Hayek, Friedman, and Buchanan: On Public Life, Chile, and the Relationship between Liberty and Democracy

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ABSTRACT This article places recent evidence of Hayek’s public defense of the Pinochet regime in the context of the work of the other great 20th century classical liberals, Milton Friedman and James M. Buchanan. Hayek’s view that liberty was only instrumentally valuable is contrasted with Buchanan’s account of liberty situated in the notion of the inviolable individual. It is argued that Hayek’s theory left him with no basis on which to demarcate the legitimate actions of the state, so that conceivably any government action could be justified on consequentialist grounds. Furthermore, Friedman’s account of freedom and discretionary power undermines Hayek’s proposal that a transitional dictatorship could pave the way for a genuinely free society.

1. Introduction

There have long been rumors and counter-rumors about F. A. Hayek’s alleged support for the Pinochet regime. Farrant & McPhail’s article in this issue shows that at best Hayek was in a state of denial about the regime and at worse was prepared to justify horrific human rights abuses in the cause of anti-Communism and economic liberalization. No one can read the Report of the Chilean National Commission on Truth and Reconciliation (1993), which details the thousands of arbitrary arrests, summary executions, and imprisonments without due process that took place under the Pinochet regime, and be impressed with Hayek’s claim that ‘I have not been able to find a single person even in much maligned Chile who did not

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agree that personal freedom was greater under Pinochet than it had been under Allende’ (Farrant & McPhail, 2015).

As Farrant & McPhail show, Hayek was at best ambivalent in his criticism of a number of authoritarian regimes, including the Salazar regime in Portugal, the military dictatorship in Argentina and Pinochet’s government in Chile. Farrant & McPhail argue that Hayek subscribed to a notion of transitional dictatorship—the view that an authoritarian regime could facilitate a transition to a liberal order more effectively than a democratic government. It appears to have been on this basis that Hayek was willing to turn a blind eye to human rights abuses if those abuses were committed in order to facilitate a long-term transition to a more liberal order.

This paper will consider Hayek’s actions as a public intellectual with those of the other two of the ‘big three’ of 20th century classical liberal economists: Milton Friedman and James M. Buchanan. First, we briefly discuss how each viewed political engagement and talk about Hayek’s ideas about liberty and transitional dictatorships, with special attention to Buchanan’s contrary view of liberty and how it serves to ground a critique of Hayek. We then examine Friedman’s own association with Pinochet and how his views on freedom and discretion relate to Hayek’s understanding of transitional dictatorship. We conclude by reflecting on Hayek’s support for transitional dictatorships and for Pinochet in particular.

2. Hayek’s Ideas and the Relevance of the Pinochet Revelations

Hayek and Friedman are two notable examples of economists who used their scholarly status as a springboard into public life. Both were active writing books and lecturing for general audiences, appearing in newspapers and on the radio and television, and advising political actors at home and abroad. Given that they shared classical liberal views at odds with the reigning orthodoxy of their time, it is unsurprising that their engagement with the political
world was controversial. It can be argued that much of the influence that Friedman and Hayek exerted upon the world of policy and politics can be attributed to their engagement with public discourse and their efforts in institution building for the cause of classical liberalism.

Not all distinguished scholars choose to avail themselves of such opportunities. James M. Buchanan largely eschewed the public sphere as a matter of principle even at the cost of political influence (Buchanan, 2007, p. 97). There are nevertheless dangers for any scholar who chooses to align himself with political figures, partisan or bureaucratic. Most significant is the danger of ‘guilt by association’. By definition, practical politicians introduce policies across a range of domains, and although a scholar may agree with the main thrust of policy, there will always be specific issues where disagreement exists, though such nuances may be lost in the popular imagination.

It can be argued that the dalliances of scholars with particular politicians are the unfortunate but ephemeral business of day-to-day politics that will, or should, be ultimately forgotten, while a scholar’s contribution to the realm of ideas will endure. Farrant & McPhail (2015) argue, however, that Hayek’s support for Pinochet is a direct result of Hayek’s belief in the capacity of transitional dictatorship to facilitate a shift to a more liberal order and that his position vis-à-vis Pinochet therefore constitutes an indictment of key aspects of Hayek’s intellectual contribution.

We agree that Hayek’s defense of Pinochet has important implications for our understanding and assessment of his whole intellectual contribution, but we argue that the implications for Hayek’s social and political theory may be more serious than Farrant & McPhail claim as they go to the core of his views about liberty—a crucial aspect of the thought of any liberal scholar.
Hayek’s enterprise can be understood as an attempt to synthesis the Kantian and Humean traditions of liberal thought; traditions that emphasize, respectively, the importance of individual reason and rational construction and of evolutionary processes without conscious control in the development of modern liberal societies. Hayek’s unique intellectual contribution stems from the bold, although surely unsuccessful, attempt to bring together the Kantian and Humean (Kukathas, 1989).

The tensions between Kantian deontological positions and Humean consequentialist arguments are particularly apparent in Hayek’s case for liberty. Hayek (1960, p. 12) sets out a purely negative conception of liberty, arguing, in Kantian terms, that freedom describes the absence of coercion, so that ‘the only infringement of it is coercion by men’ and ‘the range of physical possibilities from which a person can choose at a given moment has no direct relevance to freedom.’

While Hayek defines liberty in Kantian terms, his account of the value of liberty is Humean. Hayek argues that freedom does not have intrinsic value but is instrumentally valuable because it is necessary to secure the collective benefits of social and economic progress: ‘What is important is not what freedom I personally would like to exercise but what freedom some person may need in order to do things beneficial to society’ (Hayek, 1960, p. 32). For Hayek (1960, p. 29), ‘the case for individual freedom’ does not rest upon a deontological account of the dignity of the individual, but rather follows from an appreciation of the incompatibility of socialist central planning and a complex, advanced society. People must be free to use their own personal knowledge in order that an advanced market order can exist; so the case for liberty ‘rests chiefly on the recognition of the inevitable ignorance of all of us concerning a great many of the factors on which the achievement of our ends and welfare depends’ (Hayek, 1960, p. 29).
It is significant that for Hayek should our fundamental ignorance of how to plan a complex, advanced economy miraculously disappear, the case for liberty would also evaporate: ‘If there were omniscient men, if we could know not only all that affects the attainment of our present wishes but also our future wants and desires, there would be little case for liberty’ (Hayek, 1960, p. 29). Given the nature of the allegations surrounding Hayek’s support for Pinochet this statement is particularly unfortunate.

It should be unsurprising that for Hayek democracy similarly has only instrumental value. Hayek (1960, p. 106) wrote: ‘However strong the general case for democracy, it is not an ultimate or absolute value and must be judged by what it will achieve. It is probably the best method for achieving certain ends, but not an end in itself’. For Hayek, democracy was important as a peaceful means of removing an unpopular or ineffective government, but no special value should be attributed to a decision because it happened to reflect the will of a numerical majority of the voting population.

Concerns about the threat of majoritarian tyranny implicit in democratic decision-making occupy a place within mainstream liberal thought. But when those concerns are coupled with Hayek’s rejection of the idea that liberty has any intrinsic value, we seem to be left in the altogether uncomfortable position that individual freedom is only to be enforced and individuals are only to be allowed to participate in collective decision-making if it can be demonstrated that socially beneficial outcomes follow. But Hayek does not specify who will make such judgments or what criteria will be used to evaluate social benefit – other than to imply that he is able to make such judgments against criteria he has devised.

As Farrant & McPhail (2015) note, Hayek viewed the Allende government as an example of the excesses of majoritarian democracy. Allende had been elected via a broad, popular mandate that he then used—illegitimately, in the view of some observers—to introduce radical socialist policies, including the nationalization of the financial and
productive sectors of the economy, the expropriation of large swathes of rural property and
the introduction of extensive price controls (Valdés, 1995, pp. 6–7). Given Hayek’s views
about the purely instrumental value of democracy and the most efficacious economic policy,
it hardly surprising that he supported Pinochet’s actions in overthrowing the Allende regime
and setting Chile on a new economic course.

However, while the Pinochet regime did introduce economic reforms that correlated
with an impressive period of economic growth, the regime also embarked upon ‘a system of
institutionalized terror’ designed to destroy opposition in the traditional parties of the left,
trade unions and elsewhere. As a consequence, more than 2,000 people ‘disappeared’, many
more people were summarily arrested and tortured, and hundreds of thousands of Chileans
were exiled, so that all formal opposition to the regime was driven underground (Chilean
presented by Farrant & McPhail makes clear that Hayek knew of these abuses but was
nevertheless willing to give public support to the Pinochet regime. Hayek’s statements on this
matter expose a fundamental weakness of his thought that follows from his failure to ascribe
intrinsic value to liberty and to utilize a conception of universal and inalienable individual
rights.

Hayek’s belief that liberty is only instrumentally valuable is consistent with the fact
that he generally eschewed the language of rights (Kukathas, 1989, p. 144). He did, however,
on occasion invoke the concept of rights in describing the role of government in the
protection of individual liberty. In The Mirage of Social Justice, for example, Hayek (1976,
p. 101) wrote that ‘where men have formed organizations such as government for enforcing
rules of conduct, the individual will have a claim in justice on government that his right be
protected and infringements made good’. But Hayek stressed that such rights were not
universal or absolute, but were simply obligations that arose on occasions between particular
persons or organizations. While Hayek’s principal concern in this context was to critique the notion of social rights, it is nevertheless apparent that for Hayek there were no natural, inalienable or universal rights. Although Hayek saw rights as a useful term to describe the individual liberty he considered instrumentally important for the maintenance of a prosperous society, he did not see rights as describing a particular category of universal or absolute protections ascribed to all individuals as individuals.

James M. Buchanan likewise did not subscribe to an account of natural rights. Buchanan similarly saw rights as emerging from political agreement, but for Buchanan this was because individuals were the ultimate source of value, so rights could not exist independently of the values of individual men and women. Rights were created when people chose to respect the persons and property of others. For Buchanan, rights were agreed as part of the process by which people left the state of nature and entered into the social contract. Rights come into existence when some general agreement to respect the rights of others is formalized into law (Buchanan, 1974).

Buchanan took a methodological and ethical individualist approach based upon the Kantian precept that individuals must be treated as ends and never as means. No individual has any more or less moral worth than any other person and therefore no individual may be sacrificed for the benefit of others. For Buchanan (1977, p. 244), ‘individual human beings are the ultimate ethical units…. [P]ersons are to be treated strictly as ends and never as means, and that there are no transcendental, suprapersonal norms’. Accordingly, ‘Individual freedom’ is important, ‘not as an instrumental element in attaining economic or cultural bliss, and not as some metaphysically superior value,’ but because it must follow from the adoption of methodological and ethical individualism (Buchanan, 1974, pp. 5–6). For Buchanan, individuals are the ultimate source of value and nothing could be done to individuals without their consent, unless, of course, they had transgressed the rights of others, in which case
punishment that had also been unanimously pre-agreed should follow. For Buchanan, each individual was a veto-player vis-à-vis the legitimate actions of the state (Buchanan, 1974; Meadowcroft, 2011).

Hayek’s social and political theory did not rule out the abuses of the Pinochet regime, given that he viewed individual liberty as only instrumentally valuable, and he would have considered the overarching economic goals of the regime socially beneficial. Buchanan’s constitutional political economy, by contrast, did preclude the actions of the Pinochet government (and indeed those of the Allende government in going beyond its electoral mandate) given that we can assume that the victims of the regime would not have consented to their abuse. Thus Hayek’s support for Pinochet is indicative of a fundamental weakness of his scholarly position that is not present in Buchanan’s work.

3. Friedman and Pinochet: Freedom and Discretion

Given Buchanan’s principled aloofness from politics, he was untouched by controversy over Pinochet. Friedman, though, was not able to avoid such controversy due to his well-known connection, direct and indirect, with Pinochet’s Chile. This controversy followed him throughout his career (and beyond; see Klein, 2007). Yet Friedman’s stated views about Chile and his more general ideas about liberty provide a critique of Hayek’s more accepting stance towards dictatorships.

In terms of indirect connections, Friedman’s free-market approach—and especially his scholarly work on monetary policy—was a major intellectual influence on Pinochet’s economic team (the ‘Chicago Boys’) and its infamous economic reform plan for Chile (outlined in a 1970 document known as ‘el ladrillo’ or ‘the brick’). For some of these policymakers, the connection with Friedman occurred in the classroom. Under the auspices of a pre-Pinochet USAID-financed relationship between the University of Chicago and the
Catholic University of Chile, a stream of Chilean students studied economics at Chicago from 1955 to 1964. Some of these were later involved with the Pinochet regime—though importantly they were not key figures until after the failure of the regime’s initial attempts to manage the economy. As Deirdre McCloskey (2003) has pointed out, Friedman’s colleagues Al Harberger, Larry Sjaastad, and Greg Lewis—not Friedman himself—were the key ‘connections’ to Chile and these students.

But Friedman had a more direct connection with Chile than his academic work. He visited Chile on two occasions during Pinochet’s rule. The most important visit was a six day trip in March 1975 arranged by Harberger. During those six days, Friedman participated in seminars (planned for ‘government officials, representatives of the public, and members of the military’) and gave public lectures (Friedman & Friedman, 1998, p. 399). Most importantly, Friedman was a member of a small group that met with Pinochet for approximately 45 minutes. During that short meeting, Friedman and the others discussed using ‘shock treatment’ to deal with Chile’s economic woes (ibid.). At Pinochet’s request, Friedman produced a brief report of the Chilean situation that he sent as a letter to the General on April 21, 1975. Ruger (2011, p. ???) summarizes it as follows:

Friedman unsurprisingly told the president to adopt a package of free-market and monetarist reforms. In particular, Friedman argued that Chile’s inflation problems were so severe that ‘shock treatment’ was necessary, despite his typical preference for gradualism. Such treatment would include drastically cutting the rate of increase in the money supply, cutting the fiscal deficit by substantially reducing government spending, and publicly committing to abjure printing money to finance future government spending. He also advocated that the government promote a ‘social market economy’ by removing barriers (such as wage and price controls) to the effective working of market forces and freeing international trade. In short, Friedman counseled that ‘No obstacles, no subsidies should be the rule.’ Showing he was not unsympathetic to the hardships this would cause, nor unappreciative of the politics of
reform, Friedman also argued that the government should ‘provide for the relief of any cases of real hardship and severe distress among the poorest classes.’

Friedman later claimed that he ‘never advised Pinochet’ (for example, see Friedman, 1991b). However, both the meeting and the report sound like advice—though it is certainly true that he was never an advisor with any official post or in unofficial regular contact with the regime. Friedman himself admitted that the meeting with Pinochet ‘gave an iota of substance to later charges that I was a personal adviser to the general’ (Friedman & Friedman, 1998, p. 399). However, it is worth noting that Pinochet himself told Friedman that the report’s substance coincided with the plan that had already been adopted and was then being implemented (Pinochet, 1975b, p. 594). Hence, Friedman’s advice had little independent influence.

There is also evidence from before controversy erupted over his visit that Friedman was no fan of Pinochet’s dictatorship. As Harberger (1976, p. ???) notes, Friedman declined ‘two offers of honorary degrees from Chilean universities, precisely because he felt that acceptance of such honors from universities receiving government funds could be interpreted as implying political approval.’ Friedman also gave an ‘anti-totalitarian’ lecture in Chile titled ‘The Fragility of Freedom’ in which he argued that centralization destroys freedom, free markets are essential to maintaining freedom, and political freedom allowed markets to function best (see Friedman, 2000). Later, in the midst of the controversy, Friedman noted that if he had been a Chilean, he would, ‘if possible have opposed both [Allende and Pinochet]— or alternatively have emigrated’—and that he ‘would fervently wish their replacement by free democratic societies’ (Friedman, 1975b, pp. 595–596). Indeed, he called both options for Chile ‘two evils.’ Years later, Friedman was quite blunt about Pinochet’s non-economic record. In 1991, Friedman sharply noted ‘I have nothing good to say about the political regime that Pinochet imposed. It was a terrible political regime’ (Friedman, 1991a).
That same year, he exclaimed in another speech: ‘I never supported Pinochet’ (Friedman, 1991b).

These statements, particularly the claim that he would have opposed the regime or emigrated, indicate that Friedman was no advocate of Hayek’s second-best solution of a transitional dictatorship. Despite categorizing the Pinochet regime as evil, Friedman nevertheless did say that with a military junta, ‘there is more chance of a return to a democratic society’ (Friedman, 1975b, p. 595). And later he trumpeted that this is exactly what did happen, along with an ‘economic miracle.’ Yet we have seen no evidence that Friedman thought the ends justified the means, despite later speaking highly of Chile’s ultimate economic success and proudly accepting a share of the credit for the economic job the Chicago Boys performed (Friedman, 1982, 1991b; Friedman & Friedman, 1998, pp. 405–408).

In terms of his rationale for engaging morally dubious regimes on the so-called left (China, Yugoslavia) or right (Chile, Iran), Friedman relied upon a consequentialist decision rule. He thought it was acceptable to visit, lecture, and give advice on economic policy to ‘political regimes you disapprove’ when doing so would ‘break down barriers between countries’ (Friedman 1977, p. 600). Moreover, he saw himself akin to a physician giving technical advice to a government so it could better ameliorate bad outcomes for society (Friedman, 1976, p. 596). Most specifically, he thought it was acceptable ‘if the conditions seem to me to be such that economic improvement would contribute both to the well-being of the ordinary people and to the chance of movement towards a politically free society’ (Friedman, 1975b, p. 596). Of course, this position begs a lot of questions (such as whether advice that improves economic conditions might slow the transition to a free society) and has a lot of embedded assumptions (for example that the modernization thesis is correct). But it is not wholly unreasonable, even if it might not be our preferred response.
Aside from his stated positions on Pinochet’s regime, three critical aspects of Friedman’s political and economic thought support the conclusion that Friedman would be wary of Hayek’s transitional dictatorships. The first is Friedman’s argument for rules over discretion in monetary policy. He thought that a monetary authority with discretionary power was ‘a potent tool for controlling and shaping the economy’—and even destroying both the economy and society (Friedman, 1962a, p. 39; Friedman, 1962b, p. 429). Instead, Friedman supported ‘a system that will provide a monetary framework for a free enterprise economy yet be incapable of being used as a source of power to threaten economic and political freedom’ (Friedman, 1962a, p. 51). Second, Friedman worried that a centralized state with concentrated power was dangerous to the proper ends of government. For example, he claimed that preserving individual freedom ‘requires that power be dispersed, that it be prevented from accumulating in any one person or group of people’ (Friedman, 1962b, p. 429). Hence he favored limited government where rules held sway rather than men and their discretionary power. Friedman’s views on how central monetary authorities should approach monetary policy amount to a particular application of his larger position in favor of discretion over rules, a position that applies equally to dictators. The empowered dictator will have at least the same difficulties as the discretionary central banker with the power to save or destroy: their historical records are not great. The information problem suggests it is impossible over the long run even for those with benevolent intentions to get things ‘right’, and political pressure and individual interest can lead to purposeful bad behavior (Friedman & Schwartz, 1963; Friedman, 1960; Friedman, 1961; Friedman, 1962a; Friedman, 1962b; Friedman & Heller, 1969, pp. 49–50; Friedman, 1992, p. 253). Of course, Hayek typically agreed; hence he favored limited government and markets as the first-best. However, Friedman thought that there were problems with Hayek’s second-best argument too.
Friedman did not think that authoritarianism was the only possible answer to the problem of creating a free society. He thought it was a myth—fueled by Chile’s success—that ‘only an authoritarian regime can successfully implement a free-market policy.’ Indeed, he thought that military juntas are especially unlikely to do so given that they are ‘hierarchical’ and ‘organized from the top down’ whereas ‘a free market is the reverse. It is voluntaristic, authority is dispersed; bargaining not submission to orders is the watchword; it is organized from the bottom up’ (Friedman, 1982). This is why Friedman called Chile the ‘exception, not the rule’ (ibid.) and on more than one occasion called that country’s economic and more importantly political transformation a ‘miracle’ (ibid.; see also Friedman, 1991a, 1991b). Indeed, Friedman thought in the early 1980s that even the miracle of Chile ‘will not last unless the military government is replaced by a civilian government dedicated to political liberty . . . . Otherwise, sooner or later—and probably sooner rather than later—economic freedom will succumb to the authoritarian character of the military’ (Friedman, 1982).

Friedman did think that the spread of economic liberty helped promote political liberty. Yet he saw economic freedom as being merely necessary rather than necessary and sufficient (Friedman, 1982; see also Friedman 1962a, 1962b). And perhaps surprisingly, Friedman also thought that ‘political freedom in turn is a necessary condition for the long-term maintenance of economic freedom’ (Friedman, 1982). Therefore, again, Friedman’s views fail to suggest dictatorship was the answer—at least in the long term. Like Hayek, there are deontological and consequentialist dimensions to Friedman’s case for liberty, but Friedman did seem ultimately to subscribe to the view that liberty is intrinsically important, even if it is very difficult to untangle the intrinsic value of freedom from the outcomes it produced (Friedman, 1978).

It is unlikely that Friedman would have seen transitional dictatorships as part of a necessary short-term solution either, since he did not see a slippery road to serfdom.
Friedman (1982) argued that ‘although politically free societies have moved in the direction of collectivism, none has gone all the way except through the force of arms.’ Thus one can infer that he would have rejected Hayek’s schema, as depicted in Figures 1 and 2 of Farrant & McPhail (2015), according to which transitional dictatorship could be necessary to stem the slide to totalitarian democracy. Friedman did worry that political freedom might lead to an erosion of economic freedom via an overgrown government sector (see Friedman, 1975a), and in an interview with the Liberty Fund Interview (Friedman, 2003) he expressed approval for Hong Kong’s non-democratic but economically liberal system. These remarks do not, however, amount to an endorsement of Hayek’s belief in transitional dictatorship as an effective route to freedom.

4. Conclusion

As classical liberals, Hayek, Buchanan and Friedman all saw that democratic politics offered possibilities for both liberation and exploitation. Politics was the process by which socialism and communism could be challenged, ultimately defeated and replaced with a liberal order; but it could also be the process by which majorities and minorities engaged in legalized plunder of the property of others.

Hayek’s view that liberty was only instrumentally valuable, and his resultant rejection of a rights-based approach, left him with no basis on which to demarcate the legitimate actions of the state. From this it appears to follow that any action of the government could be justified on instrumental grounds—and this, indeed, seems to have been Hayek’s position vis-à-vis Pinochet. While Hayek had a relatively sophisticated theory of transitional dictatorship to justify this position, Friedman’s analysis of the implications of discretionary power for freedom and for effective public policy provides a good basis for rejecting this Hayekian position.
Hayek’s case should serve as a warning to scholars who pursue careers as public intellectuals that the compromises they make in the public arena may live as long as their more considered contributions to the world of ideas. It should also serve as a warning of the dangers that arise when individual liberty is seen as one value among many, rather than a universal and inviolable principle.

References


