Chapter 4
Digression on Social Democracy

4.1 Introduction

In the previous chapter, we explained how the ideas and recommendations of the proponents of social democracy, as well as the propaganda and misinformation that the communist countries spread about their achievements, contributed to the spectacular enlargement of state sectors in democracies. Without much detail, we corroborated that the nature of these influences was important but indirect. That is, they ensured the support of citizens by deceiving them into believing that the policies which resulted in the expansion of the state were introduced in their best interests. Hence, if there is any hope of reversing this ominous trend, it must involve efforts to unhook citizens from the syndrome of tolerance to fantasies cultivated deliberately by autonomous centres of power using seductive but broad and undefined goals. For it is only then that citizens will realise their power and demand the deployment of the state for the benefit of their individual freedoms and economic interests. In this perspective, nothing can be more effective than unveiling the vision of social democracy for what it really is.

To this end, the point from which we intend to depart is the motto "liberty, equality and fraternity", which summed up the essence of the French Revolution and continues to be topical. We chose it because of three motivations. The first is the view that we expounded in the previous chapter, according to which the enlargement of state sectors in democracies was facilitated by the catalytic influence on citizens of the claim that social democracy[1] has necessary and sufficient conditions to achieve a better combination of these three objectives, compared with the combination achieved by classical democracy in the 150 years preceding 1929. The second motivation is that this claim, unlike many others articulated by the

[1] Different authors adopt different definitions of social democracy. In all cases, the state plays a central role in pursuing the vision they put forward. For example, Lindbeck (1971) argues that the state has the organisational, executive, coordinative and other skills needed to complete the programme of social democracy, as he defines its objectives.

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thinkers of social democracy, can be subjected to technical analysis thus enabling us to appraise the consistency of its internal logic. Finally, our third motivation is that the motto "liberty, equality and fraternity" is common to both the old and the new social democracy, so there is no need to distinguish between them.[2]

The presentation in this chapter is structured as follows: In the first section, we pose the problem confronted by every society organised in the form of representative democracy regarding the optimum combination of these three objectives or goods. Then, in the second section, we summarise the ways in which classical and contemporary forms of democracy simulate solutions to the said problem. Next, in the third section, we explain why the reformulation of the problem by the thinkers of social democracy renders it indeterminate, and finally, in the fourth section, we follow Hayek (1944) so as to remind once again the inherent risks in the uncritical acceptance of the claims made by the proponents of social democracy.

4.2 The Problem Posed by the Social Contract

Let society in a country consist of a given number of individuals in various ages. Moreover, suppose that the cohesion among the members of this society can be measured by an index, which for the sake of reference we call social justice and denote by the capital letter J; finally, suppose that the value of this index depends on the levels of the following three goods enjoyed by its people: freedom (F), equality (E) and solidarity (S). If we postulate that between the index of social justice and the three goods there is a relation, G, the problem posed by the social contract between the citizens and the state is to find an organisation and the levels among the three goods in order to maximise the function[3]

$$J = G(F, E, S) \tag{4.1}$$

subject to the constraints on freedom, equality and solidarity described in the social contract or constitution.

To facilitate understanding of our analysis, we consider it appropriate to adopt a simplification. More specifically, assuming that on the basis of available information the best organisation, that is, G, is linear, we accept that it takes the form

$$J = \alpha F + \beta E + \gamma S. \tag{4.2}$$

[2] The concept of fraternity or brotherhood in this motto encompasses in essence the concept of solidarity. Henceforth, we shall use the latter term.

[3] We have many doubts about the possibility of definition and measurement of the four variables that appear in (4.1). However, below we explain why, using them as if they could be defined and measured, it is not inconsistent with the principles of the methodology of science, when they are used for the logical foundation of a claim or proposition.

In this, the coefficients (α, β, γ) indicate the contributions of F, E and S to J. The question therefore that arises for representative democracy is how well does it manage to approximate the values of the coefficients (α, β, γ) and the levels of the three goods $(\mathrm{F}, \mathrm{E}, \mathrm{S})$ so as to maximise (4.2) under the constraints listed in the constitution of the society under consideration.

4.3 Solutions Simulated by Democracies

The views of the supporters of classical democracy regarding the meaning of the terms "freedom", "equality" and "solidarity", as well as the limits within which the state should permit or even actively pursue their realisation, differ significantly from the views of the supporters of contemporary democracy. For example, two characteristic differences are that (a) while the former does not in principle allow any intervention in the domain of adult individuals, the latter permits interventions as a rule, if their goal is for the "good" of the individuals themselves and (b) while the former does not allow large-scale redistribution of income and wealth, for the latter such redistribution is justified by invoking the principles of "redistributive justice". Therefore, it is not surprising that classical democracy and contemporary democracy simulate two different solutions to the problem.

4.3.1 The Approach of Classical Democracy

Smith (1776) contemplated the problem posed by the social contract and proposed that, if the state remains neutral with respect to equality and solidarity, which implies setting $\beta = 0$ and $\gamma = 0$ in (4.2), and lets the economy operate in conjunction with a small and efficient state without restrictions on voluntary exchanges, the maximisation of individual freedoms that results leads to the maximisation of social justice. This proposition was accepted widely by philosophers and economists of the Classical School of Economics, and as we argued earlier, it dominated the economic and other policies in democracies up to 1929. In other words, until then the state abstained from enacting policies to control inequality and left the cultivation of solidarity largely to the good will of citizens themselves.

Nearly 200 years later, Hayek (1960) introduced a small but significant difference. More specifically, he suggested that the state can adopt measures to ensure a minimum income for all if (a) economic growth allows it and (b) all who pay taxes agree. But he remained adamantly opposed to policies promoting a fairer distribution of income, because such policies cannot avoid applying coercion against some citizens. Hence, his response was to set $\beta = 0$ in (4.2), through democratic procedures, determine values for γ and S such as to lead to a minimum income for all satisfying the conditions (a, b), and allow the economy to operate freely in the context of a small and efficient state. Finally, a few years later, Rawls (1971) went a

step further by suggesting that the state should provide equal opportunities for people when they start their journey to life, which can be done with democratic procedures similar to those we just described for the promotion of solidarity.

So in a modern version of classical democracy, the solution would take the following form. First, the state would be small and would rule as little as possible, according to the specifications outlined in Chap. 2. Second, through democratic procedures, the state would determine and enforce the conditions for ensuring equal opportunities for children at birth and solidarity consistent with constraints (a, b) above. These activities of the state might include, for example, the enactment of laws regarding progressive taxation of inheritances and the undertaking of public expenditures so as to equalise the opportunities of children in education and training, while promoting solidarity might entail the provision of a safety net for citizens that are met by bad luck in life. Finally, the state with its institutions would leave the economy to maximise individual freedoms and, through them, social justice. This solution would be feasible and would be based on voluntary cooperation among free and sovereign people, who acting on their own individual vision would bring about the best combination of freedom, equality and solidarity from both the private and the social point of view.

4.3.2 The Approach of Contemporary Democracy

In all contemporary democracies, more or less, the state has expanded its redistributive and welfare activities well beyond the thresholds that would be justified under classical democracy. For example, in some democracies, governments have gone so far as to establish ministries for gender equality, with numerous civil servants and huge operating budgets and programmes, whereas in others, governments have widened social services in scope and beneficiaries at rates which have rendered public deficits uncontrollable. On the other hand, the state forces other citizens to bear the burden of funding these activities by subjecting their incomes and wealth to super progressive taxation, and when the revenues from taxation are not enough, it resorts to borrowing, which implies heavier taxation in the future. Thus, as we noted in the previous chapter, individual liberties even of those citizens who benefit from these activities have declined significantly, since by becoming addicted to one-sided transfers of aid from the state, they lose a substantial part of their independence.

The results of these trends are easy to trace in the difficulties that beset many democracies today and to which we referred earlier. Briefly speaking, the state granted to broad population groups artificial rights to entitlements, which place undue burden on public budgets. Operating on the principle of "universal" rather than "selective" provision, public and semipublic goods and services are supplied in limited quantities and degraded qualities, and employment in the narrow and broader public sector is used as an extension of the redistributive and welfare activities of the state. Even worse is that all these aberrations took place with the

tolerance and acquiescence of citizens, who having been seduced by the vision of social democracy, succumbed into believing that the state has inexhaustible resources and like a wise and compassionate "daddy" cares for their welfare. In this way contemporary democracies have transformed into advanced social democracies, and if citizens do not come to their senses soon, they are in for a painful surprise: social democracy is elusive and pursuing it at all costs will lead to generalised poverty, and above all, bondage.

4.4 The Claims of Social Democracy and Why They Are Infeasible

Proponents of social democracy argue that if contemporary democracies reorganised along their proposals, then not only would they acquire a "human face", which they lack today since their economies are based on a "wild and exploitative capitalism", but also the combination of freedom, equality and solidarity that they would achieve, would deliver a much higher level of social justice than in all previous times. The benefits they project are no doubt seductive. But are they achievable? Our view is that they give rise to hollow expectations, if not to utterly wishful thinking, because based on the analysis that follows, their model of social and economic organisation is indeterminate and hence infeasible.

4.4.1 Impossibility to Address the "Free Rider's Problem"

According to certain proponents of social democracy, the above approaches to the social contract leave uncovered persons who lack the material resources to develop their creative potential. Therefore, in order to overcome this deficiency, they suggest that the state must ensure that:

> All citizens should have equal opportunities for creative self-realization, with the only obligation on their part not to abuse the claims they have for this purpose against society.

Let us see what the addition of this constraint does to the problem.

In order for the state to be able to adopt policies equalising the opportunities across citizens for the "self-realisation of their creative potential", the state must first be able to identify every citizen's creative potential with an objective and accurate way. However, what is one's creative potential is vague because it depends on the perception of one's abilities. In other words, one's potential is subjective and hence non-observable and non-measurable with unambiguous measures. What this argument implies is that, if a state policy increases "good" S while at the same time decreasing "goods" F and E, it is impossible to say what happens to the value of the objective function, that is, J. Of course, following the methodological guidelines of Mises (1949, Chap. II), one may argue that the formulation and empirical

confirmation or rejection of scientific propositions is not limited only to measurable concepts. On this ground we accept that the impossibility on the part of the state to identify "the potential for self-realisation" of any citizen may not be in principle an insurmountable barrier to the social democratic approach to the problem. But even so there still remains the following problem, which is very difficult if not impossible to overcome.

In the proposed version of social democracy, the state is presumed to determine the coefficients (α, β, γ) and the goods $(\mathrm{F}, \mathrm{E}, \mathrm{S})$ in such a way that all citizens have equal opportunities for creative self-realisation, with the only requirement not to abuse their claims for this purpose to the detriment of the society as a whole. However, the obligation for each of us not to abuse our claims against society is untenable because of the famous "free rider's problem", that is, because people as citizens wish to have rights to social services or public goods, but as individuals concoct any excuse they can imagine to avoid paying the cost of their share in the form of taxes or other fees. Therefore, based on the conflict in the incentives we have as individuals and as citizens, what we know is that inevitably we end up abusing the so-called social rights. So if the state in social democracy does not wish to become a victim of the rational behaviour of each one of us, we must find a way to allow for the "free rider's problem" in the specification of this restriction. But this is impossible because people as individuals have no incentive to reveal truthfully their preferences about which public goods they wish to have and how many taxes and fees are they willing to pay.[4] Given therefore that the "free rider's problem" is present in any collective effort and the state cannot do anything about it, the only feasible approach is to educate people from an early age to include in their preferences the interests of their fellow citizens. This is exactly what they did in classical Athens. But unfortunately, the perception of the utilitarian pursuit of the public interest by individuals, as manifested for example through volunteering, altruism, charity, benevolence, compassion, etc., is deemed inadequate or even unthinkable by supporters of social democracy.

The above analysis establishes that social democracy is infeasible. But it does not explain why its supporters refuse to see it. The most lenient explanation for this paradox is that they define the terms "equality" and "solidarity" with their heart rather than their minds. In the next two subsections, we highlight the grounds for this contention.

[4] On the "free rider's problem", Thucydides (I, 141), having noticed that it applied to the Spartans, writes:

> . . .Slow in assembling, they devote a very small fraction of the time to the consideration of any public object, most of it to the prosecution of their own objects. Meanwhile each fancies that no harm will come of his neglect, that it is the business of somebody else to look after this or that for him; and so, by the same notion being entertained by all separately, the common cause imperceptibly decays.

4.4.2 *Indeterminacy Regarding Equality*

Proponents of social democracy perceive as equality a situation in which all citizens have "equal opportunities for creative self-realisation". This requirement presumes that the state, which acts on behalf of the whole society and attempts to achieve an optimal solution to the aforementioned problem, knows many things about each of us. For example, in addition to the material resources that we own, supposedly the state is aware of our mental abilities, our inclinations for hard work, the strength of our desire for creative self-realisation, the way in which the social environment affects our character and choices, etc.[5] Is the state capable of knowing this much information about each and every citizen? Observations and experience show that no one can know what we have in our minds, what we wish to do with ourselves, etc., and hence as a rule, the state cannot specify the equality of opportunity restriction that corresponds to each one of us. For this reason, contemporary philosophers of freedom have divided into two groups: namely, to those led by Hayek (1960, 85–6), who reject the interference of the state in the private affairs of individuals and maintain that the only notion of equality that has meaning is "equality before the law" and to those led by Rawls (1971, 60–6), who argue for institutionally backed interventions of the state, so as to bring about "equality of opportunity at the start-up of life". Their rationale being that, if two children are born to two families with vastly different wealth, the child from the poorer family will not have the economic means to develop his talents.

Another version of the condition for equal opportunities is manifested in the rule "careers are open to talents". On this basis, the success in life should not depend on characteristics such as skin colour, country of origin or religious beliefs, but on one's will, abilities, skills and knowledge. The price mechanism ensures that this rule applies in a free market economy, even though it is known that social barriers and hierarchical customs and traditions distort the tendency of markets to achieve an optimal combination between skills and individual idiosyncrasies.[6] But surely the same is not true in the state sector, where the size, distribution and quality of employees are determined through administrative, and quite frequently, political rather than competitive criteria.

Finally, there are the social democrats who insist on the "equality of results". Regardless of the efforts people make to succeed in life and to contribute to society, they do not accept anything less than a situation in which the national income is distributed among citizens according to their needs.[7] The countries in the former

[5] As explained by Seldon (2004, 30–4), the inability of government departments and agencies to identify with objective criteria the real needs of citizens to the satisfaction of which they aim, leads to rent seeking, corruption and through state monopolies to the oppression and exploitation of consumers and taxpayers.

[6] This finding comes from Akerlof (1976).

[7] Rothbard (1974, 1–4, 17) explains in detail why the equalisation of results (a) contradicts the biological and social evolution of humanity, since research has shown that 80 % of human

socialist block of Russia and Eastern Europe applied this rule for several decades and what happened to them is the best grounds to reject it.

4.4.3 Distortion of the Principle of Solidarity

In earlier times, when people used the term "solidarity", they meant the various actions to which a citizen without ulterior motives resorted in order to help other citizens in malevolent situations. Acts manifesting feelings of altruism, compassion, charity, benevolence and generally any spontaneous assistance to fellow citizens constituted evidence of a psychic bond among the members of society. On the other hand, people in their "wicked and unexpected hour" looked for help to their neighbours, co-villagers and compatriots. However, over time things changed and now neighbours have become strangers and certainly indifferent to the calamities that befell on one another. What happened? The answer is that citizens stopped looking for help to each other and instead placed all their hopes for assistance on the state. Why did this happen? Our view is that instrumental in this shift was the success of thinkers and politicians of social democracy to turn the psychic bond of solidarity among people having common language, religion, customs, etc., into a cold and impersonal relationship with the state. How did they manage it? They succeeded by introducing ingeniously into the fundamental institutions of democracy a long series of rights, which, unlike natural rights, are not accompanied by reciprocal obligations on the part of those who invoke them.[8] To highlight the seductive nature of these rights, consider the following three examples.

Let us examine first the perception of the supporters of the welfare state that they have the right and the state has the obligation to provide them with employment. For them, the existence of unemployment in a welfare state is unacceptable. But if that is the case, the uncertainty of employment in the private sector will motivate every citizen to demand employment by the state, so gradually any country will turn into a vast "den of poverty and misery". Moreover, knowing what transpires when the state is the only or a large employer, there will emerge a regime with advanced lack of personal freedoms, since anyone who disagrees with the public policies either will be afraid to express his views or will have to self-censor in order to avoid the risk of being dismissed or demoted.

Another example from the long series of artificial rights that were created is the right to education, especially tertiary, which is presumed in principle to be

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intelligence is genetic in nature and only 20 % is determined by the environment and (b) reduces the incentives for people to increase their efforts so as to contribute more to themselves and to society.

[8] Long ago, Harper (1956) explained in great detail why the provision of assistance to the poor tends to trap them in a state of continual dependence and why it is far better to help them develop their productive capabilities.

professional. In rebuttal, let somebody become medical doctor by graduating from a state-run medical school at no expense to himself. Then it is reasonable and warranted for taxpayers to demand that this doctor either return to the state treasury the amounts of money that the state expended for his education or to provide his services at reduced prices in comparison to other doctors who self-financed their studies. However, this does not happen and the doctors and other scientists who study for free at public universities get richer at the expense of taxpayers. Consequently, since unjust enrichment is prohibited by law, a general right to free higher education is very hard to establish. Of course, if in some branches of science we have reason to believe that there are positive externalities, meaning that social benefits exceed the cost of studies, it is appropriate to provide possibilities and opportunities to students who have the necessary abilities but not the resources. This can be done by granting scholarships and other forms of subsidies, after careful and impartial selection of the candidates. In all other cases, the cost of university education must be shouldered by students themselves. The reason is that higher education is an investment and the risk of success or failure should be borne by the investors and not the taxpayers. Hence, for those who believe they have the ability and the desire for higher education, but they lack the resources, it is justified to be able to finance their education with loans, whose repayment should begin several years after receiving their degrees.

The third example relates to healthcare services. The proponents of social democracy managed to convince people that such services constitute "public good", which implies that they should be provided free of charge to all. Certainly in the category of public goods belong the services of national defence, because once, for example, a weapons system is purchased, it protects all citizens without exception. But does a hospital fall in the same category as a weapons system? It does not because, when, for example, a patient is admitted to one of the intensive care unit of the hospital, the beds available for others are limited by one. This proves that the condition of "non-exclusion" is not met by health facilities and corroborates that healthcare services do not belong in the category of public goods.[9] Nor are they characterised by the externalities inherent in the control of communicable diseases to justify their provision to all at no charge. Those who object to these considerations usually offer two counterarguments. The first is that that there are people who do not have the necessary means to purchase these absolutely necessary goods and services, and second, that the goods and services we are talking about have intrinsic features that place them outside the market mechanism. With the exception of the last argument, which is metaphysical and does not withstand any reasoned criticism, it should be clear that we do not advocate that the state has no obligation to provide medical and other assistance to fellow citizens

[9] The properties of social or public goods have been analysed extensively in the literature (e.g. Samuelson 1954, 1955). Hence, they should not be confused with the private goods and services that are produced by state-owned enterprises because, for example, private interests either fall short of the required large-scale investments or are unwilling to bear the risk associated with such investments (Hoppe, 1993, 4–6).

who are provenly disadvantaged. What we advocate is that, if people wish to bear the tax burden involved, the state may fund the provision of such services to all, but the state shouldn't be involved in their production, because again and again it has proved to be an inefficient and wasteful producer.

In conclusion, drawing on the vision of a social organisation characterised by equality in the means for creative self-realisation of individuals and general solidarity among the rich and the poor and the privileged and the disadvantaged, the proponents of social democracy convinced citizens to continue to tolerate the transfer of political and economic power to the managers of the state. The only thing they do reveal is how little will be left to citizens from their individual liberties, property rights, personal dignity, etc. So if the trend towards serfdom is going to de-escalate or even reverse, citizens must understand that the vision of social democracy is infeasible for at least three reasons: first, because the state lacks the organisational and administrative capacity to deal with the difficulties arising from anomalies like the free rider's problem, moral hazard, aggregation of the information widely diffused among individuals, etc.; second, because the claim of equality of opportunities for creative self-realisation of individuals is undefined and third, because social cohesion cannot be bought through entitlements, it cannot be propagated through the creation of pseudo rights, which lack ethical and economic bases anyway, and it can never become impersonal.[10]

4.5 Timely Reminder of a Prophetic Warning

Already from the time J.S. Mill (1859) was writing, the supporters of democracy and free market economy began to lose ground in politics and in society. Even worse, in the years that followed the First World War in many European countries their influence declined significantly, whereas in some others, it disappeared completely. In this bleak period for humanity, Hayek (1944) tried to once again bring to the forefront of public attention the dangers that stemmed from the totalitarian regimes (Fascist, Nazi and communist). With his ideas and recommendations, with which Keynes[11] was in full agreement, he established the proposition that the continued usurpation of individual freedoms by the state would result in a form of slavery from which there would be no return. In order to see how he arrived to this conclusion, it helps to start from the following axioms:

Axiom 1 The combination of democracy with a free market economy places the individual as the source of the preferences expressed in society, whereas systems

[10] According to the *Economics of Altruism*, the revival over the last decades of solidarity among people in an individualistic society, like for example, the USA, can be explained only if citizens include in their utility function the prosperity and the well-being of their fellow citizens as well.

[11] See relevant letter of Keynes to Hayek included in Hayek (1978, 286–7).

of social organisation like socialism, communism and dictatorship, place at the helms the invisible state, behind which hide the vested interests of their leaders.

Axiom 2 The basis of the above combination is the competition that develops among people in all areas of voluntary exchanges.

Axiom 3 Hoping to achieve freedom, justice and prosperity, individuals may follow the wrong path that will lead to the loss of these strong objectives. This may happen because, in order to benefit temporarily, citizens delegate the responsibility for making key decisions to people who not only have different motives and objectives than them but less information.

According to the first axiom in a free society and economy, the centre of decisions is the individual.[12] In particular, the individual decides so as to satisfy his preferences, knowing that his decisions are subject to certain constraints, which emanate from (a) the laws that define and protect the boundaries of individual freedoms, (b) the material resources at his disposal and (c) his information regarding the conditions that prevail in the relevant activities of free and voluntary exchanges. When the price mechanism operates in all economic activities, then, according to the second axiom, competition determines prices, which acting as "signals" induce people to update constantly their plans in an endless process of discovery of equilibrium prices, until maximum satisfaction of preferences and expectations of all participants is achieved. If this is the only solution to the problem of the optimal coordination of the plans and the information that people have, then it follows that one should ask: Could a central authority achieve the same result? As we argued in Chap. 2, Sect. 2.7, the answer is definitely in the negative.

As we shall see in more detail in the next chapter, Hayek gave particular emphasis to the role of the state in a free constitutional democracy. He thought that, for markets to deliver the desired outcomes for society, the state is absolutely necessary to offer assistance and cooperation in the following fronts: first, to provide a framework of laws fostering competition; second, to establish mechanisms for the enforcement of contracts and the prompt resolution of disputes and third, to (a) undertake the production and financing of public goods, (b) address externalities, (c) regulate markets in which production is characterised by economies of scale, since competition fails and operations are dominated by monopolies and (d) implement projects in which the private sector is unwilling or unable to get involved for various reasons (Hayek 1944, 39–41). His advice was that in all these activities, state interventions should not weaken competition in other spheres of voluntary exchanges, because otherwise the interventions would lead to a system in which individual choices and preferences are replaced by those of the officials in places of authority (Hayek 1944, 42–3).

The latter reason explains why the only planning that can be attempted by the state is that which strengthens competition (Hayek 1944, 41). Otherwise, government interventions run the risk to evolve into an autonomous system of institutions

[12] As was the case in classical Athens, Hayek (1944, 39–40, 73, 108) maintained that a prerequisite for a free society and economy is the protection of private property.

having their own goals and means extracted from the people. Or, alternatively, to transform into an artificial entity separate from individuals, which may have objectives different than those pursued by individuals and thus become a dominant power in their lives (Hayek 1944, 17, 55, 65–6, 235). Should this happen, we shall have a predominance of goals and aspirations of the people who exercise authority and we shall stop enjoying individual freedoms. For then the objectives of this artificial entity will take precedence over those of the individuals, and the latter will become enslaved to an oligarchy or even totalitarianism (Hayek 1944, 70–2). That is why, drawing on this analysis, he warned citizens in democracies to be alert and to bear in mind the following.

The propaganda of the supporters of central planning,[13] who use pompous words and rhetoric about superior objectives, high moral code, etc., that move the masses but without entering into the nitty gritty of what they propose, is particularly dangerous for the way they look to the future (Hayek 1944, 5–6, 27, 101, 121). For example, the equal pay they promise will not result in anything else than to weaken the incentives to improve one's abilities and efforts, thus slowing down the creative activities of individuals (Hayek 1944, 110–1). Their commitments to safeguard workers' pay, jobs and welfare for all will have similar results because their actions favour small organised groups against all others (Hayek 1944, 125, 158–9). In other words, the propaganda that glosses over the situation does nothing more than to undermine the very foundations of morality, that is, the sense and the respect for truth. As a result, humanity, instead of progressing, regresses into enslavement (Hayek 1944, 157–8). For these reasons, invoking the third axiom, Hayek concludes that the gradual deprivation of the property of each one of us leads to the loss of our personal and political freedom (Hayek 1944, 11–3, 74).

Looking to the past and considering what happened in the years since the Second World War, we are overtaken by surprise and admiration for the accuracy with which Hayek anticipated the developments that followed. Not more than 15 years after the publication of his famous book on the road to serfdom, and projecting into the future the trends he observed, Hayek (1960, 304–5) penned down the following thoughts:

> Democracy will have to learn that it must pay for its own follies and it cannot draw unlimited checks on the future to solve its present problems. It has been well said that, while we used to suffer from social evils, we now suffer from the remedies for them... [i.e.]... from inflation, paralyzing taxation, coercive labor unions, and ever increasing dominance of government in education, and a social service bureaucracy with far-reaching arbitrary powers–dangers from which the individual cannot escape by his own efforts and which the momentum of the overextended machinery of government is likely to increase rather than mitigate.

Unfortunately, today, five decades since he made these prophetic remarks, contemporary democracies are even in worse shape. Personal freedoms and property rights

[13] Proponents of social democracy in the first decades after the Second World War were in favour of "central planning". Later, they embraced the idea of "indicative planning" and more recently, that is, after the collapse of the Soviet bloc, they seem to have become agnostic.

have shrunk. Citizens have distanced themselves from politics and frightened by the power of government attend to their private interests. The state, in order to maintain its all-consuming apparatus and cater to the interests of the clientelist groups that support it continues to "send the bills" to future generations, a habit which is totally immoral and shortsighted, and generally, nothing indicates that the enormous size of the state that took form in the post-war period could shrink in the foreseeable future. Undoubtedly, as we will show in the next chapter, thanks to the efforts of some politicians, philosophers and economists who cherished individual freedoms, the acceleration in the expansion of the state was halted, and most recently the leaders and citizens in contemporary democracies began to realise that redistributive and welfare policies have become unsustainable and should be modified drastically, if not reversed altogether.

The only people who do not see this need and suggest further expansion and deepening of the objectives of so-called big society are the proponents of social democracy. They show that they have not learned from the failure of their ideas in the countries of the former socialist republics,[14] which in 1989–1991 went through some cataclysmic changes and violent revolutions (e.g. Romania) to rid their peoples of the oligarchic and illiberal regimes that had been established there for many decades. By itself this experience proved that the socialist organisation does not lead to an increase in material prosperity greater than that achieved by the free market economy.[15] Moreover, the socialist organisation is accompanied by the most painful consequence of all, namely, the disappearance of political and civil liberties.[16] That is why the awareness and active involvement of citizens in contemporary democracies in the current critical political and economic climate are particularly crucial.

[14] Some argue that the failure was due to Stalin and the members of the politburo. Not so. The analysis by Gregory (2004), which is based squarely on information from the secret services of the former Soviet Union, corroborates that the failure of the system was due mainly not to those who imposed and administered it, but to the structure of the economy that was adopted, the lack of incentives of individuals to improve themselves and society, and the absence of an effective mechanism to coordinate means with needs.

[15] As argued by Karayiannis (1993), the inferiority of the socialist organisation is due mainly to the elimination of entrepreneurship.

[16] Gellner (1994, 252–5), who cannot be considered a champion of democracy and free market economy, put forwards the view that the collapse of the soviet system was the result of the socialist economic organisation, which prevented the emergence of a society of citizens that could lead to the liberation of individuals and the establishment of civil liberties.