

The impact of *European Green Deal* on liberal democracy: a perspective through the lens of Hayek's book *Road to Serfdom*

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Abstract

In his bestseller book *The Road to Serfdom*, published 80 years ago, F.A. Hayek argued that any form of collectivist governmental planning of the economy not only fails to deliver sustainable prosperity, but also poses a serious threat to democracy. With the *Green Deal*, the European Union attempts for the first time in its history to subordinate all economic activity under an overarching goal, namely environmental and climate protection. Against this background, the author of this article revisits Hayek's arguments and – based on a qualitative analysis of documents and web-resources of major political actors – answers the following research questions: why, how and to what extent the *Green Deal* contains the potential to turn European societies to the road to serfdom, with special focus on Germany. The author argues that while the *Green Deal* contains many elements of the Hayekian explanation that push the EU's societies down the road to serfdom, democracy has so far proved resilient.

Keywords: European Union, Green Deal, economic policy, democracy, political economy

Wpływ Europejskiego Zielonego Ładu na liberalną demokrację: spojrzenie przez pryzmat książki Hayeka *Droga do Zniewolenia*

Streszczenie

W swojej bestsellerowej książce *Droga do Zniewolenia* (ang. *The Road to Serfdom*), opublikowanej 80 lat temu, F.A. Hayek argumentował, że każda forma kolektywistycznego planowania gospodarki przez rząd nie tylko nie zapewnia trwałego dobrobytu, ale także stanowi poważne zagrożenie dla demokracji. Poprzez *Zielony Ład* Unia Europejska po raz pierwszy w swojej historii próbuje

podporządkować całą działalność gospodarczą pod jeden nadrzędny cel, jakim jest ochrona środowiska i klimatu. Na tym tle autor niniejszego artykułu powraca do argumentów Hayeka i udziela odpowiedzi, w oparciu o jakościową analizę dokumentów legislacyjnych i publikacji dostępnych w zasobach internetowych głównych aktorów politycznych, na następujące pytania badawcze: skąd, w jaki sposób i w jakim stopniu *Zielony Ład* ma potencjał kierowania europejskiego społeczeństwa na drogę do zniewolenia, ze szczególnym uwzględnieniem Niemiec. Autor dowodzi w badaniu, że chociaż *Zielony Ład* zawiera wiele elementów teorii Hayeka, które kierują społeczeństwa UE na drogę zniewolenia, to jednak demokracja zachodnia okazała się odporna.

Słowa kluczowe: Unia Europejska, Zielony Ład, polityka gospodarcza, demokracja, ekonomia polityczna

"To imagine that the economic life of a vast area comprising many different people can be directed or planned by democratic procedure betrays a complete lack of awareness of the problems such planning would raise. Planning on an international scale, even more than is true on a national scale, cannot be anything but a naked rule of force..."

(Hayek 1944/2006: p. 229).

1. Introduction

This article includes the introduction with literature review and research methodology, two sections presenting research results, and conclusions. In section 2, the author provides the analytical framework and explains why and how governmental planning of all kinds poses a threat to liberal democracy, and what factors can minimise this threat by revisiting Hayek's major arguments included in the book *The Road to Serfdom*. In section 3, the author examines through this lens: to what extent the *Green Deal* has turned the EU to the road to serfdom, by highlighting selected features of the mechanism that Hayek has described on his book. Section 4 contains conclusions.

1.1. Literature review

In 1944, the Nobel Prize Winner in Economics of the year 1974, Friedrich August Hayek, has published his bestseller book *The Road to Serfdom*. Addressed to the "socialists in all parties", Hayek explains why any form of economic planning according to overarching goals is not only detrimental to economic prosperity, but also to individual liberty and democracy. This explanation not only holds for national socialism of Nazi Germany and Marxian socialism in the former Eastern bloc of Central and Eastern Europe. It also applies to softer forms of governmental paternalism over the economy, where private ownership of the means of production is nominally maintained, but the government forces the private owners to employ their means of production in a different manner than they otherwise would in order to align economic activity with the declared goals of the government (Coyne, Boettke 2020).

Such interventionist policies enjoy again increasing popularity worldwide,¹ not the least in the European Union (EU). In 2019, the President of the European Commission, Ursula von der Leyen, has announced the *Green Deal*. For overcoming the consequences of climate change, she set the ambitious goal to transform the economies of all EU Member States in order to make Europe the first carbon-neutral continent by 2050. Following the 2015 *Paris Agreement* of the *United Nations Framework Convention on Climate Change* (UNFCCC), political leaders in other countries have announced similar green agendas (Booth, Stagnaro 2022). For example, in 2020, the President of the United States, Joe Biden, has announced a plan for a "clean energy revolution" and programme for "environmental justice" in order to achieve carbon neutrality by 2050.² This was followed by the 2022 Inflation Reduction Act, which increases support for the "green" transformation of the U.S. economy (see: The White House 2023). However, the EU is positioning itself as a global standard setter in the green transformation (see: von der Leyen 2019) for which it seeks to mobilise all its regulatory capacity and power (Eckert 2021: p. 82). Germany, the largest and economically most powerful EU Member State, is considered as an agenda-setter in the EU. It is, in fact, the country that pursues the green transformation with particular vigour, especially under the current governmental coalition of social democrats, liberals and greens under Chancellor Olaf Scholz (Gavas, Koch 2021).

The political and academic discussion on interventionist policies is focused mainly on the justifications and economic impact of this style of economic policy (Boettke 1995: p. 13). This also applies to the *European Green Deal*. What is largely neglected are the backlashes on and the interdependencies with the political system. Already Ludwig von Mises (1940/1988: p. 80) paid attention to this point in his study on interventionism. Later, other authors occasionally addressed this issue. For example, the German ordoliberal legal scientist Franz Böhm (1958/1980: p. 258) cautioned against the refeudalisation of society as a result of rent-creating interventions. Mancur Olson (1982) warned of the resulting institutional sclerosis that may lead to the decline of nations, and in the book *Power and Prosperity* he briefly discusses the conditions for stable democracies (see: Olson 2000). More recently, Holcombe (2018) demonstrated how governmental interventions can alter the nature of capitalism into political capitalism. Wegner (2020) reassessed the dependence of capitalism on democracy regarding the case of Imperial Germany and the Weimar Republic. Acemoglu and Robinson (2006, 2012, 2019) also emphasised the importance of both economic and political institutions for economic prosperity and argued that democracy is a necessary and sufficient condition for capitalism. In their book *The Narrow Corridor* (Acemoglu, Robinson 2019) they argue that liberty and prosperity need a delicate balance between a powerful state and an equally powerful society to prevent the state from becoming oppressive. However, none of these authors

¹ The Heritage Foundation underscores in its 2024 edition of the *Index of Economic Freedom* that by 2024 the index has never been so low globally during last 23 years with only at 58.6 out of 100 points (see: Heritage Foundation 2024).

² The Biden's *Plan for a Clean Energy Revolution and Environmental Justice* was accessible at <https://joebiden.com/climate-plan/#>

has elaborated in detail a mechanism why and how both comprehensive and piecemeal governmental interventions into the economy could alter the polity from democracy to dictatorship as Hayek did in his bestseller.

1.2. The aim of the article and used methods

Against this background, **the aim of the article** is to revisit Hayek's arguments in the book *Road to Serfdom* and to apply them as analytical framework to assess: how and to what extent the *Green Deal* could endanger liberal democracy in the European Union, with special focus on the case of Germany. The assessment is based on a qualitative analysis of documents, position papers, speeches, and web-sources of political institutions, parties and relevant interest groups.

This article contributes to the academic literature in two ways. Firstly, it adds to the history of economic thought by revisiting major insights of one of the main figures of the Austrian School of Economics applied to the case of the EU's green transformation. Secondly, the article makes a contribution to institutional economics and public choice theory by focusing on the incentives in economic policy decision-making and the ensuing impact on the polity. As Holcombe (2018) pointed out, such political economy aspects are still largely neglected in mainstream academic economic policy analyses.

2. Pushing and restraining factors on the road to serfdom

In the book *Road to Serfdom* Hayek explains in detail, why and how the consistent implementation of overarching goals tends to produce negative consequences for the polity.

2.1. Why governmental planning threatens liberal democracy?

The implementation of overarching goals for the whole economy through governmental planning endangers democracy, because the democratic decision-making process becomes an obstacle in directing all activities according to the declared goal (Hayek 1944/2006: p. 74). Arrow's impossibility theorem explains why it is difficult to reach agreement on *what* overarching goal shall be pursued, taking into account that preferences of individuals in a society differ and actually cannot be aggregated consistently through majority voting into a collective will (Arrow 1950). Therefore, "in the end somebody's view will have to decide whose interests are more important" (Hayek 1944/2006: p. 77), which then have to be imposed upon the people with the coercive apparatus of government.

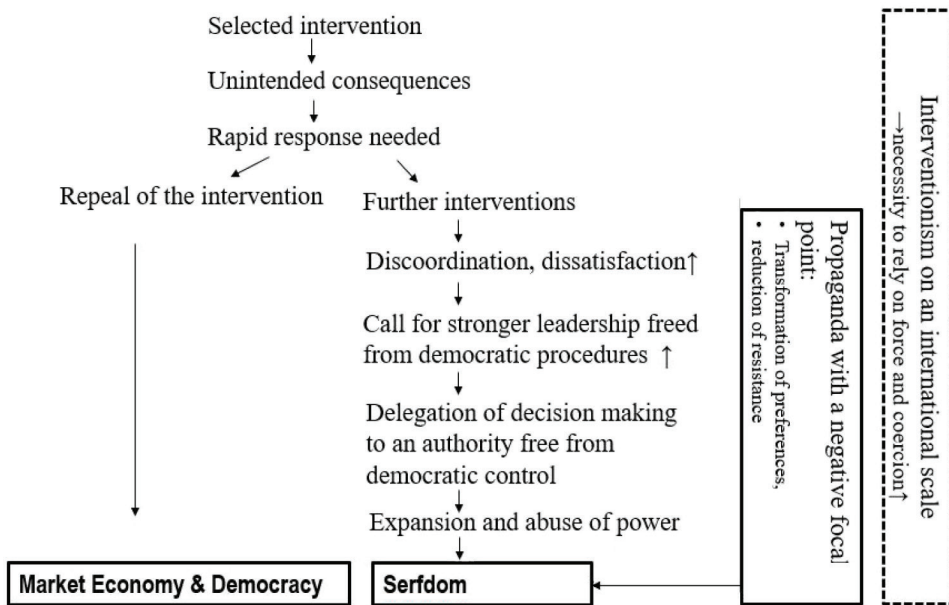
It is commonly believed, that in democracies free, fair and secret elections give the majority the right to do so. However, as Butler (2021) has pointed out, in liberal democracies, there are basic human values and rights, such as the sanctity of people's lives, freedom and property, usually specified formally in a constitution and enforceable by independent courts, which even an overwhelming majority must always respect. Yet, the priority of these rights over the majority view can obstruct the implementation of the

unitary goal, which triggers efforts to restrict these rights. Even given the overarching goal that has been decided democratically, there must still be reached agreement on the appropriate policy measures on how best to achieve the chosen goal. This is actually the crux of the mechanism that drags down the road to serfdom.

2.2. The mechanism dragging down the road to serfdom

Figure 1 presents the mechanism, which is described by Hayek in the book *Road to Serfdom*. Because of the knowledge of the problem in the complex and ever-changing market system³, which was a central topic in Hayek's entire work (e.g. Hayek 1945, 1978, 1989), any selected intervention into the market process causes unintended side effects (Mises 1940/1998; 1950/2018), which in turn require quick reaction.

Figure 1: The mechanism behind the road to serfdom.



Source: own elaboration based on publication: Hayek (1944/2006).

There are two options: either to undo the intervention, so that there will be no further impact on the economic and political system, or to undertake further interventions, which is more likely, because politicians typically will not easily give up on their ideals (Mises 1950/2018; 1976/1996: p. 30). Yet, long debates in parliament on

³ Hayek pointed out that the relevant knowledge needed to satisfy consumer needs and, thus, to ensure an efficient use of resources is inherently personal, context specific, dispersed, often tacit, and constantly changing. Due to insurmountable cognitive limits of every human being, no single person or authority is able to collect that kind of knowledge in totality.