constant adaption due to the significant rollback of the welfare state. Especially those programs that would remain in a Hayekian conception of the welfare state, such as general social assistance or compulsory insurance, would require less bureaucratic oversight and could be based on the very general and universally valid concepts that Hayek favored. Especially the Hayekian reluctance to perform economic regulation – which of course requires constant oversight and frequent adaption to changed circumstances – comes in handy here.

¹⁰⁴ Cf. Mares 2010: 542f.

¹⁰⁵ Cf. Esping-Andersen 2002a:91

¹⁰⁶ Cf. Lazear 1990: 724f.

¹⁰⁷ Cf. Holcombe and Boudreaux 2015:82f.

¹⁰⁸ Cf. Bowman 2015.

¹⁰⁹ Cf. Bergh 2015:25f.

¹¹⁰ Cf. Harris 2013: 212ff.

¹¹¹ Cf. Cattacin 2007.

¹¹² Cf. Harris 2013: 26ff.

It is also noteworthy that – despite of his being labelled as being “a proponent of laissez faire” and “an enemy of the welfare state” – Hayek seems to give a lot of constructive input about the welfare state. This should create learning opportunities for two groups of people: Firstly, for Austrian economists or libertarian political philosophers, who may be prompted to realize that constructive dealing with the welfare state and the offering of practicable solutions to questions of social policy is preferable to fundamental opposition to all its institutions. In doing so their ideas may not only be taken up more frequently by their academic colleagues, but also get more credibility among the general public. Secondly, academics in all fields of the social sciences that deal with the welfare state should realize that economists of the Austrian persuasion are not first and foremost ideologues who reject the welfare state for moral reasons, but actually offer mostly elaborate criticisms and proposals for reform of its institutions. Austrian criticisms of the welfare state may differ considerably from usual assessments of the shortcomings of social policies, but they may perhaps be better suited to discover particular problems that a more mainstream analysis may not even be able to see. By engaging in constructive dialogue more often the strands of the discipline may actually be able to learn a great deal from each other. Future research on the topic may want to attempt to measure the degree of “Hayekianity” of given welfare states and asses their performance or vulnerability for problems over time. This would help to establish whether Hayek’s ideas about the proper way to conduct social policy can be viewed as correct or is indeed found wanting.

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