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Hayek's Slippery Slope, the Stability of the Mixed Economy and the Dynamics of Rent-Seeking

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Abstract

F. A. Hayek's *The Road to Serfdom* continues to provoke intense scholarly debate focused on the validity of Hayek's central claim that a mixed economy is inherently unstable and economic intervention will inexorably lead to totalitarianism if pursued for a sustained period. This article presents empirical evidence that shows conclusively that it is the mixed economy that has proved remarkably stable, whereas laissez-faire and totalitarian regimes have proved inherently unstable. It is argued that this empirical outcome can be explained by the dynamics of rent-seeking and Hayek's failure to anticipate that the state could control more than half of national income without requiring a totalitarian apparatus to control and direct production and consumption. The implications of the failure of Hayek's argument for our conceptualization of freedom and power in the context of the modern democratic state and our understanding of the relationship between economic and political freedom are considered.

Introduction

In his 1944 book *The Road to Serfdom*, F. A. Hayek famously argued that a mixed economy is inherently unstable; if pursued for a sustained period economic intervention will inexorably lead to totalitarianism. This argument has become a leading theme in classical liberal thought and has generally been interpreted in the sense summarized by Barry (1984, p. 52) as:

> (T)he claim that piecemeal acts of intervention by government in a free economy and society will, if continued over an unspecified period of time, bring about the transformation of that society into a totalitarian regime in which all but the most trivial decisions affecting an individual are taken by the state.

What might be termed the Hayekian 'slippery slope argument' is especially powerful in that it postulates that totalitarianism does not result from the sudden overthrow of a democratic regime by an authoritarian party or faction, but is likely to be brought about as an unintended consequence of successive government interventions whose proponents do not desire the totalitarian outcome that their actions produce.

If valid, the argument logically implies that advocates of government intervention beyond the threshold deemed strictly necessary for the operation of a free economy are unwittingly pushing their society along 'the road to serfdom' towards totalitarianism. Assuming the vast majority of the advocates of government intervention do not desire a totalitarian society, it follows that all those who value individual liberty should support laissez-faire policies if the descent into totalitarianism is to be avoided.

Hayek's argument has been politically important since the book's publication. *The Road to Serfdom* generated immediate and extended critiques from two important contemporary socialist thinkers: Barbara Wootton (1945) and Herman Finer (1945) who argued – albeit in markedly different tones – that Hayek had seriously under-estimated the compatibility of democracy and economic planning. The book is also said to have inspired Conservative Prime Minister Winston Churchill’s ill-judged and ill-fated claim during the 1945 British General Election that a Labour government would require a Gestapo-like organization in order to put its economic plans into effect (Shearmur, 2006). It would go on to be an important inspiration for the new right in academia, think tanks and within the political parties of the right (Cockett, 1995; Shearmur, 2006). More recently, following the election of Barack Obama in 2008 the book enjoyed a revival after it was recommended by a number of American talk show hosts as a text that would explain the likely consequences of the new President’s social policies (Farrant and McPhail, 2010; Caldwell, 2011).

This article seeks to confront Hayek’s slippery slope argument with the apparent empirical resilience of the mixed economy, to put forth an explanation for this discrepancy and to consider some of the theoretical and conceptual implications of the empirical failure of Hayek’s argument. After this introduction, the article revisits Hayek’s *The Road to Serfdom* to lay out in precise terms the original slippery slope argument and consider recent scholarly debates regarding the intended meaning of Hayek’s central argument in the book. Next, the slippery slope claim is confronted with empirical data in order to evaluate it from an historical perspective. Based on the findings, a possible theoretical explanation for the relative stability of the mixed economy and the relative instability of both laissez-faire and totalitarianism based upon the dynamics of rent-seeking is put forward. The article then discusses the principal implications of the weakness of the Hayekian slippery slope argument for our understanding of economic and political freedom and the relationship between the two. A short final section concludes.

It should be noted at the outset that there are important conceptual challenges in defining a mixed economy, laissez-faire and totalitarianism. Like most concepts in the social sciences these categories are not clear-cut and precise meanings of the terms may be contested. For the purposes of this article, we define laissez-faire as the classical liberal ideal of limited government, free trade and established political rights such as that found in Britain immediately following the abolition of the Corn Laws or in late nineteenth century Sweden. Totalitarianism is defined as a regime in which the state controls almost all aspects of economic, social and political life, and where the basic rights of citizens may be summarily dismissed, such as in Nazi Germany or the Soviet Union under Stalin. The mixed economy may be defined as occupying the space between laissez-faire and totalitarianism. It describes contemporary social democracy in which the state is a major economic player and basic political rights and civil liberties are respected.

Hayek's slippery slope argument in *The Road to Serfdom*

To a significant extent the whole of *The Road to Serfdom* is guided by Hayek's slippery slope argument. This is made clear right from the start by the title chosen for the book but, even more importantly, by the concerns and objectives Hayek identified as the key motivations for writing the book. Thus, in the preface to the 1956 edition Hayek (1994, p. xlii) stated:

> What I have argued in this book, and what the British experience convinces me even more to be true, is that the unforeseen but inevitable consequences of socialist planning create a state of affairs in which, if the policy is to be pursued, totalitarian forces will get the upper hand.

The fact that the slide into totalitarianism is *unforeseen* is an important aspect of the argument. According to Hayek, totalitarianism does not result from deliberate action to achieve such an outcome on the part of those who would defend government intervention. Rather, the journey towards totalitarianism comes about as an unintended consequence of interventionist public policies, with the implementation problems raised by each measure requiring the further expansion of government activity until the state ultimately becomes totalitarian.

This unfortunate and largely impersonal process is thus classified by Hayek as tragic, in the sense that a most undesirable outcome is brought upon by people who did not wish it to come about and were mostly motivated by the best of intentions, as in the case of the rise of the Nazi Party in Germany:

> The supreme tragedy is still not seen that in Germany it was largely people of good will, men who were admired and held up as models in the democratic countries, who prepared the way for, if they did not actually create, the forces which now stand for everything they detest (Hayek, 1994, pp. 5-6).

Totalitarianism is thus understood by Hayek as an unplanned and unintended outcome that comes about as a consequence of a process set in motion by well-intended, but ill-advised, acts of government intervention in the economy.

Commentators of the both the left and right have interpreted the Hayekian slippery slope argument as implying that any intervention in the workings of the free market economy threatens to lead to a descent into totalitarianism. Gamble (1996, p. 2), for example, wrote that in *The Road to Serfdom* Hayek 'warned that even mild government intervention and redistribution could lead to totalitarianism' (see also: Samuelson, 1970; Farrant and McPhail, 2009; Farrant and McPhail, 2011). It seems clear, however, that this is a misreading of Hayek's argument in *The Road to Serfdom* and his other writings.

Contrary, perhaps, to popular perceptions, Hayek (1994 [1944], Chapter 9; 1960, Part III) was himself an advocate of a modern welfare state, albeit one more limited than the contemporary norm, and he saw a positive role for government as the provider of goods and services where there were genuine market failures. In many respects Hayek's position vis-à-vis the appropriate role of the state was not dissimilar to that taken by his London School of Economics colleague Karl Popper at about the same time (2006a and 2006b [1945]). Although the social democratic leanings can be said to be more pronounced in Popper's *The Open Society and Its Enemies*, most of Hayek's own practical public policy proposals at the time could easily be framed in terms of Popperian piecemeal social engineering. It is also the case that Hayek and Popper shared concerns about the role of a number of widely-accepted ideas in the rise of totalitarianism.

Hayek's argument in *The Road to Serfdom* was intended to be a warning against socialist planning undertaken within the context of a mixed economy, not a warning against any economic intervention or the modern welfare state per se. As Lewis (2011, p. 317) has put it, Hayek's intended target was 'the then fashionable view that socialist planning constituted a middle way between fascism and communism, which would preserve individual freedom while at the same overcoming the deficiencies of the free market system' (see also: Boettke, 2005; Caldwell, 2011).

What Hayek objected to was what might be termed socialist planning: in particular, government direction of production and consumption either via deliberate control of economic activity or via the imposition of targets and/or quotas on supposedly private enterprises, and government attempts to ensure that particular individuals, groups or occupations received particular financial rewards, either via price or wage controls, or transfers via the tax and benefit system (for example: Hayek, 1994, Chapters 5-7).

Although Hayek described the transition to totalitarianism as having its own internal dynamic, he was not an historical determinist. He did not, therefore, see the slide into totalitarianism as being inevitable once a certain point had been crossed. In fact, a whole chapter of *The Road to Serfdom* was dedicated to dismissing claims about the alleged inevitability of planning (Hayek 1994, Chapter 4).

Hayek believed that the 'road to serfdom' was not inevitable if people came to realize the unintended consequences of the interventionist path and reversed before society had descended into totalitarianism:

> It is because nearly everybody wants it that we are moving in this direction. There are no objective facts which make it inevitable. (…) Is there a greater tragedy imaginable than that, in our endeavor consciously to shape our future in accordance with high ideals, we should in fact unwittingly produce the very opposite of what we have been striving for? (Hayek, 1994, p. 7).

In addition to affirming the unintended and tragic nature of the slide into totalitarianism, Hayek (1994 p. 68) suggested that this process came about because, as the degree of government intervention in the economy expanded, a point was eventually reached where state control became almost total:

> Once the communal sector, in which the state controls all the means, exceeds a certain proportion of the whole, the effects of its actions dominate the whole system. Although the state controls directly the use of only a large part of the available resources, the effects of its decisions on the remaining part of the economy system become so great that indirectly it controls almost everything.

Hayek did not make explicit what that ‘certain proportion of the whole’ may be, but in the following paragraph he provided what can be interpreted as a more concrete benchmark:

> Where, as was, for example, true in Germany as early as 1928, the central and local authorities directly control the use of more than half the national income (according to an official German estimate then, 53 per cent), they control indirectly almost the whole economic life of the nation. There is, then, scarcely an individual end which is not dependent for its achievement on the action of the state, and the "social scale of values" which guides the state's actions must embrace practically all individual ends.

Hayek (1994, p. 75) argued that as the inescapable problems inherent in central planning became manifest, the tendency amongst a public that regarded interventionism as desirable would be to call for an ‘economic dictator’, someone whom people regarded as having the authority to get things done. The problems raised by each attempt at socialist planning constitute reasons that would justify further and more thorough interventions, so that a vicious spiral was generated even if this was not intended by the proponents of each interventionist policy when considered in isolation. It thus became increasingly difficult to stabilize at a given level of intervention and avoid further descent down the slippery slope.

For Hayek (1994, p. 117), the mixed economy was inherently unstable not just for economic reasons but also due to political and sociological factors:

> We have already seen that the close interdependence of all economic phenomena makes it difficult to stop planning just where we wish and that, 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. These economic considerations, which explain why it is impossible to stop deliberate control just where we should wish, are strongly reinforced by certain social or political tendencies whose strength makes itself increasingly felt as planning extends.

This happens, as Hayek elucidated further in a later work, partly because a government that embarks 'upon planning for the sake of justice' cannot then 'refuse responsibility for anybody's fate or position' (Hayek, 1998, p. 118). As government expands the growing claims and pressures placed on it by the public will foster ever more interventionist measures. As the sphere of government intervention in the economy expands and the cost of being an outsider to the state apparatus correspondingly increases, the quest for security through government protection becomes a more and more powerful mechanism leading towards totalitarianism. In Hayek's (1994, p. 143) words:

> Thus, the more we try to provide full security by interfering with the market system, the greater the insecurity becomes; and, what is worse, the greater becomes the contrast between the security of those to whom it is granted as a privilege and the ever increasing insecurity of the underprivileged.

The levels of threat posed by different types of government interference with the market system in the context of the slippery slope argument are not discussed in depth, but

Hayek (1994, p. 38) did appear to have in mind a significantly wide reaching definition of economic planning and collectivism:

> The situation is still more complicated by the fact that the same means, the "economic planning" which is the prime instrument of socialist reform, can be used for many other purposes. (…) It is probably preferable to describe the methods which can be used for a great variety of ends as collectivism and to regards socialism as a species of that genus.

It is interesting to note that Hayek (1994, p. 109) considered redistribution in order to 'secure a more just and equitable distribution of wealth' to be 'the only argument for planning which can be seriously pressed' but simultaneously stated that the goal of distributing wealth according to a pre-established standard required that 'we must plan the whole economic system' and thus he suggested that the realization of this type of ideal would impose 'more oppression than was ever caused by the much-abused free play of economic forces'.

Considering all of the points made by Hayek, the slippery slope argument can be synthesized as the idea that the inherent dynamics of socialist planning of the economy generate a process whereby, after a certain point is reached, the degeneration into totalitarianism becomes increasingly difficult to arrest. While Hayek accepted that economic interventions that do not aim to guide production or consumption at the macro-level, or do not attempt to determine the distribution of benefits and burdens throughout society, may be sustainable without risking totalitarianism, his thesis clearly implied the general instability of the mixed economy. A polity that seeks to engage even in relatively minor socialist planning, such as ensuring that a particular occupational group will enjoy a particular income, or setting goals for the production of particular consumer goods, will be propelled both by the economic problems associated with interventionism and by socio-political factors generated by interventionism, along the road to serfdom. The road to serfdom, as envisaged by Hayek, is impersonal, unintentional, and incremental.

A number of important influences on Hayek's argument in *The Road to Serfdom* can be identified. Hayek was building upon and developing his teacher Mises' (1981) critique of interventionism. In the bibliographical note at the end of *The Road to Serfdom,* Hayek (1994, p. 263) stated that 'although unfashionable, the views of the author of the present book are not so singular as they may appear to some readers' and he explicitly acknowledged Mises (1981) as his most important predecessor in this regard. From Hayek's perspective, in the 1920s and 1930s Mises had warned that the Soviet Union was headed towards outright totalitarianism as its economic policies failed and that failure begot more stringent planning and control, and that a similar fate would befall the European democracies if they also pursued the unobtainable goal of socialist planning. The emergence of Stalinist Russia and Nazi Germany seemed to be empirical evidence in favour of Mises' thesis, leading Hayek to extend the analysis in his most famous work.

It is also noteworthy that Karl Polanyi's *The Great Transformation* (2001 [1944]) was published at about the same time. Polanyi – curiously also influenced by the intellectual context of early twentieth century Vienna – put forth a substantially different analysis of the market economy and of the role of the state, but there are nevertheless striking rhetorical similarities with Hayek and also with Popper. While it would be beyond the scope of this paper to explore these similarities in depth, given the parallels between the works of Hayek, Popper and Polanyi it is certainly possible that Hayek's arguments about the underlying threats to the free society may have been at least partly shaped by the Austro-Hungarian intellectual milieu at that time.

A third significant formative influence on Hayek's work was undoubtedly the positive view of government planning that became the norm amongst the British intelligentsia during World War II. By 1944 it was commonplace within such circles to believe that government could plan the peace in the same way that it had successfully mobilized the population to fight the war. The predominance of this view among well-meaning British intellectuals in the final years of the war was a powerful motivation for Hayek to write *The Road to Serfdom* (Caldwell, 2007).

The reality of the stability of the mixed economy

Given that roughly seven decades have passed since the publication of *The Road to Serfdom* it would seem that a sufficient period of time has elapsed to enable comparison of Hayek's argument with reality. Given the many nuances in the argument, developing a straightforward test would seem to be unreasonable, but it is nevertheless possible to look at the evolution of the societies Hayek was most focused on in order to evaluate his position with the assistance of empirical data and historical hindsight. For this purpose, a few simple but arguably effective metrics can be employed.

The most obvious choice would be to look at indicators of economic freedom in the last seven decades and contrast that evolution with the slippery slope argument as presented by Hayek. Unfortunately, indicators of economic freedom only go back – at most – to 1970 so additional indicators are required. Additionally, the empirical analysis presented herein is largely centered on Europe and North America. Although an exhaustive global analysis would be in some respects more enlightening, the lack of reliable comparable data counsels against such an enterprise. But given that Hayek's argument was developed in the context of (and to a large extent explicitly directed to) Western democratic political regimes this may not be a serious limitation in terms of our aims; the empirical analysis conducted here is not global but neither was Hayek's construction and framing of his own argument.

Considering that Hayek himself – as laid out above – suggested the use as an indicator of the proportion of national income subject to control by political authority, it seems reasonable to look at the long-term trends in general public expenditure as a proportion of GDP since the 1920s.

[Table 1 about here]

Considering the last nine decades, the data in Table 1 clearly evidences a long-term trend of growing weight of government expenditure for the ten countries included. It is also interesting to note that from a long-term perspective this trend is not significantly different for countries in the sample that experienced dictatorial regimes (Germany, Italy, and Spain) compared to those that did not.

It is also interesting to note that the long-term pattern appears to be one of relative convergence to values of government expenditure between roughly 40 and 60 percent of GDP, with a number of countries above the 50 percent threshold suggested by Hayek as the point whereby authorities would ‘control indirectly almost the whole economic life of the nation’. That this convergence is particularly salient since 1980 can be confirmed by the observation of the reduction of the coefficient of variation in the last three decades from 0.2 to 0.1.

The ratios of general government expenditure to GDP for the ten countries considered thus provide evidence of a clear long-term trend of government expansion – as Hayek predicted. In the last three decades, the data also suggests a relative stability of government expenditure at around 50 per cent of GDP and a convergence towards values centered around that point.

The question that then arises is whether Hayek was correct that the growth of government (measured in terms of general government expenditure as a proportion of GDP) would lead to a corresponding decline in individual liberty and a descent into totalitarianism.

One intuitively plausible place to look for an answer to this question would appear to be Freedom House's (2012) survey and scoring of regimes in terms of political rights and civil liberties.

[Table 2 about here]

The data presented in Table 2 shows that all ten countries featured in Table 1 have been awarded perfect scores for political freedom by Freedom House (2012) in the most recent year on record. Not only are all ten countries ranked as 'Free' but all of them also have the maximum score both in terms of political rights and civil liberties. While objections may certainly be raised against this sort of rating, these results are nevertheless fully plausible with what would be most people's intuitions about the nature of the corresponding polities. At the very least, one would be hard pressed to regard any of the ten countries as totalitarian by any standard definition.

An additional indicator worth considering is economic freedom. For this purpose we use data from Gwartney *et al.* (2011) referring to the period spanning from 1970 to 2009 (respectively the earliest and the latest year available) for the same ten countries.

[Table 3 about here]

Again, the data in Table 3 does not show any sign of a descent into totalitarianism. On average, for the ten countries considered there was an increase in economic freedom from 1980 to 2000 and a slight decline from 2000 to 2009. As is the case with government expenditure, the reduction of the coefficient of variation for the economic freedom scores also suggests a convergence trend for the ten countries considered.

One possible interpretation would be to argue that while government spending has significantly increased (as shown in Table 1) the countries in question have nevertheless preserved – or even expanded – a significant degree of economic freedom through other means, such as trade liberalization, monetary stability, and the protection of property rights.

Hayek’s slippery slope hypothesis is therefore left in a very uncomfortable position: if government expenditure can sustainably account for half (or in some cases even more) of GDP with no apparent decline in economic or political freedom, and therefore no apparent signs of a slippery slope materializing, then very little of salience would appear to be left in the argument.

A defence of the slippery slope hypothesis might be to claim that while political and economic freedom indicators have remained at high values for the countries considered, these countries have, nevertheless, been transformed into totalitarian regimes or are on the verge of being so. But it is not clear what credible evidence might be marshaled in support of this claim.

A second defence would be to accept that the countries considered have not become totalitarian regimes and are not on the verge of becoming so in the short term, but that nevertheless there is a looming and continuing totalitarian threat around the corner. This is somewhat akin to the way in which the slippery slope hypothesis continues to be used in contemporary political debate by some actors (usually on the right), such as the US talk show hosts who have advocated Hayek's work as offering insight into the policies of President Obama.

While this appears more plausible than the first defence, if one evenhandedly considers the data in Tables 1, 2, and 3 it seems a hard position to sustain. Considering that roughly seven decades have passed since the original formulation of the argument and that government expenditure has advanced to the extent outlined in Table 1, the question that arises is: if the descent into totalitarianism hasn't happened yet, when will it happen?

Furthermore, if one considers developments in Central and Eastern Europe, as well as in China, over the last couple of decades, the lack of force of Hayek's slippery slope argument is reinforced from a different angle.

[Table 4 about here]

[Table 5 about here]

As evidenced in Tables 4 and 5, all of the countries coming out of authoritarian regimes moved into mixed economies with varying degrees of economic freedom but none of them can be considered to have anything resembling laissez-faire policies.

Additionally, as evidenced by the data in Table 6, these formerly totalitarian or authoritarian countries presently exhibit for the most part a significant degree of political freedom as measured by Freedom House (2012).

[Table 6 about here]

This means, firstly, that all of those totalitarian regimes proved to be – in practice – less stable than the mixed economies onto which the slippery slope hypothesis was projected as a source of instability and likely regime change. The data on China would also seem to reinforce our case as improvements in economic freedom have so far coexisted with a political regime that continues to be classified as undemocratic.

Summing up the empirical evidence, from the perspective of the present it would seem that the mixed economy is, in fact, inherently stable, whereas laissez-faire and totalitarianism appear to be significantly less resilient.

Considering the data and the historical experience of the last seven decades, the relative stability of the mixed economy seems hard to dispute. This raises an important theoretical question: why – contrary to Hayek's slippery slope argument – do both laissez-faire and totalitarianism appear to be less stable than the mixed economy?

The dynamics of rent-seeking and the failure of the slippery slope argument

The empirical and historical data presented above provides a clear challenge to the slippery slope argument that forms the foundation of Hayek's *The Road to Serfdom*. The evidence shows that laissez-faire is inherently unstable – small governments tend to grow larger; that totalitarianism is similarly unstable – totalitarian regimes have not survived in the long-run; whereas the mixed economy is relatively stable – the mixed economies of Western Europe and North America whose futures most troubled Hayek have in fact endured since the end of World War II and there is no evidence of an imminent threat of regime change.

Paradoxically, perhaps, the failure of the Hayekian slippery slope argument can be explained using ideas from Hayek's own work, in particular the notion of rent-seeking. Although Hayek did not explicitly use the term 'rent-seeking', he was well aware of the ability of special interest groups to use political processes to secure benefits and impose concomitant costs on others. In *The Road to Serfdom*, for example, Hayek (1994, p. 21) wrote of 'the innumerable interests which could show that particular methods would confer immediate and obvious benefits on some, while the harm they caused was much more indirect and difficult to see'.

As Boettke (1995, p. 10) has described, if a key principle of the public choice account of rent-seeking is the notion of dispersed costs and concentrated benefits, Hayek clearly understood and utilized this idea and in this respect Hayek understood that rent-seeking was an important part of the process of interventionism. However, the concept may also be an important part of an explanation of the instability of laissez-faire and totalitarianism relative to the mixed economy and therefore it may help to explain the failure of Hayek's slippery slope argument.

A basic tenet of public choice theory is that individuals will only engage in collective action, such as rent-seeking, when the anticipated personal benefits exceed the anticipated personal costs. The personal costs of political organization are likely to be determined by group size and group coherence: relatively small, homogenous groups, such as occupational or producer groups, are likely to be less-costly to organize than relatively large, heterogeneous groups, such as consumers (Olson, 1965; Olson, 1982).

The returns of rent-seeking are said to increase up to a maximum point and thereafter the returns diminish. Rent-seeking initially generates increasing returns because there are initial start-up costs, such as establishing regulations or codes that can then be manipulated by different groups, because rent-seeking is self-generating as people seek to defend themselves against the predatory actions of others, and because there is 'safety in numbers' as more people may be willing to rent-seek if others are engaged in similar activities. However, there will come a point where the possible gains available to new rent-seekers diminish as more people shift their activities from wealth-production to wealth-capture, with the result that there is less wealth available for political transfer. In short, the gains from rent-seeking would seem to be a classic bell-curve distribution, with the vertical axis representing the potential gains from rent-seeking and the horizontal axis showing the number of rent-seekers (Murphy *et al*., 1993; Olson, 1982).

A laissez-faire polity will be one in which rent-seeking offers increasing returns that are likely to exceed the costs of acquisition for most organized groups. Although there will be start-up costs of rent-seeking, these are likely to be mediated by the scale of the potential gains available to the first rent-seekers. In a laissez-faire economy, there will be enormous potential to expand the government budget or the extent of government intervention in the economy by one initial item of regulation, price control or subsidy. The costs of such government expansion will be dispersed across the entirety of taxpayers while the benefits will be focused upon the smaller number of beneficiaries. Hence, for the first rent-seekers, the anticipated personal benefits will far exceed the anticipated personal costs. The dynamics of rent-seeking mean that the inherent instability of laissez-faire is explained and expected – we should expect minimal or small states to grow larger (Olson, 1982; Murphy *et al*., 1993).

The logic of the increasing and then diminishing returns of rent-seeking may similarly explain the stability of the mixed economy. As rent-seeking increases and the state comes to dominate a large sector of the economy, the potential gains of further rent-seeking diminish to the point that the benefits of future rent-seeking are likely to be smaller than the costs of the political action required to obtain them. In this regard, Barry (1984, p. 63) referred to the notion of an 'interventionist optimum' to describe equilibrating tendencies in the process of government intervention in the economy. The evidence from countries such as Sweden – which after reaching unprecedentedly high levels of public expenditure substantially reduced it to still high but more sustainable levels – suggests that the slippery slope process may in fact be countervailed by more powerful self-equilibrating characteristics of mixed economies.

An additional problem with the slippery slope argument vis-à-vis mixed economies is that it implicitly assumes too much consistency on the part of government intervention. Hayek (1994, p. 78) argued that 'planning leads to dictatorship because dictatorship is the most effective instrument of coercion' and therefore is 'essential if central planning on a large scale is to be possible.' But, even granting Hayek's point about the effectiveness of dictatorship, it is conceivable that people may tolerate – or even prefer – comparatively ineffective methods of government intervention. Unless one assumes omniscience on the part of the public and/or planners – an assumption that could not be further away from Hayek's own epistemological contributions – there is no reason to believe or expect interventionism as a whole to articulate itself coherently and to follow the means that would be most effective (or less ineffective).

In fact, if one takes Hayek's (1945) (and Mises' (1981)) contributions about knowledge and economic calculation seriously, the most reasonable expectation would seem to be the opposite: in most practical instances, interventionism is likely to materialize as a series of inconsistent – sometimes even contradictory – policies that fails to enforce any coherent large scale ideal uniformly. Unless public policy is guided by an extremely strong, pervasive and univocal ideology, the severe epistemological limitations associated with interventionism should be expected to reinforce the relative stability of the mixed economy in democratic societies. In short, economic interventionism is likely to lead to a diverse and at times contradictory range of policies and programs that are likely to achieve their ends with varying degrees of success and thereby generate heterogeneous, rather than homogenous, demands of government.

It is argued, then, that Hayek's explanation of the processes that led to the development of totalitarian regimes was mistaken. Rather, for the most part totalitarian regimes were not created through a gradual and incremental process but came about through sudden power shifts; their persistence required a tremendous apparatus of oppression and ideological propaganda and indoctrination. It may be possible to counter-argue that in several instances the upheavals that established totalitarian regimes built upon a previously existing interventionist momentum – in line with Hayek's (1994, p. 6) view 'that the rise of fascism and Nazism was not a reaction against the socialist trends of the preceding period but a necessary outcome of those tendencies' – but if that is accepted as providing support for the slippery slope argument then one would expect many more such radical shifts to have occurred in the last seven decades considering the observed growth of government in all the established democracies since Hayek set out his argument.

In terms of the dynamics of rent-seeking, totalitarian regimes may be characterized as 'rent-seeking societies' in which the entire legal economy is run through central command and the distribution of income and wealth is largely determined by political favour (for example: Anderson and Boettke, 1997; Boettke, 1993). In a totalitarian setting, opportunities for political entrepreneurship are limited to a competition for resources that are already within the sphere of political control. At the point where rent-seeking is most pervasive and productive activity is more severely curtailed, regime change is likely to become a more attractive alternative and stronger ideological and coercive controls are needed to maintain the totalitarian *status quo*. Indeed, this is what is suggested by Boettke's (1993) analysis of the collapse of the Soviet Union following the advent of Perestroika – the increased openness unleashed a wave of previously-repressed rent-seeking demands that could not be satisfied by the inflexible and impoverished economic and political systems. Totalitarianism is likely to correspond with a situation in which opportunities for capturing new rents are exhausted and therefore such societies should be considered less stable than societies in which opportunities for new rents exist.

Hence, totalitarian regimes may find it much harder to cope with change and respond to dynamic events, meaning that the potential for popular revolts against such regimes will be greater than in democratic polities (for example: Anderson and Boettke, 1997, pp. 42-3). For this reason, we should expect non-democracies to exhibit much greater levels of instability than democratic regimes that are better able to mediate and contain demands for change.

There are, then, good reasons to be cautious before accepting the slippery slope argument at the centre of Hayek's *The Road to Serfdom*. Even recognizing that Hayek's intended target was socialist planning, rather than social democracy per se, and acknowledging that Hayek did not contend that totalitarianism was the inevitable outcome of any departure from laissez-faire, it nevertheless seems clear that Hayek's account of the origins of totalitarianism and the concomitant instability of the mixed economy is flawed. The account of the dynamics of rent-seeking principally developed within the field of public choice economics provides a powerful counter-explanation of the stability of the mixed economy relative to laissez-faire and totalitarianism.

Understanding freedom: economic and political

It seems clear from the empirical evidence that Hayek's basic thesis in the slippery slope argument was incorrect. As elaborated above, tendencies inherent to interventionism account for the most part for the stability of the mixed economy and the relative instability of both laissez-faire and totalitarianism. Unless very extreme and specific ideological conditions and practical circumstances are present that create a push for totalitarianism, it should be expected that the mixed economy will tend to be the more stable 'solution'. Hayek's failure to articulate this – the result of his inconsistent application of key public choice insights – led him towards a logical dead end and the uncomfortable position of arguing that totalitarianism was permanently lurking around the corner even in circumstances where that should have appeared rather unlikely.

Curiously, however, Hayek's predictions about the incremental expansion of the economic role of the state in a mixed economy proved to be quite accurate. The governments of most established democracies now spend in peacetime between 40 and 50 per cent of national income, an unprecedented figure at the time that Hayek wrote *The Road to Serfdom.* The war economies of World War II did, of course, involve even higher state spending as a proportion of GDP, but this was motivated by the exceptional circumstances of the war and the exceptional forms of intervention it engendered (Higgs, 2006). What Hayek did not seem to anticipate, however, was that this expansion in the economic role of the state could take place without the creation of the kind of totalitarian apparatus that he believed would be necessary for the government to control even a relatively smaller proportion of economic activity.

It may be argued that Hayek did not foresee that significant government intervention in the economy could be compatible with the preservation of political freedom because he employed a narrow conceptualization of freedom that led him to misunderstand the nature of and the relationship between economic and political freedom.

Hayek (1960, Chapter 1) subscribed to the classical liberal conception of freedom in which people are judged to be free to the extent that they do not experience direct, coercive interference in their activities by an external force, such as the state. Freedom is therefore said to concern the size of the protected sphere of non-interference around the individual. According to this understanding of freedom, an expansion in the economic role of the state necessarily produces a corresponding reduction in individual freedom as that sphere of non-interference is diminished (see also: Kukathas, 1989, Chapter 4).

The evidence presented in this article, however, suggests that the extent of the economic role of the state is only one among many indicators of economic freedom and may not be the most important. An important distinction in this regard must made between direct state expenditure and transfer payments. High numbers in terms of public expenditure are compatible with relatively low levels of direct government consumption if transfer payments – a notable feature of the contemporary welfare state – are relatively high. At the same time, the state often intervenes in economic decisions that are beyond direct and indirect state expenditure, for example through various forms of regulation. The precise extent to which the state intervenes in the private economic decisions is therefore a complex issue and would merit additional research on its own. But considering both the data and a qualitative analysis of contemporary regimes, it would seem that the state can have decisive influence over more than half of national product and the economy can still be considered ‘free’, in that there can be, for example, an absence of trade restrictions and tariffs, no prices or incomes controls, and individuals may still freely choose their occupations.

The evidence also suggests that the proportion of the economy in private hands can be severely limited while political freedom (in terms of freedom of speech, movement and expression, for example) can be preserved. This suggests that freedom is a more complex phenomenon than Hayek thought it to be.

To understand the dynamics of the contemporary democratic state a more sophisticated understanding of freedom than that utilized by Hayek may be required. In particular, in order to explain the expansion in the economic role of the state and the concurrent endurance of political freedom, it may be necessary to develop a more nuanced account of the ways in power is exercised in the contemporary democratic state.

To use Lukes' (1974) terminology, Hayek would seem to have a one-dimensional view of power that only takes into account the observable and overt exercise of power between different groups and interests. A two- or three-dimensional view of power which takes into account the non-observable and covert interactions between different groups and interests – for example, when decisions are not taken, or the political agenda is determined by a dominant ideological frame rather than via overt conflict – may lead to a more subtle account of the relationship between economic and political freedom that engenders an appreciation that government can control large sections of the economy without having to resort to overt coercion to achieve this.

Insight along similar lines may be provided by Foucault's (1977, Chapter 3) use of Bentham's Panopticon as an analogy for the operation of power in contemporary societies. Foucault described how within the Panopticon individuals modified their behaviour in accordance with the wishes of those with power without the necessity of direct force being used to change their behaviour. Inside the Panopticon each individual was always visible and therefore acted as if under constant observation, even when no surveillance was in fact taking place. The inmates of the Panopticon would be eventually released back into society whereupon it was anticipated that as a result of their experience their behaviour would have been reformed so that they would act as law-abiding citizens without the need for continued surveillance or overt control. In this way, the Panopticon was a structure that 'assures the automatic functioning of power' because it led to the internalization and reproduction of the behaviour that the powerful demanded (Foucault, 1977, p. 201). The inmates of the Panopticon, like the citizens of the modern democratic state, internalized the behaviour that their guardians wished to see, so that the exercise of power became a matter of personal routine without the need for overt coercion.

There would seem to be a strong parallel between Foucault's account of the Panopticon and the means via which the state exercises its substantial economic role in contemporary democratic states, where, for example, people are not forced 'at gunpoint' to pay large proportions of their salaries in income tax – rather income tax is automatically deducted from people's salaries before they receive their pay, leaving them barely aware of its extraction. Likewise, the levy of indirect taxes may be even more opaque and therefore may require even less overt coercion to be successfully undertaken. The expansion of indirect taxation combined with long-term economic growth may well give rise to what could be described as a situation of 'fiscal anaesthesia' that facilitates the expansion of the state without involving the materialization of an overt coercive apparatus along the lines feared by Hayek.

Similarly, people do not have to be directed by force to work for the state or in particular occupations deemed important by political actors – on the contrary, government positions are often highly sought after and reductions in the public sector workforce meet with popular demonstrations and protests.

Lukes and Foucault both sought to challenge the belief that contemporary democracies were as free and as open as their supporters claimed by showing that power continued to be an important feature of such societies, even if it was exercised in more subtle ways than in authoritarian regimes. The invocation of Lukes and Foucault in the present article might be thought to rescue Hayek's claim that economic interventionism compromises freedom by showing that the economic expansion of the state has been accompanied by a corresponding growth in its political power, albeit that power is now exercised more subtly than was the case when Hayek wrote *The Road to Serfdom*. But Lukes and Foucault's analysis does not show that social democracies are really totalitarian. Rather, it provides insight into the long-run sustainability of the mixed economy and its compatibility with what most people (certainly most liberals) would judge to be a free society. It seems clear that the formal and overt infringements of individual liberty that are associated with totalitarianism and that were Hayek's principal concern in writing *The Road to Serfdom* have not accompanied the expansion of the economic role of the state.

Hayek assumed that the state would always require (what might be termed) hard power to control a large proportion of economic activity, but in reality soft power has proved to be effective. The more subtle accounts of power provided by Lukes and Foucault would seem to offer a reconciliation of Hayek's accurate prediction of the growth of the economic role of the state during the second half of the twentieth century and his mistaken forecast that this expansion would be accompanied by a decline in political freedom.

Conclusion

This article has argued that Hayek's slippery slope argument set out in *The Road to Serfdom* is empirically false. The failure of Hayek's argument may be attributed to his failure to fully work out the dynamics of rent-seeking as applied to his analysis and his somewhat crude conceptualization of freedom and power in the modern democratic state. Contra to Hayek's expectations, it would seem that government can grow to consume more than half of GDP without infringing basic political rights and civil liberties.

The fundamental flaws in the slippery slope argument do not necessarily reduce the importance of Hayek's overall contributions to political economy, but they surely do remove a major plank and a powerful rhetorical device for classical liberals. As noted by Barry (1984, p. 52), if correct, the road to serfdom thesis would constitute a 'formidable weapon in the armoury of the classical liberal', which may explain why it has proven so popular and enduring in public discourse for so long. But it is time to recognize that the slippery slope argument – not withstanding its popularity – is misconceived and mistaken. If classical liberals wish to oppose the contemporary social democratic state they should not do so on the basis that it is a step along the slippery slope to totalitarianism – this claim is not supported by empirical evidence or theoretical analysis.

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Table 1: Ratios of general government expenditure, including transfers, to money GDP at market prices (per cent)

	1920	1937	1960	1980	2000	2010
Austria	14.7	20.6	35.7	48.1	52.2	52.9
Canada	16.7	25.0	28.6	38.8	41.1	43.5
France	27.6	29.0	34.6	46.1	51.6	56.2
Germany	25.0	34.1	32.4	47.9	45.1	46.8
Italy	30.1	31.1	30.1	42.1	46.1	51.4
Netherlands	13.5	19.0	33.7	55.2	44.2	51.2
Spain	9.3	18.4	18.8	32.2	39.1	45.1
Sweden	10.9	16.5	31.0	60.1	55.1	54.5
UK	26.2	30.0	32.2	43.0	36.6	51.0
USA	12.1	19.4	27.0	31.4	33.9	42.2
Average	18.6	24.3	30.4	44.5	44.5	49.5
Standard Deviation	7.8	6.3	4.9	9.1	7.0	4.8
Coefficient of Variation	0.42	0.26	0.16	0.20	0.16	0.10

Source: Smith (2011, p. 47).
Note: Data in Smith (2011) is combined from various sources and should be regarded as illustrative of long-term trends only.

Table 2: Freedom House ratings for 2011

	Freedom Status	Political Rights	Civil Liberties
Austria	Free	1	1
Canada	Free	1	1
France	Free	1	1
Germany	Free	1	1
Italy	Free	1	1
Netherlands	Free	1	1
Spain	Free	1	1
Sweden	Free	1	1
UK	Free	1	1
USA	Free	1	1

Source: Freedom House (2012, pp.14-18)

Table 3: Economic Freedom scores (1970-2009)

	1970	1980	1990	2000	2009
Austria	6.5	6.4	6.8	7.4	7.5
Canada	7.6	7.2	7.6	8.2	7.8
France	6.4	6.0	6.8	7.1	7.2
Germany	7.2	6.9	7.3	7.5	7.5
Italy	6.3	5.5	6.5	7.1	6.8
Netherlands	7.1	7.0	7.3	8.1	7.3
Spain	6.6	6.0	6.2	7.3	7.0
Sweden	5.3	5.6	6.6	7.4	7.2
UK	5.9	6.3	7.6	8.3	7.7
USA	7.3	7.5	7.9	8.5	7.6
Average	6.6	6.4	7.1	7.7	7.4
Standard Deviation	0.7	0.7	0.6	0.5	0.3
Coefficient of Variation	0.11	0.11	0.08	0.07	0.04

Source: Gwartney *et al.* (2011).

Table 4: Economic Freedom scores (1995-2009)

	1995	2000	2005	2009
Bulgaria	4.6	5.3	6.9	7.2
China	5.3	5.7	6.1	6.2
Croatia	4.9	6.1	6.4	6.5
Czech Republic	5.8	6.5	6.7	6.8
Estonia	5.7	7.4	7.8	7.5
Hungary	6.1	6.6	7.4	7.5
Latvia	5.2	6.6	7.2	6.7
Lithuania	5.1	6.3	7.1	7.0
Poland	5.3	6.2	6.8	6.9
Romania	3.9	5.2	6.8	6.9
Russia	4.5	5.3	6.4	6.5
Slovak Republic	5.5	6.2	7.7	7.5
Ukraine	3.7	4.7	5.6	5.7
Average	5.0	6.0	6.8	6.8
Standard Deviation	0.7	0.7	0.6	0.5
Coefficient of Variation	0.14	0.12	0.09	0.08

Source: Gwartney *et al.* (2011).

Table 5: Economic Freedom ranking positions (1995-2009)

	1995	2000	2005	2009
Bulgaria	107	109	54	35
China	86	99	89	89
Croatia	98	79	80	78
Czech Republic	71	63	69	58
Estonia	76	23	11	19
Hungary	59	56	25	17
Latvia	94	52	39	62
Lithuania	96	70	41	45
Poland	86	75	63	52
Romania	119	112	61	49
Russia	112	109	82	77
Slovak Republic	78	77	17	14
Ukraine	121	118	108	105

Source: Gwartney *et al.* (2011).

Table 6: Freedom House ratings for 2011

	Freedom Status	PR	CL
Bulgaria	Free	2	2
China	Not Free	7	6
Croatia	Free	1	2
Czech Republic	Free	1	1
Estonia	Free	1	1
Hungary	Free	1	2
Latvia	Free	2	2
Lithuania	Free	1	1
Poland	Free	1	1
Romania	Free	2	2
Russia	Not Free	6	5
Slovak Republic	Free	1	1
Ukraine	Partly Free	4	3

Source: Freedom House (2012, pp. 14-18)