



## *Hayek Reader 3: Inequality, Responsibility and Meritocracy*

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### *Introduction*

The succeeding discussions are my notes and reflection on Friedrich Hayek's book, The Constitution of Liberty, Chapters 3, 5 and 6. These notes were originally written about 2 years ago, I only revised and updated them recently.

The wisdom imparted by Dr. Hayek on these 3 chapters are very useful and notable to anyone who wants to seriously study the logic – or absence of logic – of forced collectivism, of big “government responsibility” and State welfarism, and assigning merit over value in society.

The pitfalls and dangers of forced equality, more State responsibility, and meritocracy, are often not detected or realized, and so their supposed benefits are translated into various public policies in many countries around the world where the negative implications are slowly being felt and realized. Hayek's thoughts and warnings should be heard and understood by more people.

## ***I. Inequality and Progress***

Chapter 3, “The Common Sense of Progress”.

For many people, especially social activists, government leaders and officials of multilateral and foreign aid bodies, inequality is a bad thing, that it has to be remedied at almost all costs. Philosophies like “all men are created equal” are among the driving principles why many people, those in government especially, devise various ways to redistribute income, usually from the hard-working and productive sectors of society, to the poor and more often than not, less hard-working and less-ambitious sectors of society. One can add that the lazy and irresponsible people belong to this later group.

Hayek would be a big disappointment for them. He talked about the virtue of inequality, the value of having some people get ahead of the majority to experiment certain things, paving the way for the rest to follow without going through the long process of experimentation, of trial and error. He wrote:

“The rapid economic advance that we have come to expect seems in a large measure to be the result of this inequality and to be impossible without it. Progress at such a fast rate cannot proceed on a uniform front but must take place in echelon fashion, with some far ahead of the rest.”

How true. Not all who were born on the same generation are adventurous, inventive, innovative, and risk-takers. The majority usually would take the “safe side”, less adventure, less rewards, but at least, less risk – in their lives, in their career, in their families. This is evident in the variety of goods and services that we see around us. In transportation, while some people are contented with cars with basic features that function perfectly to move people and their goods, other people want cars with additional and varying features – faster, bigger, automatic transmission, special suspension system, with airbags, special sensors for nearby vehicles, 4-wheel drive, can take lots of cargo, and so on. Each innovation or combination of innovation is different from the others. This maintains if not “exacerbates” inequality among different car owners. But people normally take such kind of inequality on a positive note because it respects variety and diversity among them – in their budget, in their car preference, in their unique or special needs.

Hayek added further:

“In the long run, the existence of groups ahead of the rest is clearly an advantage of those who are behind, in the same way that, if we could suddenly draw on the more advanced knowledge which some other men on a previously unknown continent or on another planet had gained under more favorable conditions, we would all profit greatly.”

Not all invention or innovation will be rewarded. For instance, a new cell phone design may look cute, but many people do not buy it because they prefer a cell phone

that is more user-friendly, or has a more powerful digital camera, or more power for web connection, and so on. The people who were ahead in experimenting and developing things do a great service to people who are “behind” because the latter would know what specific commodities or services particularly appeal to more buyers and consumers. This aspect is further supported by Hayek. He wrote,

“So long as somebody else provides most of the new knowledge and does most of the experimenting, it may even be possible to apply all this knowledge deliberately in such a manner as to benefit most of the members of a given group. But though an egalitarian society could advance in this sense, its progress would be essentially parasitical, borrowed from those who have paid the cost.”

Again, this is true. Some people strongly suggest that innovation in more effective medicines should be considered a “public good” that should benefit everyone in society because it concerns public health and public welfare. Hence, in the name of social equality and egalitarianism, such innovation should be “socialized” and the intellectual property rights (IPR) of the innovators of those more effective medicines can be sacrificed and disrespected, along with the projected financial returns that are supposed to accompany such property rights, discovery and innovation. Hayek is right in calling this irrational drive for egalitarianism as “parasitical” because the huge costs and sacrifices to people who made the innovation and took huge risks were not acknowledged and properly rewarded.

Finally, Hayek offers insightful words how society should treat inequality and ultimately, “fight” poverty:

“The over-all speed of advance will be increased by those who move fastest. Even if many fall behind at first, the cumulative effect of the preparation of the path will, before long, sufficiently facilitate their advance that they will be able to keep their place in the march.

“Improving the position of the poorest by giving them what we took from the wealthy, would temporarily quicken the closing-up of the ranks, it would, before long, slow down the movement of the whole and in the long-run hold back those in the rear. All obstacles to the rise of some are, in the long run, obstacles to the rise of all... To prevent progress at the top would soon prevent it all the way down.”

Given differences among people – their hereditary traits, their physical environment, their social and cultural environment, their individual dreams and ambitions – it is indeed impossible to have uniform pace of advancement for all people. The more ambitious and self-driven people will naturally surge faster and farther than the less-ambitious and less-driven ones. And there is perfectly nothing wrong with this.

Consider this hypothetical case for instance: A group of young and highly ambitious people dream of someday owning a fleet of expensive and fast cars, big houses, a chopper or private jet plane, own a vacation island with very modern house and

facilities, other personal properties. They want to achieve their dreams by aiming to discover, invent and produce miraculous things that will be most needed by mankind. These guys will pursue double or triple PhDs and join revolutionary-minded companies that will provide them everything they need for their scientific research work.

These guys trained their sights on producing miraculous medicines and diagnostic tests that can ultimately kill cancer cells, especially the leading cancer killers. Or ultimately neutralize AIDS within a year of treatment. Or extend youthfulness and by extension, prolong an average person's life up to 200 years old. The scientific and medical advances to be introduced by these ambitious young guys will definitely help mankind, both rich and poor. And what's more, these guys will use the most common plants and/or animals and fishes, get extracts from them as raw materials or active ingredients, so that the cost for mass production can be brought down, hence favoring the poor. When these guys become successful someday, or the next generation of equally ambitious young people will succeed, humankind will be better off. And the ambitious guys are rewarded with super-huge income and profit to pursue their "selfish" and "individualistic" dreams.

The implication here is that government policies of institutionalizing forced equality, of confiscating a big portion of the incomes of the rich and self-driven people so government will have the money to give to the poor (welfarist programs and policies), is wrong and dangerous. The mistake rests not only in penalizing hard work, performance and being ambitious, but also in rewarding people who are in the "confiscate here, distribute there" programs and bureaucracies. This reallocation of people's talent and society's resources away from more innovation towards more forced income redistribution, is among the scourge of modern human civilization.

## ***II. Freedom and Responsibility***

Chapter 5, "Freedom and Responsibility".

This is one of my favorite chapters of the book. Securing and assigning freedom and responsibility are the heart and soul of securing individual liberty. That is, the individual can never attain full liberty unless he assumes more, if not full, responsibility to run his life, the life of his family and his community. Assignment of responsibilities that accompany individual freedom is the foundation of a truly free society. Hayek wrote:

"Liberty not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions and he will receive praise or blame for them. Liberty and responsibility are inseparable... Denial

of responsibility is commonly due to a fear of responsibility, a fear that necessarily becomes also a fear of freedom.”

I like the last sentence: fear of responsibility is fear of freedom itself. People who are afraid to take responsibility of their lives and households, to take praise or blame, get reward or punishment for their actions and inactions, do not deserve to be free. They deserve to become slaves. The slave owners will rob them of their individual liberty in exchange for feeding or mal-nourishing them, educating or mis-educating them, housing or throwing them in squalor.

In a truly free society, everything – with the exception of a few explicitly prohibited things and actions – should be allowed. Such explicitly prohibited things and actions include harming or killing other people, destroying or stealing the private property of other people, possession of bombs and other fatal instruments with the purpose of harming or destroying other people. People can drink and party till they drop if they want, so long as they will not fight or shoot or rape other people when they're drunk and drugged. People can put up the biggest houses or entertainment places in this planet they want, so long as they do not produce toxic chemicals or dangerous biological materials – in land, water or air – that can injure, cause diseases, or kill other people. For every freedom and liberty to be enjoyed, there will always be responsibility attached.

Hayek added,

“The aim of assigning responsibility is to make man different from what he is or might be... The knowledge that he will be held responsible will influence a person's conduct in a desirable direction. Assigning of responsibility makes people observe certain rules. It teaches people what they ought to consider in comparable future situations.”

What a wonderful phrase, “to make man different from what he is or might be.” Responsible people are always considerate not only of their own and their family's needs, but also of their neighbors' and people across national or territorial borders. In contrast, irresponsible people could be careless, filthy and lazy. The ugliness of their character and attitude are reflected both in their work or non-achievement, and very often, in their looks and faces.

Hayek further narrows down his definition of responsibility:

“Responsibility to be effective, must be individual responsibility. As everybody's property in effect is nobody's property, so everybody's responsibility is nobody's responsibility.”

This settles any doubt as to who should hold responsibility for our lives. Governments around the world, with the prodding of politicians, State bureaucrats, social activists, and a significant section of church, media and academic leaders, are in chorus in

saying that social and economic services are “government responsibilities” and NOT individual or parental responsibilities. The result has been a disaster for many societies and countries around the world: authoritarianism, dictatorships, State monopolies, as almost everything are “government responsibilities”: education, health care, nutrition, housing, pension, credit, insurance, unemployment allowance, transportation, energy, agriculture, environment, etc.

Finally, Hayek’s thoughts on “social responsibilities”:

“To be constantly reminded of our ‘social’ responsibilities to all the needy or unfortunate in our community, in our country, or in the world, must have the effect of attenuating our feelings until the distinction between those responsibilities which call for our action and those which do not disappear.”

These thoughts are very relevant in the discussion of state welfarism, and in current fiscal issues of many governments around the world, rich and poor alike. For instance, if parents are freed from their responsibility of sending their children to good schools because government has assumed the responsibility by over-taxing other people, especially the unmarried or couples with no kids, then some parents will not work hard and yet have plenty of children since it is society’s or government “responsibility” anyway to educate and give health care to their kids. Or if the system is generous enough, it will attract plenty of migrants from many countries, expecting that they too will enjoy said generous welfare, even if they are unprepared and unskilled to adjust to the demands of the new workplaces and neighborhoods.

If individuals are deprived of the freedom to set aside a big portion of their income for some emergencies in the future because government has assumed the “responsibility” by over-taxing and over-regulating other people, the entrepreneurs and hard-working ones in particular, then some individuals will deliberately not look for work, or work clumsily and irresponsibly; anyway, their monthly unemployment allowance is “society’s responsibility”.

If individuals are stripped of their freedom to save or spend a big portion of their income because of high and multiple taxes to finance the high cost of public education, public health care, public housing, unemployment allowance, other state welfare services, plus huge salary of the expanded bureaucracy, then some productive people will not work hard too because more income means more taxes. Some people may also opt to move out of the high-welfare, high-taxes economy, migrate and work elsewhere. If entrepreneurship is penalized by plenty of taxes on profits and income, then less entrepreneurship and job creation will happen in the economy.

This largely explains why many big welfare states are in perennial budget deficit (revenues lower than expenditures), and have large public debts. Revenues are constrained by the self-preservation of taxpayers to get around with tax laws if they can, and some people will reduce work since more income means more taxes, or being poor means more subsidies.

Finally, if individuals are forced to contribute to other needy people elsewhere without understanding the specific intricacies by which those needy people are faced, their appetite or enthusiasm for voluntary help and support to the really needy people (especially those with mental or physical disabilities, or communities struck by natural disasters) elsewhere is reduced. High and multiple taxes reduces citizens' spending power for voluntary help and donations.

### ***III. Merit vs. Value***

Chapter 6, "Equality, Value and Merit".

Hayek discussed these 3 topics one by one. On equality, the reference obviously is on "equality before the law", the "equal treatment of the law to unequal people", and not equality of situation or condition of people, nor unequal application of the law to equalize people. The following paragraphs and sentences emphasize this point:

"The great aim of the struggle for liberty has been equality before the law... Equality of the general rules of law and conduct, however, is the only kind of equality conducive to liberty and the only equality which we can secure without destroying liberty... (which) is bound to produce inequality in many respects... If the result of individual liberty did not demonstrate that some manners of living are more successful than others, much of the case for it would vanish.

"Individual differences provide no justification for governments to treat them differently... It is of the essence of the demand for equality before the law that people should be treated alike in spite of the fact that they are different.

"People are different; if we treat them equally, the result must be inequality in their actual position, and the only way to place them in an equal position would be to treat them differently. Equality before the law and material equality are not only different but are in conflict with each other; and we can achieve either the one or the other, but not both at the same time. The equality before the law which freedom requires leads to material inequality."

Here, I reiterate my position that the so-called "progressive taxation", of slapping the richer and hard-working people with higher tax rates than the poorer and less-performing people, is wrong. Such policy penalizes performance while rewarding underperformance with lower tax rates, if not outright tax exemption. This policy is further distorted by exempting from automatic withholding tax on income those professionals and personnel employed by foreign aid and multilateral institutions, even when the latter are definitely earning much larger than ordinary employees in the private sector. "Equal treatment of the law to unequal people" means that whether rich or poor, whether personnel of private enterprises or government and foreign aid institutions, everyone should be taxed at one single rate. And if some sectors would

insist on tax exemption and it is granted, then everyone should be exempted, implying the abolition of personal income tax.

Hayek extended his discussion of equality to the issues of (a) the danger when people would entrust their fate to other men, and of (b) inheritance and bequest by parents to their children. He wrote,

“Our two basic propositions: First, no man or group of men possesses the capacity to determine conclusively the potentialities of other human beings and that we should certainly never trust anyone invariably to exercise such a capacity. Second, the acquisition by member of the community additional capacities to do things which may be valuable must always be regarded as a gain for that community.

“Parents can do more to prepare their children for a satisfactory life than anyone else... Many people who agree that the family is desirable as an instrument for the transmission of morals, tastes and knowledge still question the desirability of the transmission of material property... If we wish to make the best use of the natural partiality of parents for their children, we ought not to preclude the transmission of property. Without this outlet of bequest of fortune, men would look for other ways of providing for their children, such as placing them in positions which might bring them the income and prestige that a fortune would have done; and this would cause waste of resources.”

Point (a) above is quite clear as this has been explained in earlier chapters (“Hayek Reader 1”). Point (b) is related to the next paragraph, why bequests of material wealth and fortune from parents to children should be allowed and not taxed. Many parents work really hard and later on became rich, mainly because they are thinking of their children’s future. Hence, the very presence of their kids are enough inspiration for parents to produce useful goods and services to society, and society pay back in the form of accumulated profits and material wealth, which the parents would later pass on to their children. If such transfer of material wealth is heavily taxed if not outrightly hindered and prohibited, this will discourage many parents from working harder, and they will just wait for what the government will give them and their children, money and wealth that government is not capable of producing on its own, but only confiscated from “hard-headed” people who keep on working hard despite the policy of income confiscation and forced income redistribution.

On Value and Merit, Hayek wrote these things:

"Merit... (are) the attributes of conduct that make it deserving of praise, that is, the moral character of the action and not the value of the achievement... The attempt to achieve a valuable result may be highly meritorious but a complete failure, and full success may be entirely the result of accident and thus without merit.

"It is because we want people to use knowledge which we do not possess that we let them decide for themselves. But in so far as we want them to be free to use capacities



and knowledge of facts which we do not have, we are not in a position to judge the merit of their achievements.

"We do not wish people to earn a maximum of merit but to achieve a maximum of usefulness at a minimum of pain and sacrifice and therefore a minimum of merit. Not only would it be impossible for us to reward all merit justly, but it would not even be desirable that people should aim chiefly at earning a maximum of merit... the same prizes will go to all those who produce the same result, regardless of effort."

These discourses are another "eye-opener" for me. People, including myself, have been raised and educated, both formally and informally, to work to earn merit someday. Interchanging usefulness or value, for merit, has negative implications, both philosophically and economically. If a person tried hard, very hard, to grow rice and vegetables in a desert-like environment because he wants to feed the hungry and help reduce the country's food imports, and yet harvested nothing later, he deserves merit and praise for his effort, but he deserves no food or income, he deserves no subsidy from confiscated income (aka taxes) by the State, for the same effort.

Whereas a person who was plowing and digging lands in search of hidden treasures underground, and unintentionally allowed high-value crops to grow well in his plowed soil, later on harvested and sold the crops at a good profit, such attitude may have little merit because planting those crops was never his original intention. The result was accidental but it was useful to society, and so such "accident" has value to society, though the person will earn little praise or merit for such action.

Hayek elaborated further:

"A society in which the position of the individual was made to correspond to human ideas of moral merit would therefore be the exact opposite of a free society. It would be a society in which people were rewarded for duty performed instead of for success... In our individual conduct we generally act on the assumption that it is the value of a person's performance and not his merit that determines our obligation to him... we do not feel that, because a man has rendered us a service at a great sacrifice, our debt to him is determined by this, so long as we could have had the same service provided with ease by somebody else."

Consider yourself travelling from one point to another that is 10 kilometers away. Person A can take you there with his bicycle-drawn sidecar; person B can take you there with his cab. If we reward people based on merit, then you should take the bicycle-drawn sidecar because the man has taken great effort, great pain and sacrifice, to take you there; therefore, you pay him high. But if we reward people based on results, based on the value of their performance, then you don't take the bicycle, take the cab, pay the cab driver high because he took you to your destination at a much shorter time and much comfortable ride.

Extending this logic to international trade, we shall realize that trade protectionism is

an embodiment of society rewarding merit and not value. Local producers (from farmers to manufacturers to service providers) are rewarded with tariff protection and various non-tariff barriers (NTBs) so that cheaper foreign-produced goods and services become expensive when sold domestically, for the reason that the effort and pain of local producers should be rewarded regardless of the higher price, regardless of the inferior quality, of their output. Thus, the State makes local consumers pay the price of such protectionism in the form of (a) higher prices they pay to local producers, (b) higher taxes they surrender to the bureaucracy, and very often, (c) lower quality they endure from bearing the output of protected firms and industries.

The attention therefore, that people give to “meritocracy”, is undeserving. In closing the chapter, Hayek discussed the issue of state welfare in relation to the discussion on equality. He wrote,

"In a wealthy community, the only justification its members can have for insisting on further advantages is that there is much private wealth that the government can confiscate and redistribute...

"Rather than admit people to the advantages that living in their country offers, a nation will prefer to keep them out altogether; for once admitted, they will soon claim as a right a particular share in its wealth. The conception that citizenship or even residence in a country confers a claim to a particular standard of living is becoming a serious source of international friction."

The debate on migration (how liberal a country should admit new migrants and legalize illegal immigrants already inside its border) is related to state welfarism. People who are most likely to oppose further liberalization of migration laws are those who live off on welfare and subsidies, who live off on protectionism and state-mandated high minimum wages. Why? Because the people from other countries who are coming in would care less about the welfare that they can get from their destination country; they care more about the competitiveness of their labor and services that they can offer.

In short, more inequality in society can actually give more equality in opportunity to those below the social pyramid and those from foreign country who are ambitious and self-driven enough to work their way up.