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The Incoherence of Democratic Socialism: A Restatement

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Abstract: The criticism of democratic socialism by F. A. Hayek's *Road to Serfdom* (2007 [1944]) and John Jewkes's *The New Ordeal by Planning* (1968 [1948]) differs crucially from more recent arguments against market socialism made by Andrei Shleifer and Robert W. Vishny (1994). The Hayek-Jewkes argument therefore deserves a restatement. An economic analysis of the political institutions of democratic socialism shows that democratic socialism must necessarily fail for political (not economic) reasons even if nobody in authority has ill-intentions or abuses their power. Shleifer and Vishny show that market socialism will fail to properly incentive rationally utility-maximizing political actors, and that it will entail unacceptable economic inefficiencies. But Hayek and Jewkes go further and show that democracy as a political system and socialism as an economic system are fundamentally incompatible, making the system of democratic socialism logically incoherent.

Keywords: Hayek, democratic socialism, market socialism, totalitarianism

JEL Codes: A12, B24, B25, B51, B53, D70, J00, J20, J30, J47, P10, P20, P30, P50

The story of the 20th century is largely a story of disillusionment with 19th century “laissez faire” and “Manchesterism.” Capitalism had failed, and something else was needed. Countless humanitarians would come to place their hopes and dreams for a better future for mankind in socialism. But they soon

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realized that socialism threatened to produce a totalitarianism worse than anything ever imaginable under capitalism. Therefore, many of these socialist humanitarians soon began to advocate democratic socialism instead, as a means of replacing capitalism without succumbing to totalitarianism. With the fall of the Soviet Union and the rise of the “Washington Consensus” and neoliberalism (cf. Yergin and Stanislaw 2002) we might believe that all discussion of socialism belongs to antiquarian intellectual history. But with the recent election of Kshama Sawant to Seattle City Council, and Senator Bernie Sanders's strong showing – at least, so far – in the 2016 Democratic Party presidential primary – socialism may yet be a living force in contemporary politics, as both these politicians are self-described democratic socialists. This is not to mention the possible socialist undercurrents of Occupy Wall Street. Therefore, this may be a suitable occasion for a restatement of some of the arguments against democratic socialism.

This essay criticizes the tenability and coherence of democratic socialism, showing that democracy cannot effectively curb the totalitarian potential of socialism. If this is true, then democratic socialism does not solve the problems which even socialists admit plagued Soviet-style socialism. If we are correct in presuming that no socialist today would dare defend the Soviet Union as a model worth emulating, then democratic socialism is the only remaining form of socialism which could be defended in polite company. But then the failure of democratic socialism as well would leave socialism without any legs to stand on. With non-democratic socialism thoroughly discredited, the credibility and reputation of socialism rests on democratic socialism, and so it is upon democratic socialism that we will set our gaze.

This criticism of democratic socialism will follow the arguments of F. A. Hayek's *Road to Serfdom* (2007 [1944]) and John Jewkes's *New Ordeal by Planning* (1968 [1948]). Their arguments, made quite long ago, differ crucially from more recent arguments against market socialism made by Andrei Shleifer and Robert W. Vishny's in their well-cited 1994 article, “The Politics of Market Socialism.” In particular, Hayek and Jewkes rely less than Shleifer and Vishny do on the possibility that political officials will misuse their power. In any case, the Hayek-Jewkes argument – being different than the more thoroughly cited Shleifer-Vishny criticism – deserves a restatement.

According to Hayek and Jewkes, advocates of democratic socialism did not understand enough economics to appreciate how the political system would actually operate under a regime of democratic socialism. Their criticism is not aimed at socialism as an abstract economic system, but instead they cast doubt on the feasibility of any political implementation of socialism. Hayek and Jewkes use

economic analysis to show that democracy can never accomplish for socialism what it is meant to. Meanwhile, Shleifer and Vishny (1994) concentrate more on how the reality of practical politics will spoil any attempt to enact authentic market socialism. Thus, both sets of scholars – Hayek-Jewkes and Shleifer-Vishny – undertake a Public Choice criticism of freer – i.e. less dictatorial – forms of socialism, but in different ways. According to Shleifer and Vishny (1994), market socialism will fail to foster suitable incentives for good political behavior, and it will give rise to too much economic inefficiency. But according to Hayek (2007 [1944]) and Jewkes (1968 [1948]), the problem is more fundamental: democracy is essentially incompatible with socialism on the most basic level. Hayek and Jewkes argue, not that politicians will abuse their power or that socialism will give rise to economic inefficiency, but that democracy and socialism are logically incompatible, and therefore, that democratic socialism is logically incoherent.

It should be realized that what Hayek-Jewkes and Shleifer-Vishny criticize is not interventionism or high levels of taxation or welfare, but command-and-control, government ownership of the means of production. Hayek's *Road to Serfdom* (2007 [1944]) was a warning against the *de facto* nationalization-by-regulation of the National-Socialist regime in Germany and against the actual nationalization by Britain's Labour Party. Hayek was not primarily concerned with high levels of taxation and redistribution absent high levels nationalization and regulation, such as we might find in Sweden. Hence, when we speak of “socialism” in this essay, we have a very specific meaning in mind: public or common ownership of the means of production.¹ This was the classical meaning of “socialism” as intended by socialists themselves. What this definition of socialism does *not* encompass is “interventionism”, meaning government regulation and taxation of essentially private enterprise – in other words, the “mixed-economy.” The mixed-economy is *not* socialist insofar as ownership of the means of production remains private, with production dictated largely by prices. Of course, at a certain point, interventions become so extensive that they amount to *de facto* nationalization. Nominally, property remains private, but the government dictates its permissible and mandatory uses to such an extent that private ownership is a legal fiction and the government owns the property for all intents and purposes. This was the situation in National-Socialist Germany. But in most mixed-economies today – especially since the period of deregulation and the “Washington Consensus” – this point is not anywhere near being reached. For this reason, France and Britain until a few decades ago would have been considered largely socialist, due to their large degree of nationalization of industry. By contrast, Sweden at the same period would *not* be considered socialist, because in Sweden, relatively few

industries were owned by the government, and instead, the Swedish system relied predominately on redistribution of wealth that had been earned with relatively little regulation (Stein 1991, Sanandaji 2011).² In summary, by “socialism” we do *not* mean high levels of taxation and an extensive system of redistributory welfare payments. Instead we mean command-and-control, either by outright government ownership or else by regulations so extensive that *de facto* they amount to outright government ownership. Therefore, one prominent argument against Hayek – that the mixed-economy of today has failed to turn tyrannical as he warned it would – entirely misses the point of his argument because in fact, his warning was not about the mixed-economy at all. If there are valid arguments against the mixed-economy, these were not the subject of the *Road to Serfdom*.

The essay proceeds as follows: section I summarizes the pertinent arguments of Shleifer and Vishny (1994). Section II explores in detail the arguments of Hayek and Jewkes. Section II is divided into several parts: part (1) notes the mutual relationship and relative neglect of Hayek and Jewkes; (2) summarizes the nature of their argument; (3) concerns the allocation of labor under socialism according to Hayek and Jewkes; (4) studies the notion of democracy as a means to limiting political power, not an end unto itself, and what this means for democratic socialism; (5) compares different effects and consequences of interest group lobbying and rent-seeking according to Shleifer-Vishny on the one hand and Hayek-Jewkes on the other; and (6) notes the difficulty posed by future elections which might disrupt the operation of a socialist central-plan. Section III concludes.

I. ANDREI SHLEIFER'S AND ROBERT W. VISHNY'S “THE POLITICS OF MARKET SOCIALISM” (1994)

First, we review the arguments of Shleifer and Vishny (1994). As we mentioned, Hayek's and Jewkes's criticism of democratic socialism is quite different than the more recent criticism of market socialism by Andrei Shleifer and Robert W. Vishny in their 1994 article, “The Politics of Market Socialism.” Both Hayek-Jewkes and Shleifer-Vishny undertake Public Choice criticisms of freer forms of socialism – democratic socialism for Hayek-Jewkes and market socialism for Shleifer-Vishny – but in different ways.

According to Shleifer and Vishny (1994: 165f.), “Under all forms of market socialism ... politicians' objectives must determine resource allocation. Market socialists have traditionally assumed that politicians will assume an efficient resource allocation.” Advocates of democratic or market socialism “all presume efficiency-maximizing politicians” (Shleifer and Vishny 1994: 167) and when

they prescribe what a good government ought to do, they “presume that it actually wants to do so” (Shleifer and Vishny 1994: 167). Their criticism is essentially an application of the familiar and accepted conclusions of Public Choice to the system of democratic or market socialism (Shleifer and Vishny 1994: 168) and it basically predicts a failure of political institutions to create appropriate incentives or to prevent the abuse of power. Shleifer and Vishny use the economic theory of rational, utility-maximizing individuals to cast doubt on the general willingness of politicians – who are human – to implement market socialism the way it is supposed to be. Thus, their argument is an application of textbook Public Choice.

In addition, Shleifer and Vishny have a second argument against market socialism: that it is vulnerable to rent-seeking, creating economic inefficiencies (Shleifer and Vishny 1994: 171f.).³ They concede that the same problem exists under democratic capitalism, but they claim that the inefficiencies would be worse under democratic socialism (Shleifer and Vishny 1994: 172-174).

II. THE CONTRIBUTION OF HAYEK AND JEWKES

1. The Relative Neglect of Hayek and Jewkes

But Shleifer and Vishny explicitly state (1994: 170) that while they are sympathetic to Hayek's criticisms, they will not adopt them. Moreover, Shleifer and Vishny do not seem to read Hayek as saying quite what the present author thinks he does; according to them, Hayek “argued that democracy is impossible in a country where a single leader has all the power that comes with controlling capital” (Shleifer and Vishny 1994: 170). But as this essay will proceed to demonstrate, what Hayek thought was not that democratic socialism was impossible but that it would not lead to the desired consequences. Therefore, Hayek's argument deserves reexamination to discover what he really meant. Furthermore, Shleifer and Vishny concede that Hayek's work “made a relatively bigger impression on public opinion than on the economics profession” (Shleifer and Vishny 1994: 168). This is all the more reason to reopen the case. Finally, Shleifer and Vishny completely neglect the parallel contribution of John Jewkes. The arguments of Hayek and Jewkes against democratic socialism are intimately related even though Hayek's work is far more well-known than Jewkes's.⁴ In the *Road to Serfdom*, Hayek (2007 [1944]) cites an earlier edition of Jewkes's *The New Ordeal by Planning* (1968 [1948]), saying “[i]t is the best discussion known to me of a concrete instance of the phenomenon discussed in general terms in this book” (Hayek 2007 [1944]: 51). Meanwhile, for his part, Jewkes described Hayek's *Road*

to *Serfdom* (2007 [1944]) as “masterly” (Jewkes 1968: xiii) for its “analysis which has never been confuted” (Jewkes 1968: 182 note). Therefore, Jewkes's criticism of democratic socialism deserves notice, if for no other reason than the pursuit of intellectual history.⁵

2. *The Hayek-Jewkes Argument in Brief*

Hayek and Jewkes argue that the problem with democratic socialism is not that the government's priorities will be wrong or that it will use its power for improper intentions. Instead, and in contrast to Shleifer and Vishny, they argue that even a perfectly-intentioned government that uses its authority only to sincerely promote the ends of socialism, will nevertheless fail because the political institution of democracy is fundamentally incompatible with the economic needs of socialism. Therefore, Hayek and Jewkes sidestep the more traditional concerns of Public Choice – which are so effectively voiced by Shleifer and Vishny (1994) – and they instead point out completely different political-institutional problems with democratic socialism.

3. *Hayek and Jewkes on the Allocation of Labor under Socialism*

According to Hayek and Jewkes, the first problem with democratic socialism is with allocating labor efficiently. In a market economy, labor is allocated through differential wages. Wages rise or fall to equilibrate supply and demand for labor. Every form of labor has some market-clearing wage where that rate produces a stable equilibrium. But under socialism, where wages are either equal or approximately equal, differential wage rates are unable to perform this allocational function. Strictly speaking, government ownership of the means of production does not require equality of wages, but it is hard to imagine why any socialist would desire government ownership of the means of production if workers remained such as socio-economically unequal as they were under capitalism. The purpose and intention of public ownership was primarily to promote equality, especially of wages, incomes, and living conditions. How then is the system supposed to efficiently choose who ought to fill which labor position? The only conceivable solution is some sort of rationing system, whereby the political system dictates by fiat who is to labor where. But a system of compulsory, involuntary employment is hardly compatible with the aspirations of democratic socialism.⁶ According to John Jewkes's *New Ordeal by Planning*, “whatever the original intentions of the planners, compulsion of labour soon becomes inevitable. For how, otherwise can labour be got into the appropriate jobs?” (Jewkes 1968: 90). And further,

Labour is one of the resources which must be forced to fit into the [central economic planning] scheme as a whole. . . . [D]irection of labour is inevitably bound up with a plan courageously followed to its logical conclusion. . . . So long as the aim is a planned economy there can be no doubt of the trend of social pressures: it will be towards a progressive restriction in the choice of occupation. (Jewkes 1968: 191)⁷

And this was not mere idle and unrealistic theorizing by Jewkes, for the British planners, against all their best instincts, were driven to the restoration of conscription of labour in 1947. . . . By the autumn of that year it was the law of land that (with the exception of a small proportion of the working population) no man between the ages of 18 and 50 years and no woman between the ages of 18 and 40 years could change his or her occupation at will. (Jewkes 1968: 191, 193)

Central economic planning in Great Britain logically required conscription and regimentation of all labor - corvée and serfdom - and the government did not shy away from this logical consequence for long. Unfortunately, conscription had been deemed essential in the recent war, but as Hayek noted, merely “six months later the same government found itself in peacetime forced to put the conscription of labor back on the statute book” (Hayek 2007 [1944]: 47).⁸ Jewkes argued that this involuntary servitude was not a consequence of any despotic intent or moral depravity or abuse of power, but was dictated “by the logic of events” (Jewkes 1968: 193) and by “the inexorable demands of the plan” (*ibid.*). Likewise, according to Hayek, “[t]here is no better illustration [than this regimentation of labor] of the manner in which the inherent logic of their policies drove an unwilling socialist government into the kind of coercion it disliked” (Hayek 2007 [1944]: 47). In contrast to Shleifer and Vishny, the problem here with democratic socialism is not that the politicians have abused their power or that had wrong intentions or incentives. Even if the politicians are perfectly incentivized and well-intentioned, any thoroughgoing and successfully-implemented democratic socialism, say Hayek and Jewkes, will still turn out to become totalitarian. If anything, the more sincere and disinterested the politicians are, the more they strive to implement the socialist plan without any regard for their own self-interest, the more likely they will turn to regimentation of labor.

Astoundingly, none other than George Orwell himself seems to have lately realized this logical consequence. In Orwell's final edition of “London Letters” in the *Partisan Review* (11:3, summer 1946), Orwell argued (to quote Newsinger 1999: 139)

that in conditions of full employment if wages are evened out, workers will drift away from the more disagreeable jobs . . . Quite incredibly, he [Orwell] argued that socialists had to face up to the fact that “you had to make use of forced labour for the dirtier kinds of work.”

Given Orwell's dedication to upholding democratic socialism as an alternative to totalitarianism and the “Soviet myth,” one wonders how he was able to utter these words without undergoing a crushing crisis of faith.⁹ But Newsinger notes (1999:139) that “Labour Government on this occasion seems to have brought out the worst in him [Orwell].” Orwell admitted that central economic planning is impossible without what is essentially slavery. But then what freedom could there possibly be under democratic socialism? If central economic planning cannot work without conscription of labor, then democratic socialism amounts to letting the slave elect his slave-master without the freedom to leave the plantation.

So for a socialist government to be authentically socialist, it must assign everyone to his occupation without any freedom of employment. Otherwise, the government cannot by its own power ensure the plan will be implemented. Either a democratic socialist government will insist on this assignment procedure and become tyrannical despite being democratic, or else it will abandon the assignment procedure and permit freedom of employment, preserving democratic values at the cost of abandoning socialism. A compromise is possible, but because socialism and individual autonomy are at opposite poles and inversely proportional, the one must be sacrificed to the identical degree to which the other is not. It is no great consolation to the socialist to be told that any compromise between socialism and freedom is an exactly proportioned one, with exactly as much socialism as there is *not* freedom, and vice versa. Even the English socialist Maurice Dobb realized this dilemma and despaired of the possibility of maintaining freedom under socialism, saying, “Either planning means overriding the autonomy of separate decisions, or it apparently means nothing at all.”¹⁰

4. Democracy as a Means, not an End

There is another reason why democratic socialism must inevitably fail to curb the abuse of power or avert the totalitarian potential of socialism. This is based on the understanding that democracy is but a means to an end. As economists emphasize, means are not necessarily always appropriate for given ends. According to Hayek, this is true of democracy as well:

Democracy is essentially a means, a utilitarian device for safeguarding internal peace

and individual freedom. As such it is by no means infallible or certain. . . . [There is] the misleading and unfounded belief that, so long as the ultimate source of power is the will of the majority, the power cannot be arbitrary. . . . If democracy resolves on a task which necessarily involves the use of power which cannot be guided by fixed rules, it must become an arbitrary power. (Hayek 2007 [1944]: 110f.)¹¹

According to Hayek, in other words, democracy is but a means to the end of limiting power. But if the government's policy is one which necessarily relies on absolute political power to be implemented, then either democracy must be sacrificed to the policy, or the policy must be sacrificed to democracy. One cannot combine a policy of limiting government power via democracy on the one hand, with a socialist policy which necessarily requires unlimited government power to be implemented. It is not clear which will be subordinated to the other, but it is sure that one way or the other, one policy must prevail over the other. Even if democracy were somehow maintained under socialism it would still not accomplish its purpose, for the purpose of democracy is to limit power but a democratic socialist government would necessarily be an unlimited power insofar as it were socialist. An authentically socialist democratic socialism would at best be a tyrannical despotism which somehow succeeded in maintaining the outward trappings of democracy without maintaining anything of the spirit or intention of democracy. Once again, it would be something akin to giving a slave the power to elect his slave-master without giving him the freedom to escape the plantation.

As if this were not enough, there is in fact yet another another problem with democratic socialism. As Hayek argued,

Nor can a coherent plan be achieved by breaking it up into parts and voting on particular issues. A democratic assembly voting and amending a comprehensive economic plan clause by clause, as it deliberates on an ordinary bill, makes nonsense. An economic plan, to deserve the name, must have a unitary conception. Even if a parliament could, proceeding step by step, agree on some scheme, it would certainly in the end satisfy nobody. A complex whole in which all the parts must be most carefully adjusted to each other cannot be achieved through a compromise between conflicting views. . . . Even if, by this expedient, a democracy should succeed in planning every sector of economic activity, it would still have to face the problem of integrating these separate plans into a unitary whole. Many plans do not make a planned whole. (Hayek 2007 [1944]: 106f.)

In other words, democracy cannot produce the unitary economic planning which socialism demands. Democratic socialism would furnish only a disjointed hodge-podge of contradictory laws and regulations which have no unifying theme or purpose. A transitory elected government composed of disagreeing factions cannot produce a coherent plan which can be expected to remain for the long-term. The reason why democracy may work well for a free-market economy is that the scope of the government's activities are relatively modest. The only laws which need to be passed are those regarding relatively uncontroversial matters such as banning murder and theft. It is not very hard to agree on what a “night-watchman” state ought to do; the scope of government activity is relatively small and the possibility for consensus is great.¹² It should not be too difficult for a democratic assembly to reach a nearly unanimous consensus that theft ought to be illegal, for example. In other words, the smaller the scope of government, the simpler the task of achieving democratic consensus. But the problem with achieving democratic consensus under socialism, says Hayek, is that “there exists no agreed view on what ought to be done” (*ibid.* 101) and “the probability that they [those attempting to achieve a democratic consensus] will agree on a particular course of action necessarily decreases as the scope of such action extends” (*ibid.* 103). “We may rely on voluntary agreement to guide the action of the state only so long as it is confined to spheres where agreement exists” (*ibid.* 103). But in pursuing a socialist policy, “democracy embarks upon a course of planning which in its execution requires more agreement than in fact exists” (*ibid.* 103). The problem is that under socialism, the agreement on the desirability of planning is not supported by agreement on the ends the plan is to serve. The effect of the people's agreeing that there must be central planning, without agreeing on the ends, will be rather as if a group of people were to commit themselves to take a journey together without agreeing where they want to go: with the result that they may all have to make a journey which most of them do not want at all. (*Ibid.* 104.)

Indeed, John Jewkes shows that the central economic plans of Britain's Labour and Conservative parties were all mutually-contradictory (Jewkes, “Confusion Among the Planners” in Jewkes 1968: 80-96; Jewkes, “Variety Among the Planners” in Jewkes 1978: 61-76). Because no consensus can ever be reached, democratic socialism must and did essentially devolve into interest-group-lobbying, where every faction strives to funnel pork to its own constituents. As John Jewkes noted, the minister of a regime of central economic planning “will be subject to powerful pressure groups” which will “inevitably make him the guardian of some vested interest” (Jewkes 1968: 130). No coherent central

plan can arise from this, according to Jewkes:

an integrated scheme must inevitably be examined by those whose interests and knowledge are essentially local and piecemeal. The plan will be subjected to distortion through the activities of pressure groups. (Jewkes 1968: 133; cf. *ibid.* 218)

And so the product of democratic socialism will be (to quote a statement made in an unrelated context) one big compromise, just like a bill in the Assembly that no one wants to pass but no one is willing to kill. The thing gets modified and diddled in committee until it's equally unacceptable to everyone. (“Thresher” 174)

Therefore, as Nicholas Capaldi and Gordon Lloyd have noted (2011: p. xxi, n. 4),

Marxists have always been rightly contemptuous of democratic socialism because shifting majorities literally makes even the façade of economic planning impossible.

5. The Problem of Special Interest Lobbying (Rent-Seeking): Two Interpretations

In some respects, this part of the analysis by Hayek and Jewkes is similar to that of Shleifer and Vishny, but there are still important distinctions to be drawn. According to Shleifer and Vishny, the problem with market socialism is that it is vulnerable to the influence of pressure groups. Citing the familiar Public Choice literature, they argue that under democratic socialism, the government will cater to well-organized minority interests rather than promote the public good, creating economic inefficiencies (Shleifer and Vishny 1994: 171f.).¹³ They concede that the same problem exists under democratic capitalism, but they claim that the inefficiencies would be worse under democratic socialism (Shleifer and Vishny 1994: 172-174). To a large extent, Hayek's and Jewkes's prediction of distortion by pressure groups is very similar to the criticism by Shleifer and Vishny. However, there is an important nuance in Hayek's and Jewkes's argument which Shleifer and Vishny miss. Hayek and Jewkes do not merely argue that interest group lobbying will lead to more economic inefficiency under socialism than under capitalism. Instead, Hayek's and Jewkes's argument is more fundamental: the very existence of any interest group lobbying at all is fundamentally at odds with the very essence of socialism. Central economic planning only makes sense if there is a unitary, consistent, coherent central plan. The very existence of conflicting interest groups, regardless of the magnitude of the inefficiency they engender, defeats the very purpose of socialism. One of the most fundamental Marxist criticisms

of the market had been that the market economy is an “anarchy of production” which must be replaced with conscious, rational direction (Steele 1992: *passim*). Socialists found it unconscionable that the market was being driven by price-signals which seemed to emerge from nowhere. Only a consciously-designed system, they thought, was deserving of rational human beings. According to Steele, many socialists were concerned not only with inequality and poverty under capitalism but also with the fact that the market economy seemed irrational and inscrutable, violating the very essence of what it meant to be human. Therefore, Hayek's and Jewkes's criticism cuts closer to the heart of the matter than Shleifer's and Vishny's. Shleifer and Vishny predict greater economic inefficiency due to interest group lobbying under socialism than under capitalism, but conceivably, a socialist could be willing to tolerate greater economic inefficiency if this maximized other, more important goals, such as income equality. But according to Hayek and Jewkes, interest groups would produce not merely economic inefficiency but directionless and incoherent anarchy. Since it was (according to Steele) primarily the “anarchy of production” which led Marxists to reject the market economy in the first place, then if Hayek and Jewkes are correct, the problem of pressure groups under democratic socialism would defeat the single most important reason for having socialism at all.

And whereas Shleifer and Vishny rely on Mancur Olson (1965) and Gary Becker (1983) for their model of regulation, Hayek and Jewkes appear to have more in common with Kenneth Arrow's Impossibility Theorem.¹⁴ Arrow showed that it is impossible to aggregate a multitude of individually ordinal and transitive preference functions into one single ordinal-transitive social preference function, and the only means by which the political preference function can satisfy all of Arrow's conditions is through dictatorship (Butler 2012: 32; Stevens 1993: 47, 143-145; Hinich and Munger 1997: 95-99).

For example, suppose we have three voters, 1, 2, and 3. And suppose each of these voters ranks three different options, A, B, and C, in order of their preferences. We might have the following table of preferences by voter:

	<u>1</u>	<u>2</u>	<u>3</u>
<u>Best</u>	A	B	C
<u>Middle</u>	B	C	A
<u>Worst</u>	C	A	B

Let us further suppose a pairwise voting rule, where we vote on two options against each other, and keep voting until one option consistently beats all others. This is called a Condorcet winner. First, we vote on A versus B. Voters 1 and 3 both prefer A to B, while voter 2 prefers B to A, so A wins two votes

out of three. Then we vote on the winner, A, against C. Voters 2 and 3 prefer C to A, while voter 1 prefers A to C, so now C wins. But now we have to vote on C against B. Voters 1 and 2 prefer B to C, while voter 3 prefers C to B, so B wins. But now we are right back where we started: we have to vote on A versus B, and A will win. So we have no definitive winner. Our voting is afflicted with an infinite cycling problem because while the individual preference functions are transitive, the social preference function is not. Socially, A beats B and B beats C, but C beats A rather than A beating C. This is the so-called “Condorcet Paradox”, a very simple example of Arrow's Impossibility Theorem. Here, we have demonstrated cycling under pairwise voting, but Arrow showed mathematically that any possible voting rule whatsoever will be susceptible to one of several paradoxes. The problem is that given individually transitive and ordinal preferences, there is no mathematically-guaranteed way to aggregate them together into one social preference function that is free of paradoxes. The only way to avoid the paradoxes, according to Arrow, is through dictatorship since this avoids the need to aggregate individual preference functions into one social preference function.

It appears that the incoherence and instability of decision-making under democratic socialism as predicted by Hayek and Jewkes is but one manifestation of the general problem pointed out by Arrow. Hayek and Jewkes are not saying that pressure groups will create economic inefficiencies. Their criticism is more fundamental: the unitary, coherent, consistent plan demanded by socialism simply cannot be obtained under democracy, for the same reason Arrow has shown. Democratic socialism cannot work because there is no mathematical way to deduce societal preferences or the one and only “general will.” But socialism demands a single unitary plan. For example, if an infinite Condorcet cycle occurs in the legislature, then it will be impossible to conceive of a unitary, coherent central economic plan which expresses the will of the people. But without such a single, unitary plan, it is difficult to imagine what good socialism could be. The very essence of socialism is central economic planning. If that plan is not really a unitary plan at all, what good is it? And in contrast to democratic capitalism, democratic socialism vastly increases the scope of political decision-making, making it more likely that a voting paradox will occur. Only dictatorship can reliably produce a paradox-free preference function, which would explain why socialism has tended to be totalitarian rather than democratic. The point here is not that democratic socialism must necessarily be dictatorial, but rather that it must be dictatorial in order to produce a unitary socialist economic plan. Contrariwise, democratic socialism may eschew dictatorship but in doing so, it creates the possibility that the central economic plan will be incoherent and random.

6. *What Happens in the Next Election?*

There is one final problem with democratic socialism according to Hayek and Jewkes. Even if somehow, against all odds, a democratic socialist government could successfully plan the economy without producing tyranny or totalitarianism, what would happen if during the next election, the people voted against the incumbent party? Some capital investments take years or decades to bear fruit, before they deliver the hoped-for return-on-investment. What if four years after a plan is inaugurated, a new party is elected and uproots that tree before it has had a chance to blossom? How could any economic coherence or consistency be maintained if elections constantly upend the entire economy? For “[l]ong-term industrial projects cannot flourish in such an environment of political uncertainty,” according to Jewkes (1968: 166). And how could democratic socialism be maintained if the people voted against socialism and in favor of a free-market? Or what if the people continued to vote for socialism in general, but chose to elect a competing, alternative socialist party with a central plan differing from that of the incumbent socialist party? How can a long-term economic plan be maintained if it is replaced every time a new party comes to power? As John Jewkes argued,

Even where one planning government is succeeded by another, sudden switches of policy are to be expected. . . . If the personnel of the supreme planning group changes, then disrupting and costly changes in policy will follow. Even greater dislocation is to be expected where a socialist government, committed to planning, is replaced by a non-socialist government which favours the free economy. So long as representative government is maintained this possibility cannot be ruled out. . . . The prospect is thus opened up of chaotic competition between rival plans. (Jewkes 1968: 166, 152, 166)

And so, said Jewkes, democratic socialism could not operate

Unless . . . the highly undemocratic assumption is made that the government will never change the political colour of its government. . . . There is no escape from a dilemma unless one party is has the courage of its conviction and, in the interests of the continuity of its economic programmes, deprives the electorate of the right to change the government.” (Jewkes 1968: 152, 166f.).

In fact, some of the advocates of democratic socialism themselves did not shy away from this anti-democratic conclusion. As Hayek noted:

And to make it quite clear that a socialist government must not allow itself to be too fettered by democratic procedure, Professor Laski . . . raised the question “whether in a period of transition to Socialism, a Labour Government can risk the overthrow of its measures as a result of the next general election” - and left it significantly unanswered. (Hayek 2007 [1944]: 105)

And further,

Professor Laski [expressed] his determination that parliamentary democracy must not be allowed to form an obstacle to the realization of socialism . . . “the continuance of parliamentary government would depend on its [i.e. the Labour government's] possession of guarantees from the Conservative Party that its work of transformation would not be disrupted by repeal in the event of its defeat at the polls”! (Hayek 2007 [1944]: 105 n. 4)

To summarize, there are at least three reasons why democratic socialism would fail to keep a socialist regime from turning despotic and tyrannical, according to Hayek and Jewkes: first, because without differential wages, labor cannot be allocated without politically assigning people to their employments. In other words, socialism requires the abolition of the freedom to choose one's own job. Otherwise, the government cannot ensure that the economic plan will be executed as intended. Second, because democracy is merely a means to the end of limiting power, but socialism necessarily requires unlimited power. The means and the end are incompatible and one must be sacrificed to the other. Third, because democracy results in shifting majorities and interest-group lobbying and pork-barrel politics. Democratic socialism would not produce the unitary, long-term, consistent planning which socialism demands. According to Shleifer and Vishny (1994), the problem with interest group lobbying is that like all forms of rent-seeking, it is economically inefficient. But Hayek and Jewkes show that interest groups pose a more serious problem for democratic socialism: they magnify Arrow's Paradox and render impossible the unitary, rational planning which is the *sine qua non* of socialism.

Contrary to Shleifer and Vishny (1994), the problem with democratic socialism is not only that those in power would pursue their own rational self-interest, putting their own welfare above the correct implementation of the central economic plan. Nor is the problem only that pressure groups create the economic inefficiencies known to scholars who have studied rent-seeking. Shleifer and Vishny (1994) make familiar Public Choice arguments, but Hayek and Jewkes go further. According to

them, democratic socialism cannot work as socialists intend even if those in power have the best of intentions and never abuse their power. Even if the politicians perfectly adhere to the central economic plan and never veer from what the market socialist economists counsel, democratic socialism will still fail to curb the totalitarian potential of socialism. And according to Hayek and Jewkes, the existence of pressure groups under democratic socialism would not merely produce economic inefficiencies of rent-seeking – which a socialist could conceivably accept as an acceptable price to pay for the achievement of other goals – but the problem of pressure groups would more fundamentally undermine the very purpose of socialism. Democracy is incompatible with socialism's demand for a single, unitary economic plan, and as Hayek and Arrow showed, achievement of that plan is not possible without dictatorship.

III. CONCLUSION

Countless humanitarians have placed their hopes and dreams for a better future for mankind in socialism. But they soon realized that socialism threatened to produce a totalitarianism worse than anything capitalism had ever produced. Therefore, many of these socialist humanitarians soon began to advocate democratic socialism as the means of preventing the abuse of power by those in charge of the socialist government. Unfortunately for them, democratic socialism can never function as they have hoped.

Shleifer and Vishny (1994) argued that market socialism would fail for two reasons: first, because rational, utility-maximizing politicians would have insufficient incentive to implement the central economic plan. Second, because rent-seeking would produce even more inefficiency than it does under capitalism. Their argument is an incisive application of textbook Public Choice.

But Hayek and Jewkes went further. According to them, as long as the political-economic system is truly socialist, then democratic socialism must necessarily turn totalitarian and tyrannical even without any abuse of power – or else it must be random and incoherent insofar as it avoids dictatorship. In other words, the problem is not merely abuse of power or economic inefficiency. It is that even if everybody has the best of intentions, the political system of democracy is simply not compatible with the economic system of socialism. Either democracy socialism must turn into totalitarian socialism or else incoherent, random, arbitrary democracy. Socialism of any sort – including democratic socialism – must rely on labor conscription. Meanwhile, the phenomenon of interest group lobbying and rent-seeking does not merely create economic inefficiency, but under socialism, it

exaggerates Arrow's Paradox. Even if democracy were somehow maintained with socialism, either one or the other would in reality consist merely of the outward trappings without any of the substance. Either democracy would be sham, the freedom to elect one's despotic overlords, or else socialism would be a fraud, nothing but a disorder of chaotic interest-group jockeying and pork-barreling without any of the coherent or consistent rhyme or reason worthy of any authentic economic plan. As Hayek and Arrow showed in their own ways, achievement of a coherent, unitary economic plan is possible only under dictatorship. If socialism avoids dictatorship, then it must eschew unity of purpose and plan as well, but this defeats the purpose of socialism. Furthermore, if democracy is a means for limiting political power, then it makes little sense to combine it with a system – viz. socialism – whose *sine qua non* is absolute political power. Either socialism would have to be sacrificed for the sake of democracy, or the reverse. Finally, it is unclear what will happen under democratic socialism when the people vote against socialism. Thus, Hayek-Jewkes and Shleifer-Vishny both use Public Choice to criticize either democratic or market socialism, but their arguments are nevertheless remarkably different. Whereas Shleifer-Vishny use Public Choice to show that the politicians of a market socialist regime will have insufficient incentive to implement the plan as intended, and that rent-seeking will introduce economic inefficiency, Hayek and Jewkes go beyond this and show that the very concept of democratic socialism is fundamentally incoherent. The problem is not abuse of power or inefficiency, but a fundamental logic incompatibility of means and ends.

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- 1 I thank Willem J. A. van der Deijl for forcing me to clarify this point.
- 2 One may examine the measures of economic freedom compiled by the Fraser Institute under its Economic Freedom of the World index and come to the same conclusion. For any given year, Sweden has – compared to its contemporaries – tended to have low levels of regulation, low trade-barriers, and high degrees of protection of private-property, tempered by high levels of taxation and redistribution. This is *not* socialism as we or classical socialists have defined it.
- 3 Shleifer and Vishny cite Olson 1965 and Becker 1983. I would add Stigler 1971; Posner 1974; Butler 2012: 36f.; Stevens 1993: 214-229.
- 4 Wilhelm Röpke as well made arguments similar to those of Hayek and Jewkes: see Röpke (1987 [1951]: 24-35, 1992 [1942]: 83-99, 1998 [1957]: 90-150). However, Röpke's arguments in this area were briefer and did not seem to say very much which Hayek and Jewkes did not say in more detail. Therefore, this essay will confine itself to reexamining Hayek and Jewkes. Nevertheless, the interested reader should examine Röpke's statements for him- or herself:
- 5 I could not find any academic citations of Jewkes except for antiquated book reviews. Positive reviews of Jewkes include those by Grampp (1949), Levitan (1949), Mackintosh (1949), and Worcester (1978). Mixed reviews include Brown (1948), Harris (1949), and Lipson (1949). Negative reviews include Fischer (1949), Brewin (1950), Aldcraft (1968), Sutherland (1968), and Lewis (1969).
- 6 Two novels offer fictionalized illustrations of this economic principle concerning the allocation of labor under capitalism versus socialism: Eugen Richter's *Pictures of the Socialistic Future* (2010 [1891]) and Henry Hazlitt's *Time Will Run Back* (1966 [1951]). See Makovi 2015b. And Cotton pointed out that in More's *Utopia* (1516), people rotate in an out of more desirable and less desirable occupations, and the truly onerous work is done by convicts and saints; apparently More had realized the allocational dilemma created by the abolition of differential wages.
- 7 Cf. another work by the same author, Jewkes's 1978 *A Return to Free Market Economics?: Critical Essays on Government Intervention* 67, 70, 84. The last-cited page (Jewkes 1978: 84) notes that socialized medicine (specifically the British National Health Service) cannot guarantee true equality of access to medical care (which includes an egalitarian physical distribution of doctors) unless the government is “prepared to deprive doctors of freedom to operate in the district of their own choice.” (On the difficulties which geography imposes on egalitarian schemes of distribution, cf. Hoff 1981: 35.) Of course, the government could pay doctors a premium to relocate to less desirable districts, but then there would be inequality of income. Or the government could distribute health vouchers to its citizens, each worth an identical amount of money, so that everyone can afford the

same number of dollars of healthcare. But then citizens with different medical conditions and living in different districts would obtain different levels of healthiness and care for the same number of dollars; once again, there would be inequality. Similarly, Nigel Ashford (2001: 46) notes, “A meaningful right to health care would create an obligation on the medical profession to provide that care, regardless of the wishes of doctors and nurses, thus denying them freedom.” Thomas Szasz (1977: 114) has also called attention to the fact that the alleged right to healthcare implies the imposition of *corvée*:

Nor is it clear how the concept of a right to treatment can be reconciled with the traditional Western concept of the patient's right to choose his physician. If the patient has a right to choose the doctor by whom he wishes to be treated and if he also has a right to treatment, then in effect the doctor is the patient's slave.

- 8 According to editor Bruce Caldwell (Hayek 2007 [1944]: 47 note 19), “Hayek refers to the Control of Engagement Order of 1947,” and his summary of that law makes it clear that he refers to the same law as does Jewkes.
- 9 On Orwell as an advocate of democratic socialism and a critic of specifically totalitarian forms of socialism, see Makovi 2015a,b; Crothers (1994); Roback (1985); and Newsinger (1999).
- 10 Quoted in Trygve J. B. Hoff 1981: 267.
- 11 Cf. Boettke and Leeson 2002: 12. As for why socialism “necessarily involves the use of power which cannot be guided by fixed rules,” see Hayek, “Planning and the Rule of Law,” in Hayek 2007 [1944]: 112-23. The socialist Jacob Marschak (Hayek 2007 [1944]): 17) called this particular chapter “excellent and truly inspiring” (Hayek 2007 [1944]: 251).
- 12 Cf. Buchanan's and Tullock's argument for qualified majority parliamentary voting in *Calculus of Consent* (1962). Buchanan's and Tullock's argument is not the same as the present author's, but it leads to a very similar conclusion. For reviews of Buchanan's and Tullock's argument, cf. Butler 2012: 95-100; Stevens 1993: 134-139; Hinich and Munger 1997: 100-103.
- 13 Shleifer and Vishny cite Olson 1965 and Becker 1983. I would add Stigler 1971; Posner 1974; Butler 2012: 36f.; Stevens 1993: 214-229.
- 14 After this author had already related Hayek and Arrow to each other on his own, he saw that Boettke and Leeson 2002 had preempted him. However, Boettke's and Leeson's discussion (2002) is more technical and it does not compare Hayek to Shleifer and Vishny (1994). So there may be value in rehashing the comparison between Hayek and Arrow, this time in more simple, straightforward terms and with relation to Shleifer and Vishny (1994). But the reader is urged to consult Boettke and Leeson 2002.