

BRATISLAVA INTERNATIONAL SCHOOL OF LIBERAL ARTS

**Government involvement in the Economy:
Based on F.A. Hayek's The Road to Serfdom and Plato's The
Republic**

BACHELOR THESIS

Bratislava, 2013

Juraj Vinš

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Declaration of Originality

I declare that this Bachelor Thesis “Government involvement in the Economy: Based on F.A. Hayek’s the Road to Serfdom and Plato’s The Republic” is my own work and has not been published in part or in whole elsewhere. All used literature and other sources are attributed and cited in references.

Trnava, 30 April 2013

Signature: _____

Acknowledgement

This thesis had been made possible mainly because of my main two brilliant authors - Plato and F.A.Hayek. They have inspired me in such a manner, that I have wanted to examine their books so thoroughly as possible. I also want to give thanks to economists Murray Rothbard and Walter Block who helped me to challenge my own views. Finally, my big thanks goes to Matthew Post for giving me the push I needed to finish this thesis. However, all mistakes in the thesis are of course my own and they don't reflect on work of aforementioned magnificent individuals in any way.

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Abstract

This thesis will be focusing on two classics of modern political thought. And that is Plato's *The Republic* and F.A.Hayek's *The Road to Serfdom*. I have chosen these two works, one ancient and one quite modern because they are very often regarded as having very different arguments and standpoints and of course, because of their eminence and influence.

On the basis of those two books, thesis will try to give answer to a question, whether the government should have power to interfere with the economics according to individual authors. And if the answer is yes, in what degree it should be. Thesis elaborates on a presumption that Hayek will favor smaller governmental intervention and Plato will support the larger one, on basis of that - thesis will try to illustrate differences and of course similarities between those two political thinkers.

In the first part of the thesis, we will have a look at the most important concepts of understanding for both authors (Plato and Hayek). Roles of the main actors in their concepts of political regimes will be briefly described. Key terms will be thus established. Core of the thesis, will revolve around the clash of their understanding, their concepts and its thorough examination

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Abstrakt

Práca sa bude zameriavať na dva klasické texty moderného politického myslenia. Na Platónove dielo *Republika* a dielo F.A.Hayeka *Cesta do nevoľníctva*. Vybral som si ich práve z toho dôvodu, že sú veľmi často považované za diela, ktoré obsahujú rozličné argumentačné línie a oporné body. Ale tiež kvôli ich dôležitosti a vplyvu.

Na základe týchto dvoch kníh sa pokúsim zodpovedať na otázku, do akej miery by mala mať vláda vplyv na ekonomiku podľa jednotlivých autorov. Práca si zakladá na predpoklade, že Hayek bude podporovať menšie vládne zásahy a Platón väčšie. Na základe tohto sa bude snažiť poukázať na podobnosti a rozdieli medzi nimi.

V prvej časti práce sa pozrieme na podstatné koncepty pre oboch autorov (Platón a Hayek). Budú načrtnuté a popísané. Jadro práce bude tvoriť komparatívna analýza ich argumentov.

Preface

Purpose of this thesis is to provide reader with the understanding of Plato's *The Republic* and F.A.Hayek's *The Road to Serfdom*. Especially with some of their economic concepts formulated within those two books. I would like to explain to dear reader their main arguments that might eventually support, or go right against the government regulation of the economy.

Thesis does not count on any previous economic knowledge. Majority of the concepts that I talk about are briefly explained. Hayek's arguments and the material that Plato presents in *the Republic* are quite different in their basic premises of how the state/polis should look like. Their basic units state/*polis* are quite different themselves.

As far as the governmental involvement in the economy is concerned - both authors will argue in favor of certain regulations. Each in a different way. But we will see that Plato is most definitely not the radical proto-totalitarian. And that Hayek is quite far away from being the supporter of the laissez faire non-regulatory economics.

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"The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted to no council and senate whatever, and which would nowhere be so dangerous as in the hands of man who had folly and presumption enough to fancy himself fit to exercise it."

Adam Smith

(An Inquiry into the Nature and Causes of the Wealth of Nations)

Introduction:

It was an extraordinary time for the world, when democracy in Athens flourished and many great philosophers walked the earth. Small Greek independent city states called the *polis* were the cultural centers at that time. *Polis* was the fundamental political and social unit for the Greeks. As in majority of the human societies, that we have undergone through in our long evolution, the Greeks managed to establish strong hierarchy which served as the corner stone of their whole society - but this hierarchy, did not ultimately lay with the *polis*, and we cannot speak about the bureaucracy in a modern sense of the word. The *polis*, generally speaking was not the place where one discussed how to care for basic needs of the citizens - as it is a norm in today's welfare states (there are some occasional exceptions, e.g. when the Athenians needed to reject a treaty with Persia because the conditions would have interfered with the importation of grain). The city (*polis*) was the realm where one debated justice, the distribution of honors, who should hold power in the city, war, empire, etc. It differs from how we understand our modern welfare state and what it should provide for the citizens. Our state, unlike the *polis* does not actually go so far as to ensure that man reaches his end. Aristotle says in his book the *Politics* that, "the whole must of necessity be prior to the part..."¹ In other words - *polis* is more important than the individual household - *oikos*. Although we can claim that the cornerstone of their

1 Aristotle, *Politics* (Dover Thrift, 2000), Book 1 Chapter 2 p.6

society was to be found precisely with those individual households (*oikoi*). It is derived from the word - *oikonomia* which means literally - law of the household. The term itself is supposedly a creation of Theophrastus who was a student of the famous Aristotle. But, to really understand the *polis* and the society we must examine the situation from the bottom, "He who thus considers things in their first growth and origin, whether a state or anything else, will obtain the clearest view of them."²

This thesis is going to talk about the role, that state plays in the economy and will present two little bit different view-points on this subject based on two different authors. Economics as something so essential that we cannot live without it. We are part of it, even when we are not aware of it. When we simply talk about the economics we put under this term various categories. Whether it is the economics of the whole world, single individual or things that are simply connected with the currencies/money (stocks, bonds etc.). The Greeks looked on the situation differently. Of course, there was probably some sort of an interference from the government, but it was not certainly possible on such a scale as it is nowadays, because of modern technologies and gigantic bureaucracies involved with nearly everything that is primarily productive. First thing, that we have to have in mind all of the time, is that when we read dialogues of Socrates and we find that he somehow mentions economics, it is something quite different from what we came to understand under the term right now.

This thesis will focus on two very influential political writers and their famous works. Plato's *The Republic* and F.A. Hayek's *The Road to Serfdom*. Precisely those two writers had been chosen because at the beginning of my research, there had been expectations that those two will represent fairly distinct and different ways of thinking. As the later researched showed, it is a little bit more complicated and maybe even little bit controversial as the thesis will try to illustrate.

Now, it is important to show that Plato was able to contribute to economics with very important concepts as the thesis is going to illustrate. It is thus not illogical to compare his *The Republic* with Hayek's *The Road to Serfdom*, as it might maybe

2 Aristotle, *Politics* (Dover Thrift, 2000), Book 1 Chapter 2 p.4

seem at first, quick glance. Especially from the position of somebody who never read any of those texts, but is familiar only with the authors. *The Road to Serfdom* is not simply a work in economics (because Hayek was known for being an economist in the first place) but a mixture of political economy, philosophy, sociology but even the history et cetera. The same thing can be said about Plato's *The Republic*. It is not merely a philosophical work. It encompasses various fairly "modern" sciences. But economics is, of course, very important part of it. Without it, it would crumble. The whole concept would not be functional. Because there is no society, whether real or imaginary in the world, that is able to function without the economics.

Both of them had been considered a sort of radicals of their own times. Plato very often writes about, or from the view-point of his mentor Socrates, who basically went against every principle in the ancient Greece and tried to look at things from a different angle. He opposed democracy and oligarchy. It is also important to note his ideas about the women. To call him a proto-feminist would be simply untrue, but he considered women to be something more, than simply lower form of man, as was the norm of that time. He said that women could receive the same education and perform the same jobs as men, but that the best women would always be lower (even if only slightly) than the best men.

" ' Men and women, therefore, also have the same nature with respect to guarding a city, except insofar as the one is weaker and the other stronger.'

' It looks like it.'

' Such women, therefore, must also be chosen to live and guard with such men, since they are competent and akin to the men in their nature.'

' Certainly' "³

It would be probably absurd to compare Hayek with the Socrates in terms of a symbol. But we can dare to say, that he played a similar role in the world of economics and political science. He built upon the legacy of older writers like Frederic Bastiat who was a French economist that created the famous concept of the Broken window fallacy which he presented in his title *That Which Is Seen, and That Which Is Not Seen*. The whole idea is fairly simple and applicable to our modern

3 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 456a,b

times and Keynesian economics more than ever. "In Bastiat's tale, a man's son breaks a pane of glass, meaning the man will have to pay to replace it. The onlookers consider the situation and decide that the boy has actually done the community a service because his father will have to pay the glazier (window repair man) to replace the broken pane. The glazier will then presumably spend the extra money on something else, jump-starting the local economy....The onlookers come to believe that breaking windows stimulates the economy, but Bastiat points out that further analysis exposes the fallacy. By breaking the window, the man's son has reduced his father's disposable income, meaning his father will not be able purchase new shoes or some other luxury good. Thus, the broken window might help the glazier, but at the same time, it robs other industries and reduces the amount being spent on other goods. Moreover, replacing something that has already been purchased is a maintenance cost, rather than a purchase of truly new goods, and maintenance doesn't stimulate production. In short, Bastiat suggests that destruction - and its costs - don't pay in an economic sense."⁴ ⁵ Hayek was familiar with this concept, built upon it and popularized it. In a sense, broken window fallacy is often pinpointed as the main argument against the Keynesian economic school, because it manages in very simple manner to go right against the concept, that proclaims that war or certain natural catastrophes are the "stimulus" that economy needs. And that they are beneficial in the long-term. He became a symbol for a certain people. Especially today, he is very well known in the conservative and liberal circles. He was a radical, because he seriously propagated smaller state and less government intervention - which was a total opposite of what was happening at the time, when he was writing *The Road to Serfdom*. Along with Ludwig von Mises he was one of the most prominent members of the Austrian School of Economics. I would dare to say, that nowadays he is considered even bigger radical, than he was at the peak of his career, sometime incorrectly as we will see. But of course, he is not as widely known and as respected as a Socrates of Plato but remains a symbol for a certain group of people nonetheless.

At the absolute beginning of my research I thought that if I picked up Plato and Hayek as a central subjects of my thesis I can just easily contrast them. At the back o mind I

4 Investopedia <<http://www.investopedia.com/ask/answers/08/broken-window-fallacy.asp>> [accessed February 1,2013]

5 For even more detail look here - <http://www.mises.org/daily/5593/The-BrokenWindow-Fallacy>

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had this image of proto-communist Plato and genuinely free-market Hayek. I could not have been further away from the truth. Whole situation is a lot more complex. To compare views from *The Republic* straight with the modern concepts of Hayek's *The Road to Serfdom* is nearly impossible and would not tell us anything relevant. We can just as easily compare cabbage and carrot under the assumption that they are both vegetables, but one is of a round shape and other one of different shape. Each book has to be considered in its own way. Only then, we can see how revolutionary their ideas were at the times of their creation.

Chapter I. Hayek:

This thesis is not going to begin chronologically, thus we are not going to concentrate on Plato right from the beginning. For its purpose, it is important that dear reader is acknowledged with the Hayekian argument of minimal government and truly free-market society. Because I assume, that it is important to get also another view on the situation besides the view presented in the main-stream media all the time, with which he is probably already acknowledged. Hayek's *The Road to Serfdom* is one of those books that many people talk about, but have never actually read. In this first section, we are going to have a look at the basic pillars of the Hayek's whole concept - individualism, capitalism and classical liberalism.

It is very important not to idealize Hayek and make him into something, that he never had been, nor he never had intentions of becoming. Hayek is many times presented as an almost anarchist or conservative reactionary and radical supporter of the unregulated laissez faire economy. He is glorified by modern day liberals, conservatives or even some anarchists and condemned by leftists, socialists, communists and various Marxists. We will put all those assumptions aside and concentrate only on his text without any preexisting presuppositions that might push us into certain direction. In *The Road to Serfdom* Hayek writes about the threat of collectivization. That by striving to create something that will lead to big prosperity and wealth for all humanity, we might create the very opposite. The basis for Hayek's argument is the science of economics "We have progressively abandoned that freedom in economic

affairs without which personal and political freedom has never existed in the past."⁶ According to him, the more centralized government is and the more regulated economy is, the less freedom people eventually have. When government tries to plan, control and centralize it inevitably for Hayek leads to another plan, another control and more centralization. It is an endless vicious circle that ends in ominous government with unlimited power that tries to control and regulate nearly everything. This is not original Hayek's idea, there were others who thought along these lines, for example Alexis de Tocqueville, - eccentric Frenchman who made a trip to America in the 19th century and gave us some brilliant insights on possible development of the country in the future. Tocqueville imagined a government that controlled every aspect of one's life, including the economy. Certain passages from his book *Democracy in America* almost send shivers down our spine in how real, those dystopic images seem to us nowadays. In their undeniable resemblance to our welfare state. "Above those men arises an immense and tutelary power that alone takes charge of assuring their enjoyment and of looking after their fate. It is absolute, detailed, regular, far-sighted and mild. It would resemble paternal power if, like it, it had as a goal to prepare men for manhood; but on the contrary it seeks only to fix them irrevocably in childhood; it likes the citizens to enjoy themselves, provided that they think only about enjoying themselves. It works willingly for their happiness; but it wants to be the unique agent for it and the sole arbiter; it attends to their security, provides for their needs, facilitates their pleasures, conducts their principal affairs, directs their industry, settles their estates, divides their inheritances; how can it not remove entirely from them the trouble to think and the difficulty of living?"⁷ Hayek obviously admired Tocqueville a great deal, he even called the book itself after one of Tocqueville's concepts - "road to servitude".

Individualism

For Hayek, healthy individualism is a component that is absolutely necessary for the creation of a fair and functioning society. It is important not to mix individualism and egoism. They are certainly not synonyms for Hayek, he defines individualism as a , "...respect for the individual man qua man, that is, the recognition of his own views

6 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.67

7 Alexis De Tocqueville, *Democracy in America*.(Historical-Critical edition). Vol. 4 Chapter 6

and tastes as supreme in his own sphere, however narrowly that may be circumscribed, and the belief that it is desirable that men should develop their own individual gifts and bents."⁸ In other words, believe in yourself and let the others develop their own belief in themselves. Egoism on the other hand is something quite different. Tocqueville defines it quite differently. He claims that individualism is worse than egoism. He defines egoism as a "...passionate and exaggerated love of oneself..."⁹ which comes from human instinct. For Tocqueville individualism is "...an illness so natural and so fatal to the social body in democratic times..."¹⁰ that builds upon this egoistic principle and tries to present it in a way that would look rationally and morally excusable to human beings. Eventually it would just escalate back into the egoism.¹¹ Egoism cannot be helped. It is a part of our instincts. Ergo it cannot be as bad as individualism. Individualism for Tocqueville is then basically just artificial justification for egoism that sounds more acceptable to the society. But this would be preposterous for Hayek. Individualism is about utmost respect for every single human being that deserves it - and for this, one needs freedom and liberty. But the egotist has true respect only for himself. He is not concerned with liberty or how free his fellow human beings are. For egotist freedom and liberty don't serve as the pillars for all human interaction, as they do for Hayek. He says that, " 'Freedom' and 'liberty' are now words so worn with use and abuse that one must hesitate to employ them to express the ideals for which they stood..."¹² People no longer understand under those terms the same things, it used to mean to Hayek and his predecessors. Society has shifted further away from the principles of the individualism. Individuals are not at the core of decision-making process anymore. They need legitimacy from the masses of people. And to gain this legitimacy, they often resort to populism and other unfortunate side-effects of the politics. To give an example from recent days. The European Union tries to implement quotas on gender ratio for corporations CEO's. And they claim it is in favor of freedom and liberty. Would Hayek understand it as something that would further the cause of freedom? Such laws restrict free human enterprise and put other burdens and limitations on the shoulders of entrepreneurs. The problem is that they restricts corporations ability to choose their CEOs with

8 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.68

9 Alexis De Tocqueville, *Democracy in America*.(Historical-Critical edition). Vol. 2 Chapter 2

10 Alexis De Tocqueville, *Democracy in America*.(Historical-Critical edition). Vol. 2 Chapter 4

11 Alexis De Tocqueville, *Democracy in America*.(Historical-Critical edition). Vol. 2 Chapter 2

12 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.68

complete freedom; it limits their ability to choose the best person, man or woman, for the job; thus, it limits their ability to actually run the corporation in an efficient way. Our rights are slowly taken away from us under the pretense of artificial equality and powerful slogans. "...the beliefs of the great majority on what was right and proper were allowed to bar the way of the individual innovator."¹³ State is gaining on power, and is more and more obtrusive for the individual. System is seemingly easily legitimized through the public ballots, even though in many cases, not even half of the populace takes active part in them. And of course, this is system of the democracy is representative and not direct. Voters have no guarantee that people, that they have elected to power will be responsive to them in anyway after the electoral process is over. "It would scarcely be an exaggeration to say that the greatest danger to liberty today comes from the men who are most needed and most powerful in modern government, namely, the efficient expert administrators exclusively concerned with what they regards as the public good."¹⁴ It is becoming more and more clear, that not the society as a whole and certainly not a nameless mass of people are going to be the basis of the state for Hayek. He will place his faith in entrepreneur, business man and innovator but not only in them, cornerstone for his society is simply human individual. Single human being and not a nameless statistical mass.

Capitalism and the free-market

Hayek as a classical liberal will believe in every human being. Everyone is capable of achieving his own potential. Thus it should not be hindered by the state, by a means of various regulations. (From the viewpoint of current libertarians or anarchists that strongly built on Hayek's liberal legacy, it is quite surprising that he himself will actually support state intervention and regulations on a quite a large number of issues - but more about it later.) Once all individuals were conscious of their potential, they saw the chance for change and free development in their reach and they have grasped it. "Where the barriers to the free exercise of human ingenuity were removed, man became rapidly able to satisfy ever widening ranges of desire."¹⁵ Hayek only further pushes the point, that even though, there are many negative things connected with industrial period (in many cases artificially exaggerated by the communist propaganda

13 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.70

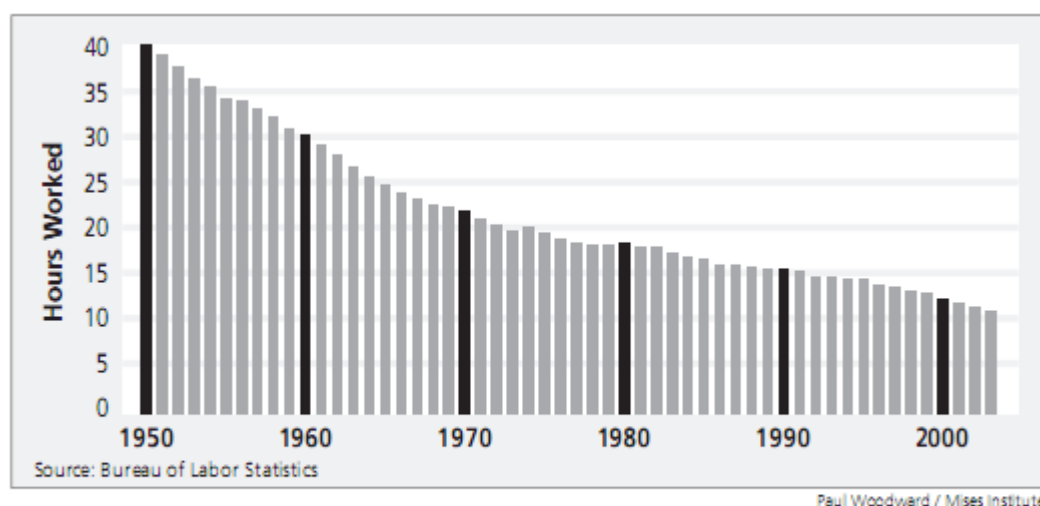
14 F.A.Hayek, *Constitution of Liberty*.(The University of Chicago Press:2011), p.262

15 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.70

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that tried to blame capitalism for every evil in the world) it is hard to deny that its effect later undeniably helped nearly every class. One might argue that it has emerged out of spontaneous order. Others will say, that industrial revolution has become good for the wider human populace only after it has been regulated, or moderated by the state. The fact is that nowadays, even financially poor people can in vast majority of cases, allow to pay for their accommodation, food, they have access to state education, state medical system et cetera. It is very hard to disprove that those are the benefits that had been ultimately brought up into our society because of the capitalism. Just to illustrate my point even further I am going to show two fairly simple charts. Both of them show, how large jump were we able to do in just under 60 years.

First graph¹⁶ illustrates average number of work hours required for completion of the



A comparison between the work hours required today versus those in 1950 to produce the same results.

job. From 40 hours in a year 1950, we are now down to 11. Which is a remarkable success. Work efficiency is thus according to this graph nearly 4 times more efficient. As Kel Kelly mentions in his book *The Case for Legalizing Capitalism*, "the number of hours of labor it takes to purchase a certain item or the number of hours of labor it takes to achieve a particular standard of living constantly declines through time as our productivity rises...average worker today needs to spend only 11 hours per week to produce what took an average worker in 1950 a full 40 hours per week; European

16 Kel Kelley, *The Case for Legalizing Capitalism*. (Ludwig von Mises Institute:2010), p.45

data is comparable."¹⁷

Second graph¹⁸ is concentrating on the value of goods. It is from the same publication *The Case for Legalizing Capitalism* like the graph before. It is even more obvious when we look at the specific material things that we use to buy in our daily lives. Things like sofa, radio or television. Work hours needed to purchase every single one of these things have fallen dramatically in the last 50 years. The reason why is thesis showing data that are quite recent (last 50/60 years) is fairly simple. There are not credible statistics from the 19th century and before. At least nowhere comparable to the statistics that we have nowadays. Then we have to resort to the plain text. John

Cost in Time

Hours worked at the average wage to purchase typical household goods

	1950	2009
Sofa	57.7	22.0
Sofa Bed	69.2	19.4
Arm Chair	28.4	8.9
Mattress	34.6	33.3
Four-Drawer Chest	43.5	3.3
Desk	150.0	33.3
Vacuum Cleaner	34.6	5.6
Dryer	127.0	20.0
Freezer	244.2	23.3
Refrigerator	153.7	21.7
Toaster	10.0	1.9
Gas Range	65.3	23.2
AM-FM Radio	26.9	0.6
Recliner Chair	38.4	6.7
32-piece Silverware Set	22.7	0.8
Television	161.5	30.5
Total Hours of Work	1,267.0	254.5
Weeks of Work	31.7	6.4
Months of Work	7.9	1.6

Source: mjperry.blogspot.com ²¹

A comparison between the work hours required today versus those in 1950 to produce the same results

17 Kel Kelley, *The Case for Legalizing Capitalism*.(Ludwig von Mises Institute:2010), p.45

18 Kel Kelley, *The Case for Legalizing Capitalism*.(Ludwig von Mises Institute:2010), p.46

Locke in his *Second Treatise of Government* says following, " There cannot be a clearer demonstration of anything than several nations of the Americans are of this, who are rich in land and poor in all the comforts of life; whom Nature, having furnished as liberally as any other people with the materials of plenty—i.e., a fruitful soil, apt to produce in abundance what might serve for food, raiment, and delight; yet, for want of improving it by labor, have not one hundredth part of the conveniences we enjoy, and a king of a large and fruitful territory there feeds, lodges, and is clad worse than a day laborer in England."¹⁹ Even Locke back then realized that capitalism has positive effect on the standard of living.

But of course those are the numbers or assumptions (in case of Locke) and someone might still claim, that we don't have the data from the older times thus we cannot be 100% sure, or that it might just be one big statistical anomaly. Then we can have a look at the brilliant essay *I, pencil* written by Leonard E. Read. Mr. Read in almost childish manner describes how it is possible that we are able to buy something so complex and made from things that can be found all around the world (graphite from Africa, wood from China, caoutchouc for the creation of the rubber at the top from South America etc.) so cheaply and easily in a various places. Whole point of the short story is, that the more free the market is, the better can capitalism work and the cheaper products it can create. "The lesson I have to teach is this: Leave all creative energies uninhibited. Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-how's freely to flow. Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed. *I, Pencil*, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth."²⁰

40 years after Hayek's *The Road to Serfdom* was published, he has written his another important book entitled *Socialism and Science*. Precisely planned socialism that he had in mind when he wrote *the Road to Serfdom* was no longer a real "threat". Socialists had progressed into social-democratic parties that are strongly represented in many parliaments throughout the Europe or even in the US (in case of Democratic

19 John Locke, *Second Treatise of Government*. (Hackett:1980), § 41

20 Leonard E. Read, *I, pencil*. (Foundation for Economic Education:New York), p.9

party, if we considered them social-democrats of course, I think that many of them would not agree, nonetheless their goals are similar to goals of European social-democratic parties). "...socialist parties in the West have almost all for the time being abandoned the most obviously dangerous demands for a centrally planned economy."²¹ Social-democrats try to moderate the amount of control and the amount of freedom for the markets. But can they do it? Hayek does not question matter of their good faith, nevertheless he is quite skeptical. "...I greatly doubt their capacity to combine their aim of a thorough governmental redistribution of wealth with the preservation, in the long run, of modicum of personal freedom..."²² Government can try to aim at a certain compromise, but Hayek points out that government tries to please certain group of people. And once certain group is pleased, other voices will come to the surface, and they will ask the same benefits for themselves. "...Once claims for interference with the market in favor of a particular groups have come to be frequently recognized, a democratic government cannot refuse to comply with similar demands of any group on whose votes it depends."²³ And we are thus entering the vicious circle once again. Because the fulfillment of those desires has to be centrally controlled in a way. "...Even if governments try not to use such central planning as an instrument, if they persist in the endeavor to create a just distribution they will be driven to use central direction as the only instrument by which it is possible to determine the overall distribution of remunerations...and thus be driven to establish and essentially totalitarian system."²⁴ To put it more simply, according to Hayek it simply cannot be moderated and even redistributive system in a limited scope will lead to totalitarianism. But is he speaking about the laissez faire? Will he ten advocate unrestrained and absolutely un-regulated market? We will find out later.

Decline of the understanding

The progress in wealth and increase in the life standard were brought about mainly because of the rise of the capitalism. And capitalism itself is a child of the liberalism.

21 F.A.Hayek, *Socialism and Science*.(The University of Chicago Press:1978),Socialism and Science, p.300

22 F.A.Hayek, *Socialism and Science*.(The University of Chicago Press:1978),Socialism and Science, p.300

23 F.A.Hayek, *Socialism and Science*.(The University of Chicago Press:1978),Socialism and Science, p.301

24 F.A.Hayek, *Socialism and Science*.(The University of Chicago Press:1978),Socialism and Science, p.301

It is in a certain sense a great irony, that once the people started to rely on the philosophy of liberalism to solve their every problem, various other things, that were not immediate problems before, had started to look like problems. We have become used to it. It was no longer an economic miracle, it was just a normal part of our day to day lives. "...a progress which came to be taken more and more for granted and was no longer recognized as the result of the policy of freedom." Progress itself had become something that simply existed. And lots of people had no idea why. "Because of the success already achieved, man became increasingly unwilling to tolerate the evils still with him which now appeared both unbearable and unnecessary."²⁵ Hayek is probably talking about the child labor, various cases of worker exploitation, discrimination etc. In other words, things that have been (and not so long ago) a normal part of the system. All those aspects of the free-market, had instantly become something outrageous and no longer morally bearable. "The eyes of the people became fixed on the new demands, the rapid satisfaction of which seemed to be barred by adherence to the old principles."²⁶ Hayek tries to make a point that we no longer understand why the society worked before. Economic and technological growth has been taken for granted. And people focus on other things. "And, as the hope of the new generation came to be centered on something completely new, interest in and understanding of the functioning of the existing society rapidly declined..."²⁷ We simply don't know anymore, according to Hayek, what to do to preserve this miracle in our society. Keynesian emphasis on the spending and deficit creation rather than balanced budget advocated by the classical economists, gave the politicians a very powerful weapon. And they abuse it quite often. Keynes himself considered deficit spending and instrument that was to be used in difficult times (after war period etc.) to give the economy the kick it needed.²⁸ And not as a regular principle on how the economy is to be managed. It will be most definitely interesting to see, how is the situation with the debt crises going to resolve. But the voices of the opponents of the main-stream Keynesian economics are still in the minority. Maybe even this is what Hayek had on his mind, when he talked about decline of the old principles and understanding of how economy works.

25 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.72

26 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.72

27 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.72

28 Journal of Post Keynesian Economics - Vol. 17, No. 3, Spring, 1995 p.341

"...and, with the decline of the understanding of the way in which the free system worked, our awareness of what depended on its existence also decreased."²⁹ But this is not the central theme of *The Road to Serfdom*. Hayek through this analogy does not want to criticize anybody. He merely tries to illustrate that, "...how completely, though gradually and by almost imperceptible steps, our attitude toward society has changed."³⁰ Few years ago, we have expected from the society merely to be protected by it and we of course often took an active participation in this protection. Nowadays, people expect to be taken care of by the society and by the others, no matter what happens. From under the arms of a protective manor lord we have gradually and willingly transferred ourselves into the care of abusive, chaotic and unpredictable father. This change, according to Hayek illustrates a complete reversal of the trend, from the free-market economy advocated at the beginning by the classical liberals, where government regulated only the most vital things and took care of only the most basic kinds of welfare social securities. Progress which seemed to lead to less governmental regulations and oppression, have now reversed to its very opposite - , "...an entire abandonment of the individualist tradition which has created Western civilization."³¹ Under the individualist tradition Hayek probably has in mind the period of enlightenment and its liberal intellectual descendants which brought with itself the abolishment of the divine right of kings, secularism etc.. Movement then escalated into French and American revolutions. It has strengthen the power of the individual and weakened the controlling powers of the rulers.

He also makes another point, that the Anglo-centric world view had switched to Germano-centric (Marx, Schmoller, Sombart, Mannheim). And it is by no means a coincidence that Hayek has chosen these 4 authors. All of them can be considered to be socialists of a certain kind. It is quite interesting to note that Germany of this period is most famous for being a homeland to many philosophers, scientists and economists that later strongly inspired many totalitarians. Whether the Nazi or Bolshevik. Even more important is to understand, that many intellectuals that begun as strong leftists later evolved into various kinds of Marxists or Nazis. This book has been written during the second world war in years 1940-1943 (it was published at

29 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.72

30 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.72

31 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.73

March 1944) and thus it is interesting how right he was in the retrospect. At the time, when Hayek wrote *The Road to Serfdom*, he could not have been 100% sure what is eventually going to evolve from the Marxist teachings and how it is going to be responsible for the creation of one of the most totalitarian and controlling regimes ever. During the second world war, Hayek had been already teaching at the London School of Economics. And after the Anschluss of Austria, he decided to stay in Britain. Authors of the so called Austrian School of Economics were hated by Hitler's regime for obvious reasons. For example, Ludwig von Mises had to escape to Switzerland and from Switzerland (because of the political pressure that Nazi government implied on the Swiss government) he was forced to runaway even farther, to America. If there is a one thing that all member of the Austrian School of Economics are renown for, it is how they despised all kinds of totalitarianism.

Up to this point, Hayek might seem like an almost Anarcho-capitalist. But that would be far from truth, as thesis is going to illustrate later. His explained his goal thus , "It is of the utmost importance to the argument of this book for the reader to keep in mind that the planning against which all our criticism is directed is solely the planning against competition - the planning which is to be substituted for competition."³² This is one of the turning points of the whole book. Suddenly, it become clear that Hayek will not revoke the role of government completely as for example few years later Murray Rothbard.³³

Hayek will certainly not support something so radical as the abolition of the state, he is most definitely not an anarchist. His basis for the whole system is the individual and individualism, which he defines very simply as, " respect for the individual man qua man." ³⁴ And as we will discover later, he will support government regulations on many occasions. Definitely on a lot more occasions than Ludwig von Mises.

32 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.90

33 He merely starts the concept that is later elegantly enhanced in *Human Action* by Ludwig von Mises although we cannot be really sure that Mises built upon the Hayek's concept. As far as their relationship is concerned Mises was more of a mentor to Hayek than vice-versa.

34 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.68

Chapter II. Plato:

With Plato, situation is going to be more complicated. As it have been already emphasized in the introduction. There is no government and no economics in our modern sense of word yet in existence, at the time when Plato writes his famous work. Of course, there are equivalents to our modern money and even some sort of primitive currency exchange markets. But Greeks did not have bonds, stock market and financial crises in such a way as we have them now. But neither can we claim, that they have lived in the genuinely free-market society, where capitalism at its best and equality of chances bloomed. It is problematic to even call the Greek system capitalism at all. "A life on the land, farming to produce only so much as was needed for consumption and leaving enough leisure time for active participation in the public life of the *polis*, was the social ideal. Production and exchange were to be undertaken only for personal need, to help out friends, or to benefit the community as a whole. Such activities were not to be undertaken simply to make a profit and certainly not to obtain capital for future investment and economic growth."³⁵ And what else is the very essence of the capitalism, than to invest your money and watch them grow in order to gain more profit? Greek values at that time were simply of a different kind than ours.

Different views on the Republic

Karl Popper's *Open Society and its Enemies* takes the image of the city from the speech far too literally and creates totalitarian out of Plato. This view has been many times strongly attacked by various scholars. Walter Kaufmann (known for his great translation of many Nietzsche's works) said about Popper's essay following - , "First, Popper's treatment contains more misconceptions about Hegel than any other single essay. Secondly, if one agrees with Popper that "intellectual honesty is fundamental for everything we cherish" (p. 253), one should protest against his methods; for although his hatred of totalitarianism is the inspiration and central motif of his book, his methods are unfortunately similar to those of totalitarian "scholars" — and they

35 Darel Engen, *The Economy of Ancient Greece*. (EH.Net encyclopedia, edited by Robert Whaples (July 2004) <<http://eh.net/encyclopedia/article/engen.greece>> [accessed February 5,2013]

are spreading in the free world, too. "³⁶ Leo Strauss has nothing good to say about Popper as well," In a letter from April 10, 1950, Strauss wrote to Voegelin:

May I ask you [Voegelin] to let me know sometime what you think of Mr. Popper. He gave a lecture here [at the New School for Social Research], on the task of social philosophy, that was beneath contempt: it was the most washed-out, lifeless positivism trying to whistle in the dark, linked to a complete inability to think "rationally," although it passed itself off as "rationalism" -- it was very bad. I cannot imagine that such a man ever wrote something worthwhile reading, and yet it appears to be a professional duty to become familiar with his productions. Could you say something to me about that -- if you wish. I will keep it to myself."³⁷

Popper simplified whole Plato's book into proto-totalitarian society. Where "human-cattle" gets controlled by the upper echelons of the society. According to him, city in the speech is a wild crossover between ancient Athens and Sparta. But is this really enough? Is the Plato's book so shallow and obvious? When we compare his *Republic* with his other works, we must say simply no. All of the previous dialogues of Plato are full of less obvious concepts and truths, that are hidden from the plain surface. There is nothing to suggest, that *Republic* as his "*opus magnum*" would be in any way different.

Self-proclaimed Anarcho-capitalist Murray Rothbard has also written his own analysis of *the Republic* and the Greek philosophy. It is part of his much larger set of books called - *Austrian Perspective on the History of Economic Thought*. In this particular text, he gives us his own interpretation of the Platonic philosophy and his famous *The Republic* amongst many other concepts. He claims that Plato was a supporter of the , "theoretical right-wing collectivist utopias"³⁸. He is thus probably inspired by Popper's text. All his critique of *the Republic* is quite similar to Popper's claims, although Rothbard most definitely does not support all Popper's claims

36 Walter Kaufmann, *From Shakespeare to Existentialism: Studies in Poetry, Religion, and Philosophy*. (Beacon Press:1959), Ch.7 sub Ch.2

37 Robert Lux, *Leo Strauss and Eric Voegelin on Karl Popper*. (Ricochet) (June 2011) <<http://ricochet.com/main-feed/Leo-Strauss-and-Eric-Voegelin-on-Karl-Popper>> [accessed February 7,2013]

38 Murray N. Rothbard, *Austrian Perspective on the History of Economic Thought*. (Ludwig von Mises Institute:1995), Sub-Chapter 1.5

,"Unfortunately, Popper confuses the *political* totalitarianism of Plato with the spurious tyranny allegedly implied by the fact that Plato believed in absolute truth and in rational ethics. To a modern, wishy-washy *ad hoc* metaphysician like Popper, any firm belief in truth, in black and white, smacks of "dogmatism" and "despotism." "³⁹. Rothbard says also the following , "To keep the elite and the subject masses in line, Plato instructs the philosopher—rulers to spread the "noble" lie that they themselves are descended from the gods whereas the other classes are of inferior heritage."⁴⁰ This line is quite manipulative and mostly untrue. Socrates does not consider others to be of inferior heritage. Neither it is done to keep the masses in line, as Rothbard implies. Socrates differentiates people into 4 categories, so that he can take the private property from gold/silver classes. Because property and wealth would turn them into oligarchs. It is done to make them the best rulers and protectors. Goal of this differentiation is to achieve greater good for the bronze/iron classes and not vice versa. And also, we cannot forget that this differentiation is not carved in stone. As Socrates says, "...sometimes happens that a silver child will be born from a golden parent, a golden child from a silver parent, and similarly all the others from each other..."⁴¹ People can freely move between those classes. In fact, it is the most important assignment of the rulers to keep watch for talented individuals. Now of course, we might argue (and I dare to say that Rothbard certainly would) that it is not much better. Because there is no guarantee that ruling classes will not become corrupted and would not manipulate bronze/iron as they want. And yes, we would call something like this by today's standards propaganda and not a "noble lie". There is also the matter of regulated music and other aspects of freedom, that we consider by today's standard "normal" (freedom of speech, music etc.) that Socrates argue should be regulated. "The arts are frowned on, and the life of the citizens was to be policed to suppress any dangerous thoughts or ideas that might come to the surface." "⁴² Arts are certainly not frowned upon, Socrates considers them very important part of the *polis*. But they are not to be used for "fun". Their goal is to shape its citizens to better fulfill their roles in the society and not to stray them away from the idea of common good

39 Murray N. Rothbard, *Austrian Perspective on the History of Economic Thought*. (Ludwig von Mises Institute:1995), Sub-Chapter 1.5

40 Murray N. Rothbard, *Austrian Perspective on the History of Economic Thought*. (Ludwig von Mises Institute:1995), Sub-Chapter 1.5

41 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 415b,c

42 Murray N. Rothbard, *Austrian Perspective on the History of Economic Thought*. (Ludwig von Mises Institute:1995), Sub-Chapter 1.5

for the *polis*. Rothbard goes so far that he branded Plato the first author that will support the fiat government currency and would advocate abolishment of gold and silver as the main currencies. "Plato called for a government fiat currency, heavy fines on the importation of gold from outside the city-state, and the exclusion from citizenship of all traders and workers who deal with money."⁴³ I was not able to support neither revoke those claims. Because Rothbard does not offer us any specific sources for these claims.

Money-makers

Socrates is not especially fond of someone who is only motivated by making more money. And he shows it to the reader right at the beginning in the dialogue with the Cephalus who represents the wisdom and ways of the old. Money makers according to Socrates are , "...therefore, hard even to be with because they are willing to praise nothing but wealth."⁴⁴ Cephalus, agrees at this point with Socrates. Which might give it even bigger strength. Both the wise old Cephalus and new "progressive" Socrates agree, that money makers tend to praise nothing else but wealth. Well, this can be interpreted in a variety of ways. We can simply dismiss money makers as people, that care about nothing besides money and their contribution to society is only an in-direct fallout of their entrepreneurial efforts. Or, it can be understood in a way, that in that particular moment, when one is concentrated on the money making, all his other priorities are put aside (which seems like a quite common thing even today amongst many successful or often even the unsuccessful business man). Socrates does not even seem to contemplate money making as a goal in itself, because his next question to Cephalus is , "What do you suppose is the greatest good that you have enjoyed from possessing great wealth?"⁴⁵ At this point, it is quite irrelevant for us, what Cephalus answers. Important is the questions itself. Money making is not a goal in itself for Socrates and neither for Cephalus. Even in the Straussian understanding of the whole concept of *the Republic* as a very complex reflexion of the human psyche, it would still mean that money making is simply not important thing for human beings, or at least it should not be. Values are established and held in very different manner. But the

43 Murray N. Rothbard, *Austrian Perspective on the History of Economic Thought*. (Ludwig von Mises Institute:1995), Sub-Chapter 1.5

44 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 330c

45 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 330d

theme of this thesis is not values in ancient Greece. What is important for this thesis, is that any activities which were concentrated on money making, were quite low on the ladder of respectability. Quite other matter is the possession of money itself. It is nice to own it, but it is not so honorable to make it. For Cephalus it is acceptable when decent and orderly person has a lot of money⁴⁶. So in a way, he is persuaded that he himself is a decent and orderly person and to be sure of it, in the last moments of his life, he uses the money or in other words, his wealth. "In this scrupulous search one may find that one has involuntarily cheated someone or lied to him or that one owes some sacrifices to god or money to a human being. Only if one possesses wealth can one pay those debts while there is still time. This then is the greatest good which Cephalus enjoys from his wealth..."⁴⁷. Strauss interprets the final purpose of the money, to assure good life in the afterlife. And this is very interesting point. Because according to this, we might go as far as to claim that in order to enjoy good after life, one has to buy it in a way. Money as something strongly connected with majority of human activities. Economics of the soul.

We might try to claim that possession of money is just only at the moment, when money is gained by the just means. But here we are starting to see big problem. In a manner of Socrates, we might pose a following questions. When we take something, from somebody under a violent threat, is it stealing? Is stealing wrong? Are taxes taking something, from somebody under a violent threat? Is the government then stealing? It of course depends on what would be the answers to those questions. But once, you answer that taking something, from somebody under the threat of violent force is stealing, it is only logical that taxing is in a certain way a theft when not done willingly. People that are getting the welfare are than becoming willingly thieves if they support the welfare system. This whole argument might seem ridiculous, but even Socrates tells us that, " For it has become apparent to us that it is never just to harm anyone." ⁴⁸ But of course Socrates would strongly disagree. He would not considered it theft or robbery. Because it is in no way unjust. I have decided to mention this argument mainly because many today's liberals, libertarians and anarchists use to argue this way quite often. Taxes represent for Socrates wages for

46 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 331b

47 Leo Strauss, *City and Men*.(University of Chicago Press:1963) p.67

48 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 335d

ruling and not a theft. In his dialogue with Thrasymachus Socrates asks him - "Don't you notice that no one wishes to rule voluntarily, but they demand wages as though the benefit from ruling were not for them but for those who are ruled?"⁴⁹ And he continues with the argument even further, "Therefore, Thrasymachus, it is plain by now that no art or kind of rule provides for its own benefit, but, as we have been saying all along, it provides for and commands the one who is ruled, considering his advantage—that of the weaker—and not that of the stronger. It is for just this reason, my dear Thrasymachus, that I said a moment ago that no one willingly chooses to rule and get mixed up in straightening out other people's troubles; but he asks for wages, because the man who is to do anything fine by art never does what is best for himself nor does he command it, insofar as he is commanding by art, but rather what is best for the man who is ruled. It is for just this reason, as it seems, that there must be wages for those who are going to be willing to rule—either money, or honor, or a penalty if he should not rule."⁵⁰ Higher classes - auxiliaries and philosopher kings are paid by the iron/bronze classes for their skill and abilities to rule and organize them effectively. And it is never a horrendous sum. There is no corruption in the City in the speech. Socrates speaks precisely about the auxiliaries class "...they must live and be housed if they're going to be such men. First, no one will possess any private property except for what's entirely necessary. Second, no one will have any house or storeroom into which everyone who wishes cannot come. Sustenance...they'll receive in fixed installments from other citizens as a wage for guarding,...no surplus....no lack either."⁵¹ And they can never own or use anything made from silver or gold. No luxuries.⁵² To put it even more simply. They will be given housing and food. And that is it. Nothing more. Those commodities are not to be taken by a coercive means. At least I have not found a single mention of auxiliaries going around the city and taking their "wages" by force in *the Republic*. As fantastic as it sounds, it is absolutely voluntary. If they would be taken by force and extorted out of lesser classes, it would be no longer just. They are doing it out of honor.

Hoi polloi are the foundation of The city in Speech in *the Republic*. Even though they don't have to be always the happiest people on the surface of the earth and we might

49 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 345e/346a

50 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 347a

51 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 416d,e

52 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 416e

say that anyone can do their job and thus they are the ones that are most easily replaceable. They are not looked down upon. They are the vital part of the society. They provide all the basic necessities for the city, and in fact also enjoy what luxuries and profits there are. And as Socrates says at the beginning of the *Book IV*, "...in founding the city we are not looking to the exceptional happiness of any one group among us, but as far as possible, that of the city as a whole..."⁵³ Money-maker would be one of the hoi polloi. Ergo money makers are not supposed to have firm position at the top and should have no say what so ever into the ruling matters, because then oligarchy (government motivated by the greed, honorable guardians are transformed into angry wolves) inevitably follows. Gold and silver ruling classes are composed exclusively of philosophers and guardians that have no private property whatsoever. We can assume that philosophers would be educated in everything and will have firm grasp of money making as well. They will just choose not to use this skill for hoarding the money. It is important to be aware of the fact, that there is no place where Socrates talks about planning in terms of economy anywhere in the text. Even when gold and silver classes will rule above the society it does not automatically means that they are going to be doing it with the regulated and planned economy. There is only two specific things that they strife to regulate by the means of the guardians. First one is the extreme wealth and extreme poverty. "...since the one produces luxury, idleness, and innovation, while the other produces illiberality and wrongdoing as well as innovation."⁵⁴ In other words, we will have some sort of a really simple welfare system. Or maybe charity system. There are no details how exactly will the wealth be redistributed etc. It is interesting to see, that innovation is something seemingly unwanted. Something that needs to be regulated. Which inevitably leads us to second things that needs to be regulated - music and gymnastics. "...there must be no innovation in gymnastics and music contrary to the established order..."⁵⁵ Music has the power to change and influence people, especially when combined with the gymnastics. And this is something that has to be avoided in order not to created useless conflicts in the city. Now, surprisingly as far as the market is concerned. There are no regulations. Socrates lets the people themselves decide and establish their own rules.

53 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 420b,c

54 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 421e,422a

55 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 424b

" 'What about that market business - contracts individuals make with one another in the market...contracts with manual artisans...or any market, town or harbor regulations....shall we bring ourselves to set down laws for any of these things?' ' It isn't worth-while,' he said , 'to dictate to gentlemen. Most of these things that need legislation they will, no doubt, easily find for themselves.' "⁵⁶ But we cannot forget another aspects of this argument. Because the dialogue between Socrates and Adeimantus continues. This can only work when the principles sketched out before will be followed,"...provided, that is, a god grants them the preservation of the laws we described before."⁵⁷ If it does not happen, the very opposite will follow,"...such men will live like those who are sick but, due to licentiousness, aren't willing to quite their worthless way of life."⁵⁸ Even though Socrates might support un-regulated market without direct *polis* interference, he still probably does not hold very high opinion of the people that actively participate in the market. He thinks that even if the polis won't regulate it (economy) directly - people that actively engage in the market will find their own way how to regulate it. And this way is obviously not his right way. But he is being quite cryptic on this matter. There are various ways of how to interpret it. Either he wants to control it directly but he does not explicitly say so. Or he thinks, that it simply does not matter and even when it is left alone, strong groups will emerge and control it nonetheless. Or that it can truly function properly only when polis serves as an instrument that eliminates those "cartels" that spontaneously emerge in the market. In other words, it would interfere only to eliminate monopolies. But of course, this is mere speculation. Socrates does not give us simple and obvious answer.

Plato is the very first thinker that came up with the concept of division of the labor. We can think of Plato as the godfather of nearly all Western economists. Even if they were not influenced by this concept directly. Main reason why people tend to form societies, is to better and more effectively acquire the ability to fulfill their basic needs. But Plato concentrates on the city as a whole, because he expects the results to be applicable on the individual as well. People in Plato's polis will live together and help each other to assure mutual gain. In this manner it is possible for them to have

56 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 425d,e

57 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 425e

58 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 425e

slaves. But it is important to note that Socrates does not say very much about the subject of slavery in the whole *The Republic*. Only specific mention can be found at 469b, where he claims that it is superior not to enslave fellow Greeks. Aristotle discusses the presence of slaves in the “city in speech” in *The Politics, Book II*, but as Aristotle rightly notes, slaves are not properly discussed in *The Republic* itself.

“Well, then,” I said, “a city, as I believe, comes into being because each of us isn’t self-sufficient but is in need of much.”⁵⁹ So the question that remains is, how are those economic activities going to be organized? We are presented with the very first system of division of labor. It is important to understand that Socrates will emphasize that there are natural productive differences between individual humans. Someone is stronger, smaller, more intelligent etc. In other words, someone is better at physical work, somebody is more suited for a skill that requires more agility etc. “...each of us is naturally not quite like anyone else, but rather differs in his nature; different men are apt for the accomplishment of different jobs.”⁶⁰ Another important point, that he realizes is that he becomes aware of the fact, that daily exercise (habituation) is a great way how to improve the skill. In other words, he want people to specialize in something. And the last point, that he makes is that there are certain jobs in the society, that requires people to be available all the time for them, even though they will not be occupied every second. For example the firemen, doctors etc. This concept of division of labor is quite clearly reflected later, when Socrates starts to sketch out layers in his city - gold, silver, bronze, iron. Each class has its own work assigned and concentrates on something very specific, but the individuals themselves can move between the classes as I have already discussed before.

Plato’s views can be sometimes quite cryptic but nonetheless I think that we have established the needed framework for more confrontation and we can already see some clear differences and similarities between Plato and Hayek. Hayek is more straightforward in his ideas and we can be really sure about certain of his views. In the *Republic*, the emphasis (at least as far as the economics are concerned) is surely not going to be put on individual, but rather the city and the regime itself. And the principles of democracy are advocated more, than the principles of classical liberalism. In the next section, thesis will illustrate the comparative analysis of the

59 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 369b

60 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 370b

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most important aspects of both of these great political thinkers.

Chapter III. The Economy:

Now we are getting to the core of the thesis. Hayek will be treated as a political thinker who concentrates heavily on the relationship between the regime and the market. There are passages in *The Republic* that fit into this category as well, but for Plato government and the regime itself does not play such a big role when considering the market. We will then have to establish differences between *the polis* and between apparatus of the modern state. Modern state needs lot more money to be able to function properly than *polis* did. And thus its emphasis on the market needs to be lot bigger. We no longer pay by hard currencies (gold, silver) like Greeks did. Government is responsible for the quality of the currency etc. This does not make our comparison invalid. On the contrary! It is even more interesting as we will see later.

In this section of the thesis, we are going to have a look in more depth at Hayek and Plato. We will try to sketch how is their ideal economy and their ideal society going to look like. What would they think about regulations of specific branches of the market (work limitation, social services, markets etc.) According to this, we will have more ground for a comparison. And at the end, we will be able to judge whom would prefer more regulated and who less regulated market. My hypothesis is posed in such a way, that I expect Plato to be in favor of a more regulated and more heavily implemented market controls than Hayek. But it will be not so clear after all.

Economics for Hayek can be understood in the modern sense of the word, we can define it as - The branch of knowledge, or the science concerned with the production, consumption, and transfer of wealth. And economics concentrates on the market. Which will be our main point in case of Hayek. In Plato's *The Republic* we will have a look at the regime specifically. And how the regime itself influences or regulates the markets.

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***Polis* and the modern state**

We have to establish simple and clear differences between the regular modern state with bureaucracy etc. and the ancient city-state of the Greeks - *polis*. The main differences can be put into three categories.

1. Industrialization
2. Bureaucracy
3. International trade

Mechanized industrialization and mass production of goods was something virtually non-existent in the Greek *polis*. There were no modern factories, no assigned amount of work hours etc. Menial jobs were done by slaves. So even if we try to fantasize that by some miracle, modern coal factory would have appeared right in the middle of the Athens it would be most likely slaves that would be put to work in them. And I dare to say that *polis* would not interfere in the matter, especially when it would be slaves working in the factories. Situation might be different if it would be actual Greek citizens that would work in it. "Slaves who worked in the silver mines of Athens, for example, worked in dangerous conditions in large numbers (as many as 10,000 at a time) and had virtually no contact with their owners that could result in human bonds of affection (they were usually leased out)."⁶¹ Slaves were a property. Nothing more. Especially those that lived totally separated from their masters. It is important to know, that cities were not the place where the production itself happened. People that lived in the cities were consumers rather than producers. Emphasis was put on the agriculture, "Most production, therefore, was carried out in the countryside and cities were net consumers rather than producers, living off the surplus of the countryside. With limited technology and no understanding of economies of scale, cities were not hubs of industry, and manufacturing existed only on a small scale. Cities were mainly places for people to live as well as religious and governmental centers. Their contribution to the economy was only to demand the surplus produce of the

61 Darel Engen, The Economy of Ancient Greece. (EH.Net encyclopedia, edited by Robert Whaples (July 2004) <<http://eh.net/encyclopedia/article/engen.greece>> [accessed February 5,2013]

countryside, manufacture limited amounts of goods, and provide market places and ports of trade for the exchange of goods."⁶² For modern state it is different. Cities are the great consumers but producers as well, mainly because of the industrialization. Agriculture is mostly separated from the core of the cities. But, many products used for food consumption are often created and assembled in the cities directly, to eliminate costs of the transport. Absolute necessities (grain, corn etc.) are still produced away from the cities, but final products like bread etc. are baked quite often directly in the cities.

Another important difference is the existence of the bureaucracy. Very essence of the bureaucracy is that it tries to plan the actions of its citizens. It organizes and coordinates their efforts. Whether it is more or less effective than spontaneous order I dare not to judge. And it appears that the creation of big bureaucracy is according to Hayek first step towards the road to totalitarianism. But it is obvious that Greeks *polis* was not in control of a big bureaucratic apparatus. It was out of honor more than out of coercion or monetary gain that people got together and took active part in the activities of their *polis*. Only really active bureaucratic apparatus in *the polis* will be created out of auxiliaries. Which are more similar to today's policeman rather than bureaucrats.

Lastly, probably the biggest difference is the non-existence of the real international markets. Nowadays we are so used to its benefits that we no longer pay any special attention to it. But international markets are one of the most important things about modern day capitalism. As I have explained few pages ago (*I, pencil* essay) it is only thanks to the international trade that we are able to significantly reduce prices of products and engage in the industrialization and cheap massive production of goods. Greeks had none of these tools at their disposal. Mainly because of the insufficient technology. It was too difficult and it simply took too long to engage in the profitable international trade.

62 Darel Engen, The Economy of Ancient Greece. (EH.Net encyclopedia, edited by Robert Whaples (July 2004) <<http://eh.net/encyclopedia/article/engen.greece>> [accessed February 5,2013]

Limits on the work itself

We will concentrate on the first topic - limits on the work itself, which will present view on the subject from both main protagonists of the thesis. We know from our day to day lives that we are simply unable to work as long as we want. At least not legally - we can engage in the black market activities if we need to procure additional money but are limited by the legislative to do so. Majority of the countries have defined in the law an amount of hours that worker can work and be paid for, in a month. Many leftists considered it a big personal victory that amount of the working hours has been so limited in recent years. Those same people will say, that it is because of the labor unions and other organizations that pull together resources of the workers and allow them to lobby for better working conditions. It was a normal situation during the middle-ages that people worked from sunrise to dawn. And yet, their productivity was nowhere near the standard that we have nowadays. Working hours have to be set directly into the legislation. And are universally applicable to all the employees. We have also eliminated child labor (at least in Europe and America) in such a way, and today in most modern countries it is illegal for a young child to be working. But is it really because of the laws and regulations? Walter Block makes a very good point in his essay *Hayek's Road to Serfdom*, where he points out that , "The reason we work fewer hours than our great-great-grandfathers is that improved technology and skills have so enhanced productivity that we have taken part of the increase in the form of enhanced leisure. There is compelling evidence that legal enactments in and of themselves cannot bring about any such state of affairs. Suppose, then, that the government had limited the work week to 40 hours, but did this in a century when, because of extreme poverty, labor typically lasted twice that duration. Instead of increasing leisure, such an enactment would amount to a death warrant for millions of people who were unable to keep body and soul together in so few hours. How, then, to account for the "success" of hours legislation?"⁶³ It is a quite strong argument, which reflects that the legislation itself is not enough to ensure economic progress.

It is then very interesting, that Hayek who is mostly renown for being a big supporter of free-market is to be revealed as somebody who would like to regulate actual

63 Walter Block, *Hayek's Road to Serfdom*. (Ludwig von Mises Institute: 1996), p.343

amount of working hours (amongst other things). He begins his argument by saying that , "It is important not to confuse opposition against this kind of planning with a dogmatic laissez fair attitude. The liberal argument is in favour of making the best possible use of the forces of competition as a means of coordinating human efforts, not an argument for leaving things just as they are."⁶⁴ We can than clearly claim, that un-regulated laissez faire capitalism is not going to be something, that Hayek is going to support. He continues his argument by saying that there are certain areas in which there cannot be an effective competition. And thus state is needed in matters such as these, to stimulate them, "...where it is impossible to create the conditions necessary to make competition effective, we must resort to other methods of guiding economics activity."⁶⁵ But are there even areas where capitalism cannot create demand and thus they must be taken care of the by the state? Can we truly prove that capitalism cannot function in certain spheres? There is a strong argument against this and I have little bit touched it before when I have discussed Socrates´ s attitude towards the limits on the market. He gives us a hint that even the polis would ideally engage in the market regulation, at least so far as to get rid of the monopolies that would arise from unregulated market. But only in case of a society where markets would play more prominent role (our modern society for example). Because so far , "It isn´t worthwhile..."⁶⁶ But let us return to the subject of the work limitation. Hayek will be in favor of the limits imposed on the amount of working hours. But they have to be imposed on everyone equally. He even admits, that it will be costlier but according to him, it is well worth the costs. "...any attempt to control prices or quantities of particular commodities deprives competition of its power of bringing about an effective coordination of individual efforts...This is not necessarily true, however, of measure merely restricting the allowed methods of production, so long as these restrictions affect all potential producers equally..."⁶⁷ He says it even more explicitly, "...to limit working hours...is fully compatible with the preservation of competition."⁶⁸ But, this whole claim can be attacked on a moral basis. If we return to his definition of the individualism, which he defined as the , "respect for the individual

64 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.85

65 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.86

66 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 425e

67 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.86

68 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.86

man qua man."⁶⁹ Something is suddenly not right, this is total contradiction in his case. At one hand he claims to have an utmost respect for every individual man, on the other hand he is going to support forceful limit of how long can that individual man work. One would expect something different from one of the biggest pioneers of the free-market. We can argue, that the real purpose of such legislation is to stop the other, more likely situation, which is that a company uses its considerable clout to force workers to work excessive hours when this is not required due to the imminent danger of starvation. Moreover, in most countries with this legislation, the real limits to work hours (i.e. time beyond which you really cannot work), concern a number of hours beyond which human exhaustion becomes a health concern. But the point still stands, that it puts limits on the entrepreneur. And in a certain way on the workers as well. Because if they want to work more, they have to do it illegally.

In Plato's case the whole situation is different. Politicians in the ancient polis had no intentions of limiting the amount of work its citizens could do. What would be the benefit of doing something like that for ancient Greeks? As I have already emphasized, there was no industrialization and all really threatening jobs like mining for example were done by the slaves. Socrates mentions the concept of division of labor, where people specialize on specific things to be more efficient. Let us look at it even more realistically. Working hours have been limited in our modern world, to give more time for leisure to people. So that their lives are easier. In the ancient Greece, there were no factories, no complicated machines that could create things in a matter of seconds. Everything was either handcrafted by a master or made by a slave. Master would limit how long is he going to work by himself. He definitely did not need somebody to tell him, how long is he supposed to be working. Especially if he was a Greek citizen. As far as the slaves are concerned - nobody cared how long or how hard they worked. They were not considered human. Big part of the Greek economy was based on the slavery. And the work the slaves did was considered base and dishonorable.⁷⁰ But the basic work is definitely not something worthless as presented by Rothbard. On the contrary, in *Book I*, Socrates actually cites the craftsman as authorities for understanding wisdom, rule and justice. And this is not unique in the

69 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.68

70 Alexander Gray, *The Development of Economic Doctrine*.(London: Longmans, Green & Co.,1931), p.14

Republic. If anything, Plato shows remarkable respect for the laboring classes, and Socrates himself was said to be a stonemason by trade. Based on this quite simple contemplation, we can claim that Greeks simply had no need for any kind of work limitation laws. Work limit was established for each household by a master of the slaves. And if Greek citizen engaged in the work, he was his own master.

Social services

What about the welfare system? Would Hayek support something like welfare benefits and their governmental redistribution? And what about Plato?

In Hayek's case, it is once again little bit surprising. We are not being given an answer, one would expect from someone who is so strongly renowned for being the greatest opponent of J.M. Keynes and supporter of the free-market. At the beginning of the *Chapter 9*, Hayek explicitly says that, "There is no reason why in a society which has reached the general level of wealth which ours has attained the first kind of security should not be guaranteed to all without endangering general freedom."⁷¹ In other words. Everyone should be guaranteed something, that Hayek calls "first kind of security".

He of course, further clarifies the matter himself by saying, "*...there can be no doubt that some minimum of food, shelter, and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody.*" So yes, Hayek claims that everyone should be given basic commodities necessary for life, by means of state. "*...the case for the state's helping to organize a comprehensive system of social insurance is very strong.*"⁷² Of course, we are hitting the same problem like we did with the limits on work. It is not in accordance with the principles of individualism to be given these things by means of a state. Not until the money (taxes) is gathered voluntarily. Until then, it is gained by means of coercion and all such things would be thus financed by forcefully taken money. Walter Block will even go so far, as to link the state welfare system to other unpleasant side-effects. He will claim that, "As for Hayek's contention that we can engage in activities of this sort on a massive scale without endangering

71 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.148

72 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.148

freedom, there is little reason to be optimistic. With large-scale welfare has come the welfare-rights movement; the rent-seeking society we have become as a result has endangered freedom if only because of the sheer size of governmental budgets. As state expenditure has catapulted its way toward 50% of the G.N.P., it has become a real question as to whether we still live in the free society."⁷³ There is a certain truth to that. Our current financial crisis can be linked to the real estate bubbles (most importantly the one in the USA) which were created as a result of welfare policies (artificial setting of low interest rates). For example, the one that has taken place in the USA was presented to the public as a plan how to support families, so that they are actually able to build their own house and they can take the mortgage even if normal bank would never gave it to them. Everyone started to build houses, because everyone was entitled for a loan - government guaranteed it. Prices of houses sky-rocketed and we know the rest of the story. Of course, this is merely one of the possible origins of the crisis, not everyone will blame the welfare state. According to CNN article by Manav Tanneeru, the root of the problem lies in a different place. He says that, "the people who could have put a brake on the increasing amount of risk -- the agencies that regulate the U.S. financial sector -- weren't paying attention."⁷⁴ In other words, it was not regulated enough. If it was, we would not get into this problem.

But let us return to Hayek. It is interesting to note, that he does not take charity and church into the matter at all. For him, the only mean for procuring the necessary things for people that are in dire need, is in the government. But we know from real life, that it is many times not like that. Church and various charities are widely supported by the people (although I admit that I am not an expert on charities and how they function and work in Asia, Africa etc.) And it all works completely on a voluntary basis, without any forceful and coercive means. People simply like to help their fellow humans. And it really does not matter if it is in our nature to do that, or whether we do it for selfish reason (to have a good marketing for our company) or whether we just want to sincerely help. What really matters is the effect. And the effect is that people in trouble are given things they need.

73 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.344

74 Manav Tanneeru , *How a perfect storm led to the economic crisis*.(CNN)

<<http://edition.cnn.com/2009/US/01/29/economic.crisis.explainer/index.html>> [accessed March 2,2013]

In Plato's case, the matter of social service has to be looked upon from a different angle. Plato advocates mutual sharing of things for the top 2 classes - guardians and philosophers. Everything (from women and children to houses) will be shared. This is very different for example from the view that Aristotle gives us. Aristotle claimed, that people take better care of the things they own. Or in other words, in things they have some sort of a personal interest in.⁷⁵ And I think that same can be told about Hayek. He claims that, "What our generation has forgotten is that the system of private property is the most important guaranty of freedom, not only for those who own property, but scarcely less for those who do not. It is only because the control of the means of production is divided among many people acting independently that nobody has complete power over us..."⁷⁶ In fact, this is precisely the reason why in Plato's *The Republic* we can hear Socrates advocating this kind of "communism" for the guardian and philosopher classes. So that they don't own anything, nor they desire anything material. Their only goal is well being of *the polis* itself and they take pride in being the ones, that managed to achieve this glory. Class of the guardians is the most dangerous class, because it has to be kept in check but at the same time, has to be persuaded that it is in their favor to protect the city. He again also applies the concept of division of labor in their case as well. "...if either the class of men or that of women shows its superiority in some art or other practice, then we'll say that that art must be assigned to it..."⁷⁷ It is interesting to note, that Socrates does not differentiate between man and women so strongly in case of this caste. Any individualism on their side has to be repressed. Their children will be shared and almost breed for battle. Concept of division of labor is so important in Plato's work, that it is visible on a manner how Socrates divides inhabitants of the City in Speech into 4 different categories according to their purpose.

Can we then claim that Socrates would like to have some sort of a welfare system in the City in Speech? Not in the modern sense of a word. People will be taken care of, if they have their purpose in the society and if they become horribly poor and they will be regulated if they become far too wealthy. "...since the one produces luxury, idleness, and innovation, while the other produces illiberality and wrongdoing as well

75 Alexander Gray, *The Development of Economic Doctrine*.(London: Longmans, Green & Co.,1931), p.23

76 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.136

77 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 454d,e

as innovation."⁷⁸ But this is not going to be done because of some empathy etc. As far as the golden/silver classes are concerned. This is also not the modern welfare-state because there is no redistribution of wealth. They are simply paid wages for their leadership as discussed in previous chapters. It is simply more effective for the city. City in speech would be much smaller than our current gigantic cities. We cannot have city of New York or London in mind, when we try to put together Plato's fabled city. It would be smaller and regulations would be more precise on such a small scale. Philosophers will not have need for gold and trinkets. Their basic needs will be taken care of by the lower classes. Their prize will be the virtue. And everything will be plentiful, because of their great leadership.

Virtue

As far as the virtue itself is concerned. Hayek himself claims in his essay *The Moral Imperative of the Market* that, " We are now in the extraordinary situation that, while we live in a world with a large and growing population which can be kept alive thanks only to the prevalence of the market system, the vast majority of people (I do not exaggerate) no longer believe in the market."⁷⁹ What is there to believe in to? How does it contribute to the society? Morality of capitalism is based on few basic principles that Hayek will definitely support:

1. Capitalism is honest
2. Capitalism is peaceful
3. Capitalism is humble
4. Capitalism is responsible

It is honest, because it makes us aware of the world around us with all its flaws. Hayek especially emphasizes dispersed nature of information, limits on how much human being can know about each other problems that arise when we try to replace decentralized markets with rational planning. It is peaceful because war hurts the markets. War always benefits only specific group of people, or specific group of entrepreneurs. Never the whole society or the whole system. It is humble because it realizes that people are no universally good, in fact it counts on the fact that they are greedy and often selfish beings. And it turns this fact into something not destructive.

78 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 421e,422a

79 F.A.Hayek ,*The Moral Imperative of the Market*.(Ludwig von Mises Institute),<<https://mises.org/daily/5193>> [accessed March 5,2013]

And it is responsible because, as Menger puts it in the opening sentence to his *Principles of Economics*, "All things are subject to the law of cause and effect."⁸⁰ It is also inherently based on the principles of the most direct democracy. Because people never buy anything on the market that they don't want or need. They always make a voluntary choice, without any violent coercion and they freely choose what to buy.

Plato's view would be probably quite different. But not in every aspect. Socrates does not strive to achieve real honesty in the society. It aims for the greater good of *the polis*. I would even dare to say, that in the City in the Speech citizens should not be aware of how things really work (concept of the noble lie that was already discussed). It would complicate things. In *The Republic* there are rulers, guardians, workers etc.. Everyone has his specific place, his specific vocation. Capitalism goes right against this principle. City in the Speech is planned. Markets arise out of spontaneous order. And only after that moment they can become subject of the regulations or controls. Plato might agree with the point, that it helps to maintain peace. Because markets produce things and help to take care of the guardians. But in the international scale, he would not probably care that much about other nations. And the truth is, that war can be beneficial for a specific city or a specific group of people. The other side of thing is, that the polis would then close itself from the international market, if they simply destroy other polis they would set certain precedence. Nobody would want to engage in trade with them, because they might be afraid to be attacked etc. Plato will definitely not believe that markets can control peoples greed. This is where the regime comes. To control their greed, their property has to be taken from them as I have already pointed out on multiple occasions for gold and silver.⁸¹ Or little bit regulated in case of bronze/iron. Hierarchy is needed. Capitalism goes right against the hierarchy, because prices are equal for every consumer. Plato would not probably even agree with the fact that it is effective, because he advocates certain regulation in market to make it more effective. So the capitalism itself is not effective enough, it is becoming more effective with the central-planning.

80 Karl Menger, *Principles of Economics*.(Ludwig von Mises Institute),
<<http://mises.org/etexts/menger/one.asp>> [accessed March 5,2013]

81 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 416d,e

Laissez Faire and the markets

We have already illustrated that Hayek, even though at the beginning of the thesis we were inclined to believe otherwise, will not support laissez. Laissez faire is basically an unregulated kind of economy - the genuine free-market. There are no monopolies enforced by the government, no government protectionist subsidies nor the tariffs that are common practice in today's economy. Hayek claims that , "It is important not to confuse opposition against this kind of planning with a dogmatic laissez fair attitude. The liberal argument is in favor of making the best possible use of the forces of competition as a means of coordinating human efforts, not an argument for leaving things just as they are."⁸² This quotation is not an isolated case. Hayek continues to show, that he will not support unrestricted laissez faire on other occasions as well. Right at the beginning, in the first chapter called "*The Abandoned Road* " he says the following , "Probably nothing has done so much harm to liberal cause as the wooden insistence of some liberal on certain rough rules of thumb, above all the principle of laissez faire."⁸³ So, here we have it even more explicitly. Laissez faire is responsible for doing the most harm to the liberal cause.

In Plato's case - there are no universal world markets yet in function. Basically all the market transactions at that time were laissez faire, when we compare them with the system we have nowadays. Maybe there were certain exceptions under the reigns of individual tyrants, who for sure took some taxes for themselves or possible redistribution. In *The Republic*, he simply states that it is not worth-while to engage in the market regulation. And it is left for the market participants to decide on the matter.⁸⁴

Walter Block will push forward even another strong argument against Hayek's fame as the pioneer of the free-market. Hayek claims at one point that , "*The attitude of the liberal toward society is like that of the gardener who tends a plant and, in order to create the conditions most favorable to its growth, must know as much as possible*

82 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.85

83 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.71

84 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 425b,c,d,e

about its structure and the way it functions."⁸⁵ Block's response is, " *But what is this if not the central-planning mentality? People are like chess pieces, to be moved around the board at the behest of the relatively all-knowing chess master.*"⁸⁶ When we judge Hayek through the glasses of modern classical liberal, he is lacking consistency in his claims (at least in *The Road to Serfdom*). He claims to put individuality and human beings at the first place. But in fact, he is doing total opposite and it looks like he is not even aware of that. It has to be shown, especially in contrast with Plato, that Hayek will support lots of governmental regulations in the market. In certain aspects (for example in case of freedom for the individual entrepreneur, who in Plato's *the Republic* is not limited in any crucial manner) they are even little bit stronger than the regulations advocated by the Socrates.

Hayek is not a fan of un-regulated markets. And not only the markets. It even looks like as if he would like to regulate the currency itself as well. "*The functioning of competition not only requires adequate organization of certain institutions like money, markets, and channels of information - some which can never be adequately provided by private enterprise.*"⁸⁷ Of course we cannot claim anything for sure if we follow this quotation literally. He does not specify exactly what kind of markets he would like to regulate. Even more disturbing is the regulation of "*channels of information*". What exactly does he have in mind? Would he like to control schools or even the media? This sounds almost totalitarian in a way. He continues by saying that there are certain areas, that needs to be under the control of the state, because they are not able to generate revenue by itself. He is talking about the roads or the signposts. That is not everything. There are other things he would like to regulate, "*...harmful effects of deforestation, of some methods of farming, or of the smoke and noise of factories...*"⁸⁸ Today, we have lots of different arguments that will actually argue otherwise. Roads and signposts can be taken care of with the combination of toll system and advertising banners⁸⁹. It is thus quite surprising that Hayek could not thought of an alternative solutions to those matters and had to resort into putting the solution into the hands of

85 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.136

86 Walter Block, *Hayek's Road to Serfdom*.(Ludwig von Mises Institute:1996), p.341

87 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.87

88 F.A.Hayek, *Road to Serfdom*.(Routledge, London: The University of Chicago Press:2007), p.87

89 For further info about the topic of road see the following article - <http://www.cato.org/pubs/pas/pa-231.html>

the state. Although we might argue that in vast majority of the cases, road are taken care of by the government. But this of course does not mean that there are not any alternative solutions.

In *The Republic* the system of the internal market is described in *Book II*. System of division of labor will be the basis for the markets in *the Republic*. "...each of us is naturally not quite like anyone else, but rather differs in his nature; different men are apt for the accomplishment of different jobs."⁹⁰ It is important to note, that Plato's system of division of labor is not identical with the one that Adam Smith introduces in his most famous work *Wealth of Nations*. For a Plato, we should have different jobs because we are different. And each of us, can utilize in a different set of skills because of that. Someone is stronger physically, somebody is more agile, others mind is more swifter etc. If we concentrate on one particular job, it will help us to achieve our biggest potential and effectiveness in it. Because we are different, thus we should do what is natural for us. But often in many cases, we will be simply assigned those roles. Smith's understanding is more pragmatic. We should do it that way, because it is simply a good bargain.⁹¹ And it is more effective for the production.

In *The Republic*, the regime is responsible for assigning people to various areas. This is a high level of intervention in the market, and in the society generally. Plato derives this whole idea from the concept of division of labor and the specialization. Rulers are people that are specialized in the ruling. Ergo they know more about it than the others. Logically than follows that they should rule. It applies to the market as well. Because Plato obviously realizes that people that engage in the market every day and use it most often, know also most about it. So, he leaves it in their power to regulate the markets. It is not a goal assigned to *the polis* itself. Hayek does not want to assign anyone anywhere. He believes in the idea of the spontaneous order. In other words, natural laws of supply and demand will take care of the situation and there is no need for some central planner or overseer. But Hayek points out, that there will be certain situations when the state regulation will be needed to help market to successfully function. State will act merely to mitigate certain effects of the market. And not to

90 Allan Bloom, *The Republic of Plato*.(New York: Basic Books 1968-2nd ed 1991), 370b

91 Alexander Gray, *The Development of Economic Doctrine*.(London: Longmans, Green & Co.,1931), p.17

Vinš: Government Involvement in the Economy

control it and plan it.

Conclusion

Goal of this thesis was, to have a look at the government involvement in the economy of the states. Main sources were the *Road to Serfdom* and Plato's *the Republic*. Hypothesis was that concepts in *the Republic* will be far more totalitarian as those, in *the Road to Serfdom*. But not only that, Hayek has been chosen as the main advocate of the free-market system. Plato had been chosen precisely because of the opposite reason. As the advocate of the totalitarianism. Right now, it is safe to say that neither was totally right.

Hayek is nowhere near the free-market classical liberal that he is known for being. There are various concepts in his book, that advocate out-right regulation of various aspects of the economy. And even in cases when he does it, it seem really inconsistent with his overall claims and foundations (individualism). It would be interesting to see what would have risen up from a state that Hayek tries to create in his book. Unfortunately I think, it would support his own thesis and it would succumb to the totalitarianism.

Plato is much more complicated. And even after all the research we still cannot pinpoint him into any particular category. Way the ancient Greeks looked at the world around them, was so different from ours. If we should judge him, by the modern standards - he has certain tendencies of the totalitarian (censorship of the media, classes in the society, concept of the "noble lie" etc.). But on the other hand, he gives people totally free hand as far as the markets are concerned (we are talking about the productive classes, not the ruling and protective classes which will be in the very small minority).

Resumé

Cieľom tejto práce bolo preskúmať rolu, ktorú hraje vláda v ekonomikách štátov. Hlavnými zdrojmi boli diela *Cesta do nevoľníctva* od F.A.Hayeka a Platónova *Republika*. Hypotéza spočívala v tom, že koncepty v *the Republic* budú oveľa bližšie k totalitnému zriadeniu ako tie v *Ceste do nevoľníctva*. Ale to nieje všetko, Hayek bol vybraný ako hlavný podporovateľ slobodného trhu. Platón bol vybraný z presne opačného dôvodu. Ako podporovateľ totalitného zriadenia. Teraz však môžeme tvrdiť, že ani jeden z predpokladov nebol úplne správny.

Hayek nie je ani zďaleka taký podporovateľ slobodného trhu za akého je pokladaný. V jeho knihe nájdeme viacero konceptov, ktoré priamo podporujú reguláciu viacerých aspektov ekonomík. Je to nekonzistentné s jeho inými konceptami a tvrdeniami (individualizmus). Bolo by zaujímavé vidieť, čo by vzišlo zo štátu, ktorý sa snaží Hayek načrtnúť v jeho knihe. Bohužiaľ, si dovoľím tvrdiť, že by naplnil jeho vlastné hypotézy a pomaly sa z neho stal štát totalitný.

Platón je oveľa komplikovanejší. Ani po všetkom výskume si ho nedovoľím zaradiť do nejakej konkrétnej kategórie. Gréci sa pozerali na svet inými očami. Ak by sme ho mali súdiť podľa moderných kritérií - má isté tendencie smerom k totalitnému režimu (cenzúra médií, triedy v spoločnosti, koncept "ušľachtilej lži" atď.) Avšak na druhej strane dáva ľuďom úplne voľnú ruku čo sa týka trhu (bavíme sa o produktívnych triedach, nie o triedach vládcov a strážcov, ktoré sú v menšine)

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