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The Impossibility of Democratic Socialism

Michael Makovi*

Abstract: The Public Choice 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 Public Choice criticism of market socialism by Andrei Shleifer and Robert W. Vishny (1994) and deserves a restatement. 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. Democracy cannot fulfill for socialism what democratic socialists expect from it. Democratic socialism will fail, not because those in power will betray their trust or abuse their power, but because the fundamental institutional constraints of democracy are incompatible with socialist economics.

Keywords: Hayek; Road to Serfdom; democratic socialism; market socialism; economic democracy; totalitarianism; public choice; government failure; liberal democracy; illiberal democracy; arrow; impossibility; rent seeking; rent-seeking

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

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Nearly a century after “after it officially began, the contest between capitalism and socialism is over: capitalism has won” (Heilbroner 1989: 98). Socialism “was the tragic failure of the twentieth century” (Heilbroner 2008). Even social democracy and the mixed economy have proven unsustainable, at least, in their most ambitious forms, as nationalized industries in Great Britain and France have gone bankrupt (Yergin and Stanislaw 2002) and welfare states have discovered they cannot afford their unfunded liabilities (Creveld 1999). Several of the more profligate European states have been forced to pursue austerity programs in order to pare down their debt to manageable levels, and the neoliberal Washington Consensus has insisted on similar conditions for aid to developing countries in Latin America.

But we cannot complacently assume that the relevant lessons have been learned forever more. “Those who do not learn from history are doomed to repeat it,” as Santyana said. Today's 26 year old PhD candidates were born in 1990, just barely prior to the collapse of the Soviet Union. College freshmen were in born in 1998, and by the time they are entering college today, a quarter of a century will have passed since the Soviet Union ceased to be. They have no personal memories of actually existing socialism, if we do not teach them why socialism failed, they will have no reason to believe it should not be tried again. They might not even realize they are trying anything “again”; if we do not educate them better, they might not even realize socialism was ever tried before. None of our students will know anything about socialism except what we teach them. Therefore, we must ensure we understand *why* socialism failed. We cannot teach our students the lessons to be learned from history unless we have learned them ourselves. Therefore, the failure of socialism deserves a restatement.

This essay is an exercise in political theory, exploring the political-institutional reasons why democratic socialism or economic democracy must necessarily fail to accomplish the aims and intentions of its advocates. It is *not* an exercise in economic theory, and it does not attempt to show whether socialism must fail for purely economic reasons. That argument has been made elsewhere, in the Austrian literature on the impossibility of economic calculation under socialism (Hayek 1935; Hayek 1948: 77-91, 119-208; Brutzkus 1935; Mises 1981 [1922]: 95-194; Hoff 1981 [1938]; Leoni 2009 [1965]; Lavoie 1985a; Lavoie 1985b; Steele 1992; de Soto 2010; Boettke 1998; Boettke 2012: 76-96, 226-240). For the sake of argument, this essay assumes that there is no problem of rational economic calculation under socialism. As far as is this essay is concerned, the Lange-Lerner-Taylor solution of market socialism might as well have successfully refuted Mises's, Hayek's, and Rothbard's claim that rational economic calculation is impossible under socialism. What this essay will argue is that democratic socialism must fail, not necessarily because it is socialist, but because it is democratic. Even if socialism were economically feasible, it cannot be successfully institutionalized by democratic means and still accomplish its goals. Even if it were possible to implement an economically rational form of socialism, its political institutions could not be democratic and it could not promise to safeguard individual rights and liberties against government abuse.

Furthermore, not only is democratic socialism unable to promise liberty, but democratic socialism is not compatible with Lange's market socialism either. Even if we concede for the sake of argument – as this essay does – that Lange et. al. successfully refuted Mises and Hayek, this essay will demonstrate that market socialism is institutionally incompatible with economic democracy. In other words: the claim is *not* that democratic socialism cannot economically calculate, but that democratic socialism is *politically* distinct from market socialism in such a way that previous attempts to show that market socialism can calculate are inapplicable to democratic socialism. This means that advocates of democratic socialism must craft a new refutation of Mises and Hayek that does not rely on Lange et. al. This does not necessarily mean that democratic socialism cannot economically calculate, but it means that all previous attempts to show that it can are inapplicable and that Mises and Hayek must be refuted anew.

This criticism of democratic socialism will largely 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 criticisms of market socialism by Andrei Shleifer and Robert W. Vishny in their well-cited 1994 article, “The Politics of Market Socialism.” Although the target of Shleifer's and Vishny's criticism is market socialism, their arguments apply equally well to democratic socialism. Shleifer and Vishny utilize basic Public Choice to argue that market socialism would be susceptible to the inefficiencies of rent-seeking because politicians cannot be sufficiently incentivized to promote economically efficient resource allocation – and we add, this applies even more to democratic socialism. But Hayek and Jewkes went beyond Shleifer's and Vishny's (correct) argument that political officials will misuse their power and be insufficiently incentivized. While the Hayek-Jewkes argument is – like the Shleifer-Vishny argument – a form of Public Choice (Boettke 1995) – in that applies economics to political theory – it is Public Choice of a rather different sort. The Hayek-Jewkes argument, being different from the more thoroughly cited Shleifer-Vishny criticism, deserves a restatement as well.

According to Hayek (2007 [1944]) and Jewkes (1968 [1948]), advocates of democratic socialism fail to understand how their political system will actually operate in practice. They use economic analysis to criticize the political institutional logic of democratic socialism (Boettke 1995 re: Hayek). 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 socialist schemes, 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 and Jewkes, the problem is more profound: democracy is fundamentally incompatible with socialism on the most basic, essential 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 fundamentally incompatible, and therefore, that democratic socialism is logically incoherent. The political and

economic systems simply do not match up in any coherent fashion.

It should be realized that what Hayek-Jewkes and Shleifer-Vishny really criticize is not redistribution of income by high levels of taxation, but command-and-control regulation and government ownership of the means of production. Hayek's *Road to Serfdom* (2007 [1944]) criticized the British Labour Party's policy of nationalization, and Hayek was inspired by the *de facto* nationalization-by-regulation accomplished by the National Socialist regime in Germany.¹ Hayek was not primarily concerned with high levels of taxation and redistribution of income such as we might find in Sweden. As Bruce Caldwell notes (Hayek 2007 [1944]: 30f.), “[T]he existence of such states [i.e. welfare states], and whatever successes they may or may not have had, does not undermine Hayek’s logical argument from *The Road to Serfdom*: a welfare state is not socialism.”² This is because taxation and redistribution of income do not interfere with the operation of the price system the way command-and-control does.³ As Wilhelm Röpke (1992 [1942]: 260; cf. 1987 [1951]: 7f.) – an ordo-liberal closely aligned with Hayek – said,

we find that a differentiation between two groups of state intervention is of foremost importance, for which we have suggested the terms “compatible” and “incompatible” interventions: i.e. those that are in harmony with an economic structure based on the market, and those which are not. Interventions which do not interfere with the price mechanism and with the automatism of the market derived from it are compatible, they let themselves be absorbed as new “data”; interventions which paralyse the price mechanism and therefore force us to replace it by a planned (collectivist) order, we call incompatible.

Because taxation and subsidy do not entail the same degree of command-and-control as does regulation, therefore, the example of Sweden does not refute Hayek (*pace* Samuelson in Farrant and McPhail 2009: 5, 9, 11, 12). The Swedish system relied and still relies predominately on redistribution of income, with relatively little regulation or nationalization (Stein 1991, Sanandaji 2011).⁴ Fittingly, Lawson and Clark (2010: 235) note that according to their empirical analysis,⁵

the Hayek–Friedman hypothesis [that economic liberty is a necessary precondition for political liberty] is confirmed most strongly when looking at the legal structure and property rights and the regulation areas of the EFW [Economic Freedom of the World] index. These two areas are more closely identified with political and civil liberties than the other areas of the EFW index (fiscal size of government, monetary policy, and trade policy).

Not all government interventions in the economy are equally likely to lead us along the road to serfdom. Hence, when I speak of “socialism,” I have a very specific meaning in mind: nationalization and central planning, or else command-and-control regulation so extensive that it begins to approach nationalization and central planning.⁶ This was the classical meaning of “socialism” as intended by socialists themselves. Fundamentally, what socialism so defined means is the abolition or severe restriction of the price system.

Now in fact, we have overstated the case, and we must admit this strict dichotomy between taxation and command-and-control is not entirely accurate. A tax *is* a command-and-control except that a given action is punished by confiscating money instead of by imprisoning the offender. Put differently, both taxation and criminalization work by altering incentives, except that the one imposes a much stronger disincentive than the other. Both tobacco taxes and marijuana criminalization disincentive the use of these respective drugs and so they are forms of command-and-control. In fact, most regulations resemble taxes insofar as they are generally enforced through monetary fines, not criminal imprisonment. Thus, taxes are a form of command-and-control, and Mises (1981 [1922]: 230) is therefore able to speak of one particular socialist scheme as follows:

Directly or indirectly through its taxation policy, it [the socialist state] determines the conditions of labour, moves capital and labour from one branch of industry to another . . . These tasks falling to the State are the only important ones and they constitute the essence of economic control.

Nevertheless, the distinction between taxation and command-and-control is still important. Not all taxes are equally command-like, for it depends on what sort of disincentive is created. There is no such thing as a value-free tax which does not affect incentives at all, but some taxes are more value-free than others. For example, a flat per-capita tax on all citizens would not entail as much command-and-control as an income tax because there is less disincentive. A person is taxed a fixed number of dollars simply for being alive. Such a flat, per-capita tax would not encourage or discourage any specific behaviors, and so it would not be very command-like, although it would still affect a person's choice of trade-off between labor and leisure trade-off due to the income and substitution effects. A flat per-capita tax is not completely value-free, but it is probably the most value-free tax imaginable. It is difficult to translate a flat per-capita tax into a command of the form "thou shalt" do anything in particular. But a fixed-percentage income tax affects incentives more than a per-capita tax, and so it is more command-like. A progressive income tax is still more command-like. Each of these taxes respectively approximates more and more to commands along the lines of, "thou shalt labor less than before because the marginal return to labor has decreased" or "thou shalt labor more than before in order to recoup lost income." Eventually we reach the realm of taxes on highly specific activities and products, such as tobacco taxes or taxes on particular sources of income irrespective of their magnitudes. These are extremely command-like. A tax on tobacco is substantially similar to a command, "thou shalt not smoke (as often)." Likewise, a tariff is similar to the command, "thou shalt shift away from foreign goods and toward domestic goods."

Recall that according to Hayek (2007 [1944]: 112-23), the rule of law entails general, abstract rules which apply to everyone equally such that we cannot predict in advance who will be affected specifically. This stands in contrast, Hayek says, to a regime where particular rules apply specifically to different people and different activities. Hayek argued that socialism cannot operate without abandoning general, abstract rules in favor of particular ones. Here, we note that some taxes and regulations are more general or particular than others,

violating Hayek's concept of the rule-of-law differently. Therefore, the distinction between taxation and command-and-control regulation should be understood as a continuum, with some taxes being more or less command-like. For example, a tax of 1% on a product might barely make a difference in a person's life, while a 10,000% tax on all motor vehicles might virtually amount to a command to use the horse-and-buggy. Hayek's argument in the *Road to Serfdom* – or at least, the argument of this paper – should be understood to apply more to command-and-control regulations and to taxes which are substantially command-like, violating the generality and non-discrimination of the rule-of-law. This argument therefore applies less to e.g. the Swedish system, where high income taxes are accompanied by a substantial degree of protection of private property, a low level of regulation, and freedom of international commerce. Thus, we insist on our previous statement that by socialism, we mean either nationalization or else an extensive degree of command-and-control regulation, not a system of taxation and redistribution which is not very command-like.

Above all, it is crucial to understand that Hayek's argument is a contingent one, and whether a given tax or regulation will lead us down the road to serfdom depends on precisely whether and how that tax or regulation will force people to live their lives differently than they otherwise would have, and also how compatible a given intervention is with the functioning of the price system – meaning, whether consumption, production, and employment are free to adjust themselves to whatever prices turn out to be, or whether the government demands a given pattern of consumption, production, and employment regardless of whatever prices turn out to be.

The essay proceeds as follows: section I briefly summarizes and evaluates some of the statements and policies put forth by advocates of democratic socialism. Section II summarizes Shleifer and Vishny (1994). Section III, the heart of this paper, explores in detail the arguments of Hayek and Jewkes. Section III is divided into several parts: part (1) notes the mutual relationship and relative neglect of Hayek and Jewkes; (2) categorizes the nature of their argument; (3) concerns the impossibility of separating political from economic freedom, with the implication that economic planning – even of the democratic sort – requires coercively planning every aspect of individual people's lives, defeating the purpose of democracy; (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) discusses the impossibility of arriving, by consensus, at a single, unitary agreed-upon plan; (6) builds on the previous section and compares the 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; (7) notes the difficulty posed by democratic elections which might disrupt the operation of a socialist central-plan and finally, (8) notes the problem which socialism creates for international economic order and how planning would give rise to belligerency, militancy, and xenophobia. Section IV concludes that democracy, as a political framework, is incompatible with the aims of socialist economic planning.

I. THE DEMOCRATIC SOCIALISTS

A singular difficulty in evaluating democratic socialism is that it is not always clear from what the advocates themselves say, which specific political and economic system they have in mind. They have plenty to say in criticism of capitalism and the market economy and about the egalitarian ethics which motivate their criticism, but they are far less precise about the details of the system they would have replace capitalism. Recently, the editors of *Dissent* magazine (*Dissent* 2015) decided to “present a selection of key essays on democratic socialism from [their] archives.” To avoid bias, this essay will follow largely follow *Dissent's* lead and predominately characterize democratic socialism according to the essays chosen by those editors, to wit: Howe and Coser (1954), Denitch (1978), Harrington (1978a), Phillips (1997), Heilbroner (1978a), Coser (1978), and Walzer (1978, 2010). In essence, we will let the editors of *Dissent* define democratic socialism for us. We will also refer occasionally to several other authors where it seems appropriate, including Archer (1995), Schweickart (1992), Burczak (2006, 2011), Dahl (1985), and to several works by George Orwell.

Irving Howe and Lewis Coser (1954) devote most of their essay (1954: 122-131) to a discussion of the Marxist criticism of utopian socialism. Only approximately the third quarter (1954: 131-135) lays out something approximating a concrete plan. The remainder of the essay (1954: 136-138) deals with the nature of work and leisure under socialism. Unfortunately, this sketch is not altogether clear. Howe and Coser note (1954: 133) that “a great deal of traditional socialist thought has stressed economic centralization as a prerequisite for planning” but that “[w]hatever the historical validity of these emphases on centralism, they must now be abandoned.” Instead, they propose “small decentralized industrial units” and “relatively small economic units.” The reason for this is that (Howe and Coser 1954: 134; cf. Denitch 1978: 354f.)

The presence of numerous political and economic units, living together in a tension of cooperation-and-conflict, seems the best “guarantee” that power will not accumulate in the hands of a managerial oligarchy

But however large or small these industrial units are, they still require central direction from the state. Howe and Coser say (1954: 134) their policy

implies a considerable modification of the familiar socialist emphasis on nationalization of the means of production, increase of productivity, a master economic plan, etc.—a modification but not a total rejection. To be sure, socialism still presupposes the abolition of private property in the basic industries.

Thus, their scheme still relies on nationalization and political planning. On the other hand, they state that this “requires only a loose guiding direction, a general pointer from above” (Howe and Coser 1954: 134), without explaining what this really means. Nevertheless, it seems clear that what Howe and Coser have in mind is socialism of the classical sort – *viz.* state ownership and direction of the means of production – and not of the newer, Scandinavian sort – *i.e.* basically free-markets with large transfer payments.

In addition, Howe and Coser (1954: 134) and Bogdan Denitch (1978) endorse some sort of guild

socialism / syndicalism / workplace democracy, but they do not seem aware that workplace democracy essentially translates to free-market capitalism where the shareholders of a firm happen to be the firm's employees. In other words, under workplace democracy, the workers own the firms, but the firms compete with each other on the free-market in a typically capitalist fashion. Therefore, it is not clear how this is reconcilable with nationalization and centralized direction of the economy or any other canons of socialism. As Don Lavoie (1985a: 127) notes,

Workers' control of the means of production appears to represent the long-range goal of these democratic socialists, but not much is said about what this entails concretely; neither is it ever explained why workers' control over their workplace should require, or even be consistent with, national economic planning.

Furthermore, some firms will be more profitable than others, and so the workers who own those firms will obtain higher incomes than the workers who own less profitable firms (Mises 1981 [1922]: 238, 242; cf. Caplan n.d. #1). Hence, workplace democracy is incompatible with egalitarianism too. And if income is nationally (or internationally) redistributed to achieve an equal outcome, then the workers do not really own their firms anymore. That is to say, if workers of a given firm obtain the same equal income regardless of which firm they own and irrespective of whether they operate their firm at a profit or a loss – regardless of any decisions they democratically make, in fact – then there is little sense in which the workers really do own their firm.

Moreover, it may be that many workers do not want to own a significant stake in their firm, for they may be happier drawing a steady, reliable salary than uncertain, variable profit. Workplace democracy entails that workers take on the role of entrepreneur who earns a profit – or crucially, a loss – depending on the accuracy of their entrepreneurial speculation and foresight. It may be that many workers do not wish to be mere residual claimants. Instead, they may wish to draw salaries even when the firm incurs losses. As Lavoie (1985a: 128) says, mandatory workplace democracy entails “forcing workers – who may not want to take on the risk, expense, and responsibility involved in managing a firm – to do so anyway.”

Besides, in a free-market, it is already legal for workers to establish a firm which they will own themselves, or for them to purchase a controlling share in the firm's stock (cf. Lavoie 1985a: 127).⁷ For example, Archer (1995)'s version of workplace democracy specifies that workers or their representative labor movement purchase a controlling stake in the firm from the firm's owners through a series of mutually-acceptable compromises; hence, there is no act of expropriation which is inconsistent with free-market capitalism. Meanwhile, Schweickart (1992: 28-36) argues at length that in general, worker-management will be more efficient than traditional management. But if this were the case, then we ought to expect investors will invest more in worker-managed firms so that they earn a higher return than if they invested in traditionally managed firms (cf. Steele 1992: 323-349). Similarly, if workers preferred the combination of wages and working conditions offered by workplace democracy, then we would expect capitalists, competing with each other for

scarce labor, to cater to these workers' demands (cf. Steele 1992: 323-349). Thus, it is not clear why an embrace of workplace democracy requires a rejection of capitalism. The capitalist utopia already includes the socialist utopia as a voluntary option for those who desire it (Brennan 2014: 94-98).⁸ In general, capitalism allows the private institutions of civil society to be as democratic as their members wish them to be. For example, the mutual aid societies which preceded the modern welfare state were often organized on a democratic basis and they gave their members a significant opportunity to exercise responsibility and to hold authority in a way which proved educational and which helped them build character (Green 1993). If democracy is demanded because it promotes civic virtue, this demand can be accommodated under capitalism with little if any government intervention.

Some authors (e.g. Dahl 1985 – see Green 1986; Burczak 2006, 2011) would reply that workplace democracy should be made mandatory; firms should be compelled to submit to worker control. Others would say that the government should “encourage” workplace democracy (cf. Lavoie 1985a: 127). But this would merely entail an interventionist form of capitalism: excepting the imposition of *ad hoc* regulations, the private worker-owned firms would continue to freely compete with each other in a marketplace (Burczak 2006, 2011), and some firms – and therefore, their employees – would be more profitable and prosperous than others (Mises 1981 [1922]: 238, 242; cf. Caplan n.d. #1). This is not socialism, but merely interventionism. Whether a policy mandating or encouraging this arrangement is a good idea is debatable,⁹ but such a policy is conceivable only under capitalism.¹⁰ In fact, Theodore Burczak (2006, 2011) advocates mandatory workplace democracy as the only acceptable form of socialism precisely precisely because it is otherwise compatible with free-market capitalism and avoids Hayek's criticisms of central-planning.¹¹ Hence, when Howe and Coser (1954: 134) and Denitch (1978) advocate workplace democracy, it is not clear why this is an example of socialism and not merely a modified form of capitalism (cf. Lavoie 1985a: 127)d.

Michael Harrington's plan (1978a) is similarly muddled. He aims to move “beyond the welfare state” (Harrington 1978a: 440, 451) and to “transfer the control of basic investment decisions from private boardrooms to the democratic process” (Harrington 1978a: 442). He explicitly advocates state direction of the economy, calling for “a national planning process in which all the people would have an *effective* right to participate” (Harrington 1978a: 442, emphasis in original). On the other hand, despite his intent to “move beyond the welfare state,” he envisions “three main types of economic organization: socially owned; privately owned large enterprises; and cooperatives” (Harrington 1978a: 446). So there will be privately-owned firms as well as worker-owned firms, both of which must compete on the market with government-owned firms. It is not clear how this is different from the regulated, mixed economy which Harrington has rejected. With Harrington's confusing eclecticism, “one almost gets the impression that a shotgun tactic is deliberately being used here” (Lavoie 1985a: 151 re: Carnoy and Shearer).

In any case, according to Harrington, wherever a conflict arises between the private firms and the central

plan, the latter will take priority: “individual enterprises or industries cannot be given the right to veto the democratic plans of the entire nation” (Harrington 1978a: 447). At the same time, Harrington believes that competition among state-owned firms will curb any abuse of power (Harrington 1978a: 448); he does not explain how state-owned and democratically-directed firms can be made to compete against each other when a democratic plan commands the private firms what they must do and how. Harrington fails to realize that unlike market competition, political rivalry simply means a zero-sum competition for monopoly status; political actors merely vie for exclusive receipt of special privilege, with none of the benefits of market competition accruing to anybody (Lavoie 1985a: 135f., 140).

A key indication of Harrington's confusion is his approving citation of Oskar Lange (1938)'s market socialism (Harrington 1978a: 443f.), which he fails to realize is incompatible with democratic socialism. Harrington admits that according to Ludwig von Mises (1920), rational economic cost accounting is impossible under socialism. But he summarily replies that Mises has been refuted by Oskar Lange's market socialism. Harrington does not seem aware, however, of the fact that market socialism is fundamentally incompatible with democratic socialism. According to Lange, socialism can calculate if the government's officials follow strict, non-discretionary rules of cost-accounting. Essentially, the socialist government's officials are to perform the same sorts of calculations which a Neoclassical economics professor performs on the classroom blackboard, such as expanding output until marginal revenue equals marginal cost, etc. Market socialism, according to Lange, is meant to imitate the market, or more properly, market socialism is to replicate what the market would do under conditions of perfect competition. “Thus,” Lange (1938: 82) says, “the accounting prices in a socialist economy, far from being arbitrary, have quite the same objective character as the market prices in a regime of competition. . . . Our study of the determination of equilibrium prices in a socialist economy has shown that the process of price determination is quite analogous to that in a competitive market.”

There is no room in Lange's system for any democratic input or discretion. The government's officials are to determine the solutions to simultaneous differential equations by a method of trial-and-error, adjusting parametrized prices until quantity supplied equals quantity demanded. Lange's goal is for the government to discover the single optimal equilibrium set of prices and outputs. The government's officials could be chosen democratically if this is desired, but it makes no fundamental difference whether they are democratically chosen or not, because all the officials do is follow strict rules of accounting.¹² But according to Harrington, the goal of democratic socialism is to “transfer the control of basic investment decisions from private boardrooms to the democratic process” (Harrington 1978a: 442). Hence, what Harrington requires is the very opposite of Lange's strict rules of accounting without discretion. Harrington requires that “we the people” will be able to obtain whatever “we” want from the government and from the economy, whereas Lange's goal is for the government to discover a single, indisputable mathematical equilibrium which is immune from political clamouring. Harrington seeks to maximize democratic discretion while Lange aims to abolish all discretion; the two systems are seeking

very different outcomes.¹³

Schweickart (1992) also makes precisely the same mistake as Harrington in his defense of economic democracy, and for this reason, Scheickart's system is difficult to criticize as well. Like Harrington, Scheickart (1992: 11) appeals to Lange to refute Mises, unaware that economic democracy and market socialism are antithetical. Schweickart (1992: 19) speaks of “worker self-managed market socialism,” implying a system where workers are responsible for implementing Lange's strict, non-discretionary rules of cost-accounting. It is not clear why it is preferable for workers to implement these rules rather than trained accountants. Then he speaks a “democratic, market-conforming plan” (Schweickart 1992: 19), unaware of the fact that a plan cannot be simultaneously democratic and market-conforming. Schweickart (1992: 20 n. 7) specifies that wage differentials will be restricted in order to limit income inequality, but this is incompatible with market socialism, which specifies that wages are to be determined by the Neoclassical economic law of marginal productivity (Lange 1938: 83). And while Schweickart specifies a market economy wherein worker-managed firms must compete with each other on the basis of free-market prices determined by supply and demand (1992: 19, 21), he also dictates that investment will be socially determined by a democratic process (1992: 19, 22). But which is it? These two components of the scheme are incompatible. And if investment is socially determined, by what method will calculation be determined to be economically rational, i.e. how will the system ensure that ends are achieved with the least cost, so that as many ends can be simultaneously achieved as possible? When any end is achieved at higher cost than is necessary, then more of another end must be sacrificed than was necessary. This is the essence of the problem of economic calculation, which applies under all systems, both capitalist and socialist. Furthermore, Schweickart (1992: 22) declares that labor costs are not to be accounted for, but according to Lange (1938: 83)'s market socialism, labor costs are as real as any other costs, and rational economic calculation requires that labor be economically allocated and conserved. The same laws of rational economic calculation apply to all systems, both market-based and socialist. In general, Schweickart appears to have no understanding at all of the meaning and significance of the problem of economic calculation. It is difficult to criticize Schweickart's system because it is so amorphous, indeterminate, and incoherent.

Therefore, Harrington and Schweickart cannot appeal to Lange to refute Mises's thesis of the impossibility of economic calculation under socialism, because Lange's solution to Mises's problem is incompatible with Harrington's and Schweickart's institutions and goals. Hence, Harrington and Schweickart must refute Mises themselves, and show how a democratic, majoritarian planning process could succeed in economically rational cost-accounting. Don Lavoie (1985a: 125-171) has shown this is impossible. But as this is an essay in political theory, not economic theory, we do not wish to subject democratic socialism too much to the criticism of economic price-theory. Our point is simply that the murky and muddled nature of Harrington's and Schweickart's proposals is indicated by the fact that he has approvingly cited someone – *viz.* Lange – whose scheme is diametrically opposed to his own. Of course, this murkiness works to Harrington's and Schweickart's

advantages because it is much more difficult to criticize what cannot be grasped.

Nevertheless, in the end, Harrington does appear to endorse some form of planning, regardless of how democratic it is. For elsewhere he states (1978b: 356), “The socialist essential, it must always be remembered, is not the plan; it is the democratic power of the people over the plan and the planners.” And further (1978b: 357), “What must be done—in theory and in practice—is to counterpose democratic planning to command planning.” Harrington does, after all, call for a form of government planning of the economy, albeit democratic rather than imposed by a hierarchical elite. Compared to Soviet-style planning, what Harrington wishes to change is not *what* is done but merely *by whom* it is done. This point must be emphasized. Discussing democratic socialists in general, Lavoie (1985a: 135) notes “their insistence that the planning they advocate must be decentralized, or 'from the bottom up,' rather than centralized, or 'from the top down.’” Lest one mistakenly believe that such decentralized planning implies a rejection of government planning, Lavoie (*ibid.*) immediately adds, “it must be clarified that these writers do believe there will have to be one central office that will have to oversee and coordinate the plans of other levels and branches of government.” Notwithstanding that the impetus for such planning will originate democratically, this still implies government planning of the economy.

Next, the editors of *Dissent* (2015) cite Anne Phillips (1997) as an example of democratic socialism as well. But it is not clear what relation her essay bears to democratic socialism. Phillips argues that sexual disparities in income that are not due to any sexual difference in ability are illegitimate, just as racial disparities are. Phillips (1997: 34) argues that women are paid less than men, not primarily due to employer discrimination but rather because women's socially-expected domestic duties require them to work fewer hours for less pay. Phillips (1997: 37) proposes interventions such as mandatory paid parental leave, and she notes (1997: 38),

the kind of sexual equality I am describing might then turn out to be compatible with a capitalist economy. It is not compatible, however, with a hands-off noninterventionism that allows the immediate requirements of employers to dictate the hours and patterns of work. What I am describing here is probably more accurately described as social democracy than socialism.

There we have it: Phillips is not advocating democratic socialism at all. But perhaps we can learn what democratic socialism *is* by examining what it is *not*. The editors of *Dissent* (2015) have chosen to feature Phillips (1997) in a collection of articles about democratic socialism. Phillips (1997) has advocated a set of welfare-state interventions which she claims are characteristic of social democracy and not socialism. Therefore, we can conclude that democratic socialism does *not* mean welfare-state intervention nor is democratic socialism identical with social democracy. Hence, it seems safe to conclude that democratic socialism must entail planning.

Indeed, the next essay cited by *Dissent* (2015), Heilbroner (1978a), states (p. 341), “[b]eyond the welfare state lies the *terra incognita* we call socialism.” And again (*ibid.*), “Socialism, as most of us think about it, is not just an improved welfare state. It is another kind of society.” In his reply to Heilbroner, Bogdan Denitch (1978: 351) agrees, speaking of “a socialist society, the one presumably beyond the welfare state, the one in which

socialists are no longer just adding one more reform to a pyramid of welfare-state reforms.” According to Heilbroner (1978a: 342f.), the welfare-state is simply the means by which capitalism saves itself.¹⁴ Therefore (Heilbroner 1978a: 343), “the welfare state, adequate or not, must be considered as a form of capitalism” and socialism – including democratic socialism – must entail planning. As Heilbroner says (1978a: 343), socialism “must depend for its economic direction on some form of planning, and for its culture on some form of commitment to the idea of a morally conscious collectivity . . . the coordinating mechanism then becomes ‘command.’”¹⁵

At this point, we take a brief detour from *Dissent* (2015)'s reading list and examine the views of perhaps the most famous democratic socialist of all, George Orwell.¹⁶ As Orwell noted (1946: 1083f.), “Every line of serious work that I have written since 1936 has been written, directly or indirectly, *against* totalitarianism and *for* democratic Socialism, as I understand it” (emphasis in original). Orwell (1941a: 334) advocated the

Nationalization of land, mines, railways, banks, and major industries. . . . The general tendency of this program aims quite frankly at turning . . . England into a Socialist democracy.”

In several places (Orwell 1941a: 317, 1941b: 1684, 1944: 232), Orwell warned that nationalization without egalitarian democracy would simply lead to “oligarchical collectivism” and caste rule. Richard White (2008:84) observes that Orwell (1941a)

is at pains to point out that nationalization or ownership of the means of production achieves nothing if the workers remain subject to a ruling cadre who make all the important decisions in the name of “the State.”

Orwell (1935: 926) wrote that

Socialism used to be defined as “common ownership of the means of production,” but it is now seen that if common ownership means no more than centralized control, it merely paves the way for a new form of oligarchy. Centralized control is a necessary pre-condition of Socialism, but it no more produces Socialism than my typewriter would of itself produce this article I am writing.

Discussing the rise of totalitarianism, Orwell (1939: 111) states that, “The essential act is the rejection of democracy – that is, of the underlying values of democracy; once you have decided upon that, Stalin – or at any rate something *like* Stalin – is already on the way.” According to Orwell, then, a *necessary* condition for socialism *is* nationalization of the means of production and central planning, but this is not *sufficient* without democracy. Democratic socialism, according to Orwell, is just that: planning and nationalization in a democratic, egalitarian fashion.

Returning to *Dissent* (2015)'s list, the final essay, written by Michael Walzer (2010), stands on its own. Unlike all of the authors we have seen so far, Walzer (2010: 38) explicitly equates socialism with social democracy: “Today’s socialism—social democracy is probably the more accurate name. . .” He lists three essential traits of “today's socialism” (2010: 38): democracy, market regulation, and the welfare-state. Hence,

“the question 'Which socialism?' translates into 'What degree of democratic participation, market regulation, and welfare provision should we aim at?’” (Walzer 2010: 38). Walzer argues that the distinguishing characteristic of socialism is not a specific policy platform or political regime, but the means by which policies are pursued and the aims for which policies are sought: “What is most important, then, is not the final realization of socialist goals, but the process by which they are realized” (Walzer 2010: 39). He almost equates socialism with some sort of deliberative or majoritarian democracy, saying “Ours is a 'participatory' socialism” (Walzer 2010: 39). Socialism is the process of “socialism-in-the-making” by the common workers, on the grassroots level (Walzer 2010: 41). Socialism-in-the-making “take[s] place in their unions, movements, parties, churches, and mutual aid organizations—in civil society, that is, and not in the state” (Walzer 2010: 42). Elsewhere (1978: 358), Walzer states that value attaches to the democratic process, not to its outcomes. So socialism simply means the outcome of authentically democratic action within civil society, regardless of what kind of policy platform or political regime this produces. One wonders: if the common people voted for laissez-faire capitalism, would socialism mean capitalism? At this point, the moniker “socialism” seems superfluous, for if socialism simply means democracy, then let us call it democracy. Walzer is not advocating democratic socialism, but simply plain democracy, period. Perhaps, with the fall of the Soviet Union and the evident failure of actually existent socialism, Walzer has simply run out of ideas. As Heilbroner has noted elsewhere (1989: 109),

The collapse of centralized planning shows that at this moment socialism has no plausible economic framework, but the word has always meant more than a system of economic organization. At its core, it has stood for a commitment to social goals that have seemed incompatible with, or at least unattainable under, capitalism—above all, the moral, not just the material, elevation of humankind.”

Be this as it may; we still need an operational definition of democratic socialism. We have seen that all of the rest of the authors besides Walzer equate democratic socialism either with planning or else with syndicalism. And as we have dismissed syndicalism as merely a form of capitalism, we shall assume, for the remainder of this essay, that democratic socialism entails government economic planning. Thus, democratic socialism is the system wherein the entire economy – meaning, as we shall see, every material aspect of life – is subject to political decision-making by a democratic government. According to Mises (1981 [1922]: 399), it is the theory that “The People must take the administration of economic matters into their own hands, just as they have taken over the government of the state.” Or in Lavoie's (1985a: 126) words, “The basic message of this movement is that a 'democratic' form of planning ought to be advocated as the only feasible alternative to fascism or corporate planning.” In fact, this definition – of democratic socialism as implying democratic planning – squares nicely with Walzer's definition of socialism as pure democratic political action: democratic socialism is the political system in which there is no limitation on democracy – when every material aspect of life, without exception, is subject to democratic decision. The sphere of democratic governance is simply

expanded to encompass the entire economy. In Lavoie's (1985a: 127) words, "The central idea associated with the phrase 'economic democracy' is the pleasant-sounding notion that democracy, which has heretofore been restricted to the political sphere, should be extended into the economic sphere." The two notions of democratic planning and pure democracy come to mean essentially the same thing: all of human existence is to be democratically socialized.

II. ANDREI SHLEIFER'S AND ROBERT W. VISHNY'S "THE POLITICS OF MARKET SOCIALISM" (1994)

Now we review Shleifer's and Vishny's (1994) argument against market socialism which is, as we mentioned, different from Hayek's and Jewkes's criticism of democratic socialism. Both Hayek-Jewkes and Shleifer-Vishny undertake Public Choice criticisms of freer forms of socialism, 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 (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.

Shleifer and Vishny (1994: 166) claim that Oskar Lange's proposal for market socialism successfully refuted Ludwig von Mises's argument that economic calculation is impossible under socialism. Therefore, Shleifer and Vishny criticize only the political feasibility of market socialism, not its theoretical economic validity. They would appear to agree with Robert L. Heilbroner's (2008) statement about Soviet-style central planning, that "[t]he crucial missing element is not so much 'information,' as Mises and Hayek argued, as it is the motivation to act on information."

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.).¹⁷ They concede that the same problem exists under democratic capitalism, but they claim that the inefficiencies would be worse under market socialism (Shleifer and Vishny 1994: 172-174).¹⁸ Hence, the criticism by Shleifer and Vishny of market socialism is a simple – though nonetheless valuable – application of straightforward, textbook Public Choice: the political officials will have insufficient incentive to implement market socialism according to the specified rules, and rent-seeking inefficiencies will undermine the rules of the system.¹⁹

It is worth highlighting that even though Shleifer and Vishny are targeting market socialism for their criticism, all of these problems they point out would be even worse under democratic socialism. For as we have noted, market socialism *does* attempt to impose highly limiting restraints on the behavior of public officials. According to market socialism, officials are to obey strict Neoclassical economic rules of cost accounting, and they are to have as little discretion as possible. While in fact, the implementation of market socialism would require public officials to exercise more discretion and entrepreneurial speculation than its advocates thought (Hayek 1948: 197-199), the fact remains that market socialism – in principle, at least – attempts to rigorously constrain public officials. Even so, Shleifer and Vishny demonstrate, it would be plagued by Public Choice problems. But what, then, of democratic socialism? Democratic socialism does not even attempt to constrain the government by anything except the will of the people. But the people can will literally anything. There is no strict cost-accounting which the government must obey, nor are there any other strict rules which are imposed to unconditionally constrain the government. Therefore, Public Choice problems would be even more pervasive under democratic socialism than under market socialism, and everything said by Shleifer and Vishny against market socialism would apply perhaps doubly or triply to democratic socialism.

III. THE CONTRIBUTION OF HAYEK AND JEWKES

1. The Relative Neglect of Hayek and Jewkes

But Shleifer and Vishny (1994: 170) explicitly state that while they are sympathetic to Hayek's arguments, they will not adopt them. One reason is that Hayek's work “made a relatively bigger impression on public opinion than on the economics profession” (Shleifer and Vishny 1994: 168). This is only more reason to reexamine Hayek's arguments and offer them a fuller hearing.

Nor do Shleifer and Vishny explain in any detail what Hayek's arguments were. According to their laconic summary, 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). While this is not inaccurate, it is extremely over-simplified. Hayek's argument was much more detailed than this and it deserves further attention. Lawson and Clark (2010: 231) state that Hayek's theory was “[not] particularly detailed,” and they can find only three specific arguments he made: first, that power corrupts; second, that planners must subject voters to propaganda and political controls in order to dupe voters into supporting the code of values guiding and underlying the planners' plan; and third, that if voters' preferences are not stable, then for the plan to maintain stability and consistency, it must be administered non-democratically. Lawson and Clark note that these latter two explanations are inconsistent: according to one, voters are tricked into democratically supporting the plan, and according to the other, the plan is insulated from democracy, kept out of the voters' hands so that their support is not even necessary. But Hayek's arguments are far more detailed than this and less inconsistent with

each other than Lawson and Clark (2010) suggest. Some of Hayek's arguments were even sophisticated enough to resemble Arrow's Impossibility Theorem (Boettke and Leeson 2002, Boettke 1995: 19f.). The fundamental point – according to this feature of Hayek's argument – is that no single consistent, coherent plan can be arrived at by democratic means. The needs to dupe voters and/or to keep the plan out of their hands are simply corollaries of that Arrow paradox. If this is true, then Hayek's argument was more sophisticated than many have realized, and it deserves more attention.

Finally, Shleifer and Vishny – as well as Lawson and Clark – 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.²⁰ 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.²¹

2. *The Hayek-Jewkes Argument in Brief*

Hayek and Jewkes argue that the problem with democratic socialism is not that the government officials' priorities will be wrong or that they will use their power with malicious intent. Their argument is not primarily that power corrupts. In contrast to Shleifer and Vishny, they argue that even a perfectly well-intentioned, benevolent, and altruistic government will nevertheless fail to accomplish the purposes of socialism because the political institutions of democracy are fundamentally incompatible with the economic goals of socialism. Therefore, Hayek and Jewkes sidestep some of 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. Thus, both Hayek and Jewkes on the one hand and Shleifer and Vishny on the other make economic criticisms of political institutions – in other words, they pursue the analysis of Public Choice – but they do so in quite different ways.

Peter Boettke (1995) has already demonstrated several Public Choice features of Hayek's (2007 [1944]) argument in the *Road to Serfdom*, so we shall briefly recapitulate his statements: several scholars argue that Hayek completely ignored Public Choice (Boettke 1995: 7). But Boettke (1995: 8) replies “the book set out to explicate how socialist ideas change the demands on democratic institutions and how these institutions are in turn transformed into instruments of totalitarian rule because of their inability to meet these changing demands in a manner consistent with democratic principles.” Hayek's contribution was the application of specifically Austrian economic theory to decision-making within non-market settings (Boettke 1995: 19). Such a project

clearly falls within the scope of Public Choice.²²

Hayek first argued that the socialist rejection of competition would unintentionally empower interest groups and encourage special pleading for protection (Boettke 1995: 10).²³ Thus, Hayek understood one of the central claims of modern Public Choice, the logic of concentrated benefits and dispersed costs (Boettke 1995: 10). Furthermore, Hayek's defense of the rule of law – that laws should be abstract and generally applicable to all – may be understood as a call for a legal rule which eliminates opportunities for interest groups to obtain special exemptions and concessions by special pleading (Boettke 1995: 10). Note that in Boettke's reading, Hayek's argument is very similar to Shleifer and Vishny's concerning rent-seeking.

Second, Hayek said, economic freedom and political freedom cannot be distinguished because there is no separate economic sector of life. Economics is the science concerning human action which chooses means in order to accomplish ends. Thus, economics concerns all areas of life, and economic liberties cannot be disentangled from any other aspect of life (Boettke 1995: 11).

Third, Boettke says (1995: 11f.), Hayek examined the institutional incentives facing those holding political power under socialism. Just as market production is guided by comparative advantage, so is political production. Under both market and political systems, production proceeds according to opportunity cost. But a political system will tend to reward those who are less than morally scrupulous about the use and abuse of political power. Socialism fails, not because a few “bad men” accidentally find themselves in power. On the contrary, it is the institutional incentives of a socialist political regime answer which explain “why the worst get on top” (Hayek 2007 [1944]: 157-170). The system of discretionary planning requires the use of authority, and this incentivizes those most willing to use authority with the fewest scruples. Notice here too that in Boettke's reading, Hayek's argument resembles that of Shleifer and Vishny and basic Public Choice.

Fourth, Hayek anticipated Arrow's Impossibility Theorem, which “could be reinterpreted as an application of Mises's impossibility thesis to non-market decision making via democratic voting” (Boettke 1995: 19). Just as Mises argued that a socialist planner could not economically calculate, a democratic socialist polity – said Hayek – could not “calculate” the will of the people. As is well known, the only solution to Arrow-type voting paradoxes is dictatorship. This underlies Hayek's criticism elsewhere of the political provision of public goods: what are the demand-revealing processes when goods are politically provided? (Boettke 1995: 20). Hayek did not ideologically assume market failures away, but he recognized that like the market process, the political process is imperfect as well – except that the political process does not engender the same incentives nor information as markets do to promote error detection and correction (Boettke 1995: 20). Unfortunately, at the time, “a naïve view of democratic governance dominated discourse . . . [t]he voting process unambiguously conveyed the necessary information” (Boettke 1995: 15), and critics could not understand Hayek's point (Boettke 1995: 13-18).

In summary, Boettke (1995) finds that Hayek anticipated at least three basic teachings of Public Choice:

the logic of collective action which enables special interests to obtain privileges, the fact that political behavior is conditioned by the institutional constraints and incentives of the office, and Arrow's Impossibility Theorem. The fourth feature which Boettke finds in Hayek, the impossibility of distinguishing between political and economic freedom, is crucial although it is not clear whether this should be considered an aspect of Public Choice or not. The remainder of this essay will expand on these features of Hayek's thought and discuss several more as well, and relate them all to the specific case of democratic socialism. In addition, we will show how John Jewkes joined Hayek in these arguments.

3. The Coercive, Illiberal Nature of Planning: Hayek and Jewkes on the Allocation of Labor under Socialism

The first problem with planning and socialism which we will discuss, is that all planning is necessarily coercive; it is impossible to plan the economy without planning individual people's lives. Planning necessarily requires making people's life decisions for them. As Hayek notes, many of the planners have failed to realize this fact. "The consolation our planners offer us is that this authoritarian direction will apply 'only' to economic matters" (Hayek 2007 [1944]: 124). But Hayek responds that this reply is based on "the erroneous belief that there are purely economic ends separate from the other ends of life" (Hayek 2007 [1944]: 125; cf. Boettke 1995: 11). Economics is simply the science of choosing those means which are most satisfactory for accomplishing given ends. In this sense, every aspect of life is economic in nature (Mises 1981 [1922]: 107). As physical beings, humans cannot accomplish any ends without the use of material means. For example, it is impossible to learn and obtain knowledge without access to physical books or physical classrooms. If the government is to plan the production of books and classrooms, then it must plan the terms and conditions on which people will be able to obtain knowledge. In response to Marx's statement that "in place of the government over persons comes the administration of things," Mises (1981 [1922]: 73) replies, "there can be no administration of goods which is not administration of men – i.e. the bending of one human will to another – and no direction of productive processes which is not the government over persons – i.e. domination of one human will by another." Therefore, Hayek states, economic planning raises the question of "whether it shall be we who decide what is more, and what is less, important for us, or whether this is to be decided by the planners" (Hayek 2007 [1944]: 126). "The authority directing all economic activity . . . would control the allocation of the limited means for all our ends" (Hayek 2007 [1944]: 126). "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends" (Hayek 2007 [1944]: 127).

But we do not wish to belabor this point too much in the abstract. Let us illustrate this principle with a concrete example: planning, consistently pursued, demands the coercive regimentation of labor; planning precludes freedom of one's occupation and even the place where one lives. As Hayek (2007 [1944]: 129) states, "If they want to plan, they must control the entry into the different trades and occupations." This illiberal implication follows, according to both Hayek and Jewkes, from the great difficulty of economically allocating

labor efficiently absent the price-system. 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 whose 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. Barring income inequality, the only conceivable solution is some sort of labor-rationing system, whereby the political system dictates by fiat who is to be employed where. But a system of compulsory, involuntary employment is hardly compatible with the aspirations of democratic socialism.²⁴ As Hayek wrote (1984b [1976]: 126),

In a society whose wealth rests on prompt adaptation to constantly changing circumstances,, the individual can be left free to choose the directions of his efforts only if rewards fluctuate with the value of the services he can contribute to the society's common pool of resources. If his income is politically determined, he loses not merely the incentive but also the possibility of deciding what he ought to do in the general interest. And if he cannot know himself what he must do to make his services valuable to his fellows, he must be commanded to do what is required.

Similarly, according to John Jewkes (1968)'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 (Jewkes 1968: 191),

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.²⁵

And this was not mere idle and unrealistic theorizing by Jewkes, for (Jewkes 1968: 191, 193):

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.

Central economic planning in Great Britain – had it been pursued consistently – would have required conscription and regimentation of all labor - corvée and serfdom . Indeed, the government did not shy away from this logical consequence for long. In 1947, the British Labour government renewed its wartime requisitioning powers by enacting the Control of Engagements Order which empowered the government to conscript labor for essential industries. As Hayek noted, merely “six months later [after the war] the same government found itself in peacetime forced to put the conscription of labor back on the statute book” (Hayek 2007 [1944]: 47).²⁶

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 will abuse their power or be insufficiently benevolent or lack proper incentives. No matter how benevolent the political officials are, and no matter how proper their incentives are, any thoroughgoing and successfully-implemented democratic socialism, say Hayek and Jewkes, must be totalitarian and authoritarian. If anything, the more sincere and disinterested the politicians are, the more thoroughly they will strive to implement the socialist plan without any regard for their own self-interest, and the more likely they will turn to regimentation of labor. It should not be surprising, therefore, that François-Noël (Gracchus) Babeuf, in his communistic scheme for France – sincerely intended to fulfill the democratic and libertarian aims of the French Revolution – proposed “to displace workers in accordance with national needs” (Talmon 1960: 239).²⁷

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.”

Not long before, in July 1945, Orwell had similarly stated in the *Partisan Review* that Britain “will be obliged to both coerce the miners” and that “post-war reconstruction . . . [would require] 'direction' of labour over a long period” (quoted in Farrant 2015: 176n43).²⁸ It is difficult to determine how democracy could successfully prevent socialism from turning tyrannical, if any form of egalitarian socialism necessarily requires compulsory labor. 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. If any economic plan is necessarily authoritarian and totalitarian by its very nature and essence, then democracy will do little to help.

Years after he wrote the *Road to Serfdom* (Hayek 2007 [1944]), Hayek stated that his argument in that book applied not only to central planning but also to the modern welfare state (Hayek 1984b [1976]: 119; cf. Farrant and McPhail (2009: 12, 15) contra Caldwell in Hayek 2007 [1944]: 30f.). Hayek's justification for this statement was his assertion that the welfare state, pursuing “social justice,” must rely on price-controls to fix the remuneration of labor, in order to ensure that every form of labor receives its “fair” due (Hayek 1984b [1976]: 120). It may be objected that in fact, no welfare state today fixes the prices of labor. But this does not refute Hayek's argument that *if* welfare states were to fix wages *then* we would wind up traveling along the road

to serfdom. The fact that welfare states today have wisely eschewed totalitarian controls is does not refute Hayek's prediction of what their effects would be.

Furthermore, notice that taxation of incomes is a form of price-control on labor. If the natural market rate for a given type of labor is \$100,000, then there is no difference between taxing that labor to the amount of \$30,000 versus fixing that labor at \$70,000 and leaving it un-taxed. The reason why progressive income taxes do not produce totalitarian outcomes, however, is that the governments of all welfare states today do not attempt to ensure that any particular kind of labor is done with any particular frequency or with any particular productive output. In other words, contemporary governments are content to manipulate the returns to different kinds of labor and then allow the market to decide how many people will occupy themselves in those various labors and how much output they will produce. In other words, governments have manipulated prices but they tolerate the market consequences of those manipulations. In other words, welfare states have eschewed any attempts to *plan*. That is why there are no evidently totalitarian consequences. But suppose the governments were to tax a given kind of labor and simultaneously insist that the employment and output in the taxed industry be precisely the same as it was before the tax was implemented. Similarly, suppose these governments were to tax a given kind of labor and also demand that employment and output in the corresponding industry satisfy some arbitrarily-determined figure (say, that there must be such-and-such a number of coal miners and such-and-such an output of coal). In other words, suppose that “fair” wage controls were imposed to ensure “social justice” at the same time that economic *planning* were attempted. This could not be accomplished without compulsion and forcible assignment of employment against the wills of those employed. No government may fix a tax upon a particular kind of labor nor fix its wage-rate *and* simultaneously fix a level of employment and output in the corresponding industry, without resort to *corvée*.

Strictly speaking, then government ownership or regulation of the means of production does not require equality of wages. Precisely because Lange envisioned differential wages and income inequality under market socialism, Lange (1938: 83) could state “[f]reedom of choice of occupation [is] assumed” under socialism and (Lange 1938: 72) that we can “assume that freedom of choice in consumption and freedom of choice of occupation are maintained” by socialism. Since Harrington (1978a: 443f.) and Schweickart (1992: 11) both approvingly cite Lange, it might be assumed that their schemes both presuppose freedom of choice of occupation as well. But in fact, if we read the entire relevant passage in Lange (1938: 83f.), we can readily see that this assumption would be false, precisely because Lange presupposed radical income inequality. Discussing the distribution of profits and interest to the citizens in the form of a social dividend, Lange (1938: 83f.) states,

Freedom of choice of occupation assumed, the distribution of the social dividend may affect the amount of services of labor offered to different industries. If certain occupations received a larger social dividend than others, labor would be diverted into the occupations receiving a larger dividend. Therefore, the distribution of the social dividend must be such as not to interfere

with the optimum distribution of labor services between the different industries and occupations. . . . Therefore, the social dividend must be distributed so as to have no influence whatsoever on the choice of occupation. The social dividend paid to an individual must be entirely independent of his choice of occupation.

Although Lange is discussing the distribution of firm dividends, not wages, his statement implicitly agrees with Hayek and Jewkes that the wage or income in any given industry determines how many people will choose to be employed in that industry. The government cannot arbitrarily determine incomes according to egalitarian standards of “fairness” and still obtain a predetermined pattern of production and employment. Freedom of choice of occupation requires that the government abstain from interfering with inequality of income. Assuming that the desired pattern of production is sacrosanct, the social dividend cannot be distributed in such a way as to reduce inequality because this would influence the choice of occupation. Wages and incomes must be permitted to be unequal from one industry to another. If a specific pattern of production is aimed for, then the government must allow wages to freely vary in order to attract precisely the right amount and kinds of labor to each industry. Contrariwise, if the government settles upon a policy of income equality, then it cannot aim for any particular pattern of productive output or distribution of labor across industries. This is the course which modern welfare states have taken: they have chosen to relatively equalize wages but permit production and employment to vary themselves, not according to any *plan*.

But it is hard to imagine why any socialist intent on planning, would desire government ownership of the means of production if inequality remained basically the same as it was under free-market capitalism. As Hayek (1984b [1976]: 123) says in response to Lange, a regime implementing market socialism

could do nothing to secure that the remuneration the the market gave to each participant would correspond to what the government regarded as socially just. Yet to achieve such a so-called 'just' remuneration was, after all, the whole intended purpose of the socialist revolution!

Let us not forget that the incomes of business executives and managers and the allocation of *their labor* are all regulated by the same economic principles as the incomes and allocation of all other kinds of labor. Managerial and executive *labor* must be allocated as well, and there seems to be no reason why the market-clearing rate for their labor ought to be different under socialism than under capitalism. So according to Lange's market socialism, roughly the same inequality must prevail under socialism as under capitalism. This clearly will not satisfy many socialists, who will insist on a more thoroughly implemented scheme of (approximate) equality of income. The recent reception of Thomas Piketty (2014 [2013])'s *Capital in the Twenty-First Century* should make it clear that Lange's endorsement of radical income inequality will not tend to be shared by many socialists.

It is also important to note that Lange's statement that “The social dividend paid to an individual must be entirely independent of his choice of occupation” is not entirely accurate. This implies that a per-capita

egalitarian distribution of the social dividend – an exactly equal number of dollars per person – would be sufficient to avoid affecting labor incentives. But this is not true because incentives and values are always marginal. A \$100 dividend given to someone who earns \$100,000 is not the same as a \$100 dividend given to someone who earns only \$50,000. Value is marginal, meaning the value of an objectively constant thing will subjectively vary, depending on what it is being compared to. Whether a person chooses to take one job at one wage or another job at another wage will depend on the size of the social dividend. Suppose a person is earning \$50,000 and they know that they can earn twice as much money by working twice as hard. They may find this worthwhile. But suppose the social dividend is \$20,000 per year, independent of a person's occupation. Then the choice is not \$50,000 versus \$100,000, but instead, it is \$70,000 versus \$120,000. And now the person may not regard it worthwhile to work twice as hard to earn \$120,000 instead of \$70,000. The income and substitution effects of labor versus leisure are complex, and here is not the place to review Slutsky-Hicks compensated demand curves. But the point is that because value is marginal, an egalitarian distribution of the social dividend *will* affect incentives for labor. The social dividend must be distributed unequally in such a way that incentives will be the same as if it were never distributed at all. It is difficult – probably impossible – to know how to properly distribute the social dividend unequally in such a way as to leave incentives unaffected. The challenge of determining how to properly distribute the social dividend creates an entirely new problem which Lange's market socialism never addressed. Alternatively, Lange could specify an egalitarian distribution of the social dividend and then allow wages to vary until the combination of unequal wages plus egalitarian social dividend produced an equilibrium pattern of employment. The final income package combining unequal wages with equal social dividend would still have to be sufficiently non-egalitarian to produce the desired *planned* pattern of productive output. To the extent that the egalitarian social dividend reduced inequality, wages would have to become even more unequal than before so that the final income package of wages plus dividend produced precisely the right amount of inequality to incentive the desired pattern of productive output. It is impossible to promote income equality under socialism while simultaneously seeking to achieve a given *planned* pattern of production and output.

Harrington (1978a: 443f.) approvingly cites Lange (1938) and yet he also declares (1978a: 445) that “The wage structure, then, would be infinitely more progressive than it is within capitalism.” He does *not* seem to understand – as Lange *did* – that a progressive wage structure is inconsistent with a targeted pattern of consumption, production, and employment. Harrington (1978a: 446) states that “differentials related to skill and output . . . would be tolerated, precisely as an incentive for individuals and enterprises to produce more efficiently,” but he is not aware that these differentials may have to be quite as large as they already are under capitalism. He advocates (Harrington 1978a: 446) “an egalitarian tax policy [that] would severely limit the differentials and' work toward a redistribution of income and wealth,” but he fails to understand that an egalitarian tax policy would completely negate the wage differentials he had advocated just a moment earlier. It

makes no sense to provide wage surpluses as rewards and then to turn right around and tax them away again. Then Harrington (1978a: 446) says “a part of the wage would be received collectively, as a social dividend from heightened productivity,” but this would entail precisely the same problems as it does for Lange, which we have shown. In the end, Harrington cannot have his cake and eat it too; he cannot have differential wages *and* egalitarian redistribution *and* a targeted pattern of consumption, production, and employment. One cannot dictate both prices *and* economic outcomes without resort to direct physical coercion. If the government fixes wages and taxes so as to achieve economic equality, then it cannot target a specifically patterned economic outcome. If the government seeks to achieve both equality and this predetermined productive output, this is possible only through the use of *corvée* and compulsory direction of employment.

In summary: for a socialist government to be authentically socialist – for it to consistently and completely plan the economy and maintain equality of wages – 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, 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. One solution is, of course, to allow income inequality so that labor is allocated by wage differentials, but this would defeat the egalitarian aims of socialism.

It will be seen that this phenomenon is – as we intimated at the beginning of this section – really but a specific example of the more general impossibility of separating political from economic freedom (Lawson and Clark 2010; Boettke 1995: 10f.; Rothbard 1977: 25).²⁹ As Milton Friedman notes (1962: 7), “the advocacy of ‘democratic socialism’ [rests on the belief that] . . . politics and economics are separate and largely unconnected . . . and that any kind of political arrangements can be combined with any kind of economic arrangements.” For example, Friedman points out (1962: 16-18), the freedom of speech is difficult to maintain when the government owns all the printing presses and meeting houses (cf. Rothbard 1977: 26). Even were the government to decide to subsidize subversive dissent – as Michael Harrington advocates (1978a: 443, 1978b: 357; cf. Lavoie 1985a: 139) – the government would have to decide whose dissent was legitimate and worthy of subsidy. The government could not subsidize all dissent for then countless individuals would choose to become professional dissenters, and the quantity of dissent supplied would approach infinity (Friedman 1962: 18). But if the government can only afford to subsidize some dissent and not others, and if there no private source of credit or funding for dissenters, then the democratic socialist government has an absolute power over deciding whose dissent will be given a platform. When we admit the democratic socialist government is to have the power to

decide whose dissent is legitimate, then we end up with the very same problem of totalitarianism which democratic socialism was meant to avoid in the first place.³⁰

But we have chosen to emphasize the involuntary nature of labor under socialism in particular, rather than the more general impossibility of individual freedom under socialism, however because with the former, the problem is so much more stark. There should be an immediacy to the problem of labor which even the problem of speech might not possess: if socialism requires regimenting labor, what hope for any other kind of freedom can there be? Slavery is the paradigmatic denial of individual freedom, and yet it is precisely slavery – or some degree of slavery – in the most literal sense of compelled labor, which socialism requires for its effective operation. Most citizens do not publish newspaper editorials very often, so the denial of the freedom of speech may not mean much for them, but there is no citizen who is not terrified by the prospect of slavery.

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” (quoted in Trygve J. B. Hoff 1981: 267; cf. Hayek 1948: 158). Similarly, the socialist H. D. Dickinson remarked that “even if a socialist planner wished to realize freedom he could not do so and remain a planner” (quoted in Hayek 1948: 206). This fact – that socialism depends on command – is related to Hayek's argument that the rule-of-law could not be maintained under socialism (Hayek (2007 [1944]: 112-123). According to Hayek, the rule-of-law entails that everyone is governed by general rules which apply equally to everyone and which do not single anybody out. People should be treated impartially and the laws should provide a general framework within which people can plan their own lives. But planning by command necessarily requires singling some kinds of people or some kinds of activities to be treated radically different than others. People's lives must be planned for them, and the government's plans may radically change from one moment to the next according to expediency. A construction worker might suddenly be ordered to become a coal miner if the government decides it needs more coal than it previously expected.

Robert Heilbroner was most explicit of all concerning socialism's reliance on command. According to him (1978a: 345),

If tradition cannot, and the market system should not, underpin the socialist order, we are left with some form of command as the necessary means for securing its continuance and adaptation. Indeed, that is what planning means. Command by planning need not, of course, be totalitarian. But an aspect of authoritarianism resides inextricably in all planning systems.³¹ A plan is meaningless if it is not carried out, or if it can be ignored or defied at will. Some form of penalty must assure the necessary degree of compliance. Compliance need not be total, and penalties need not be Draconian. Incentives may succeed where punishments fail. But planning will not assure a socialist society of a capacity to endure or adapt unless the planning is a system of effective *command*. From that conclusion I see no escape.

Heilbroner concludes (1978a: 348) that, “What is important, in trying to think about socialism, is to resist the delusion that history is so soft and indeterminate that we can have a socialist cake with bourgeois icing.” For this reason, Heilbroner said (1978a: 347), “The rights of individuals to their Millian liberties . . . [are] directly opposed to the basic social commitment to a deliberately embraced collective moral goal.” Heilbroner would later add (1986: 126) that “democratic liberties have not yet appeared, except fleetingly, in any nation that has declared itself to be fundamentally anticapitalist.”³²

4. Democracy as a Means vs. an End, or: Liberal vs. Illiberal Democracy

There is another reason why democratic socialism must inevitably fail to avert the totalitarian potential of socialism. This is based on the understanding that democracy is but a means to an end. As economists emphasize, some means are more appropriate than others to achieve given ends, and some means are completely inappropriate for certain 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.)³³

According to Hayek, in other words, democracy is but a means to the end of limiting power.³⁴ Some of the advocates of democratic socialism share this conception. For example Lavoie (1985a: 137) quotes Alperovitz and Faux's statement that we need to develop “new democratic arrangements to avoid the dangers of centralized bureaucratic power” and John Buell's argument that “without it [democracy], that planning that is surely coming in one form or another carry a heavy measure of repression.” These advocates of democracy socialism agree with Hayek that a critical function of democracy is the limitation of the exercise of government 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. One – democratic limitation or socialist absolutism – must be subordinated to 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 socialist government would necessarily be unlimited. An authentically socialist democratic regime 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.

One might reply that in fact, democracy is *not* merely a means to an end; democracy is *not* merely a method by which to limit political power. Instead, democracy might be conceived as an end unto itself. Coser and Howe (1954: 132) are right to argue that

the distinction made in English political theory, but neglected by Marxists, between democracy as an expression of popular sovereignty [sic] and democracy as a pattern of government in which the rights of minority groups are especially defended, needs to be taken seriously.

Michael Walzer comes close to the conception of democracy as an expression of popular sovereignty rather than as a means of protecting minorities, arguing that value inheres not in the socialist outcomes but in the democratic process itself (Walzer 2010, 1978: 358). This means that for Walzer, democracy is not a means but an end. Several other advocates of democratic socialism seem to agree, saying for example that “the democratic process means allowing people to make direct input into decisions that affect their lives” (Lavoie 1985a: 127 quoting Tom Hayden) and that we need “active popular participation in the day-to-day running of the basic institutions of the economy and the society” (Lavoie 1985a: 127 quoting Barry Bluestone and Bennett Harrison). In this conception, democracy is not merely a means for obtaining the good – such as by restraining governmental abuse of power to protect minorities – but rather, democracy is itself fundamentally constitutive of the good. The good is good *because* it is democratic. It is not the outcomes or benefits of democracy which are good, but democracy is itself good regardless of its consequences.³⁵

But when the good is defined as the democratic consensus, there is no room left for any constitutional restraints on the exercise of democratic power. This may quickly produce an illiberal democracy where there are no constitutional limits on power (Percy 1955: 61, Röpke 1998 [1957]: 66, 68). Individual rights and freedoms will be routinely disregarded. As Hayek wrote elsewhere (1984a [1976]: 353),

Thus arose unlimited democracy . . . [from the belief] that the control of government by elected representatives of the majority made any other checks on the powers of government unnecessary, so that all the various constitutional safeguards which had been developed in the course of time could be dispensed with.

Similarly, Mises wrote (1981 [1922]: 64f.),

Grave injury has been done to the concept of democracy by those who, exaggerating the natural law notion of sovereignty, conceived it as limitless rule of the *volonté générale* (general will). There is really no essential difference between the unlimited power of the democratic state and the unlimited power of the autocrat. The idea that carries away our demagogues and their supporters, the idea that the state can do whatever it wishes, and that nothing should resist the will of the sovereign people, has done more evil perhaps than the caesar-mania of degenerate princelings. Both have the same origin in the notion of a state based purely on political might.

If there is any constitutional restriction permitted by absolute democracy, it is that the people are forbidden to constrain their own popular sovereignty. The one constitutional limitation is that there cannot be any limitations on the exercise of democracy power even if the people desire them (cf. Talmon 1960: 205, 236); the one rule is that there are no rules.

This illiberal aspect of absolute democracy stands in contrast to liberal, limited democracy. According to Hague and Harrop (2007: 49),

[L]iberal democracy is a compromise. Specifically, it seeks to integrate the authority of democratic governments with simultaneous limits on their scope. By definition, liberal democracy is limited government. ... Elected rulers are subject to constitutions that usually include a statement of individual rights. ... In these respects, a liberal democracy is democracy disarmed.

Hayek of course would have endorsed limited democracy, for he understood democracy as a means by which to limit the exercise of political power. For him, democracy is only a means to facilitate the achievement of the good society but it is not constitutive of the good itself. On another occasion, Hayek wrote (1984a [1976]: 354),³⁶

I must confess to preferring non-democratic government under the law to unlimited (and therefore essentially lawless) democratic government. Government under the law seems to me to be the higher value, which it was once hoped that democratic watch-dogs would preserve.

A similar preference for the rule-of-law over popular sovereignty once animated American political culture as well. As Edward S. Corwin (1955: 4) says of America's founding philosophy:

The attribution of supremacy to the Constitution on the ground solely of its rootage in popular will represents, however, a comparatively late outgrowth of American constitutional theory. Earlier the supremacy accorded to constitutions was ascribed less to their putative source than to their supposed content, to their embodiment of an essential and unchanging justice. . . . There are, it is predicated, certain principles of right and justice which are entitled to prevail of their own intrinsic excellence, all together regardless of the attitude of those who wield the physical resources of the community.

This reinforces Hague and Harrop's (2007: 49), argument that the United States represents "the most liberal (and perhaps the least democratic) of all the liberal democracies." According to the classical liberal conception, the popular will as such has no normative value. What classical liberalism demanded was justice and the protection of individual rights by whichever means were most expedient. Democracy had at most instrumental value as a means for effecting justice and peace, but it was justice and peace, not democracy, that were sought for their own sakes.

This classical liberal conception is incompatible with socialism. Democratic socialism appears to necessarily embrace a majoritarian, unlimited, absolutist conception of democracy wherein the democratic

process is constitutive of the good; the good is good because it is democratic. But such a conception has little place for constitutional limits on power or for the protection of civil liberties, and it quickly slides into unlimited, illiberal democracy. If the good is whatever the democratic process decides upon, then there is nothing to protect minority or individual rights, for any constitutional protections would subvert absolute democracy. If 51% of the people decide to abolish the freedom of speech of 49% of the people, then any constitutional right to free speech would undermine popular sovereignty. If the will of the people is absolutely sovereign, then nothing, not even constitutional guarantees of individual liberty, can be allowed to obstruct that democratic will. If such constitutional guarantees do exist, then it is the people's rights – not their democratic will – which is sovereign. As Hague and Harrop say (2007: 49), “Liberal democracy is a settlement between individual liberty and collective politics,” but under democratic socialism, there obviously – by definition – cannot be anything to dilute the purity of collective politics. Talmon's (1960: 112) gloss on the French Revolution applies here as well:

The idea of democracy implied here contains no reference to the right of opposition, to individual liberties or toleration, and clearly revives the ancient Greek view of democracy as the victory of the mass of the under-privileged over the privileged minority, and the suppression of the latter by the former.

Absolute sovereignty can produce an illiberal democracy by yet another route as well. It may be, not that 51% of the people vote with the express intention to violate the rights of 49%, but instead, the majority of the people may vote for a demagogic populist who promises to protect and enrich the people provided only that they hand over to him authoritarian power. This authoritarian populist will tend to impose limitations on the freedom of speech in order to protect his own regime, and he will often work to ensure that the courts and judges are not independent of his will. Such a democracy will be illiberal, not because the people directly voted for illiberal policies which deliberately intended to plunder minorities at the expense of the majority, but instead, because the people used their sovereignty to elect a populist who proceeded to illiberally subject the press and the courts to his private will. The dictator may use defamation laws to silence any criticism of him. As Jacob Talmon notes (1960: 104f.),

The ancients have already understood, and indeed witnessed, the phenomenon of extreme democracy leading straight to personal tyranny. Modern experience has added one link, the role of the totalitarian-democratic vanguard in a plebiscitary régime, posing as the people. The fervour and ceaseless activity of the believers, on the one hand, and intimidation practised on opponents and the lukewarm, on the other, are the instruments by which the desired “general will” is made to appear as the will of all. Only one voice is heard, and it is voiced with such an insistence, vehemence, self-righteous fervour and a tone of menace that all other voices are drowned, cowed, and silenced.

Such things have often happened in recent decades in Latin America, for example, “with the urban poor seeking

salvation through a strong, populist leader” (Hague and Harrop 2007: 52). But the doctrine of absolute sovereignty cannot object to this populist form of illiberal democracy either. For after all, the people *did* elect this populist. Furthermore, when the populist dictator proceeds to limit the freedom of speech, it is impossible to object that this is illegitimate. After all, popular sovereignty excludes constitutional limitations. Therefore, it cannot be said that there is a constitutional guarantee of liberty of speech which the dictator is violating. Similarly, it cannot be objected that the courts ought to be protecting constitutional liberties against the dictator, and striking down his policies as violations of the rights of the people, for there cannot be such constitutional liberties and rights according to the doctrine of absolute democratic sovereignty. Hague and Harrop (2007: 51), speaking of illiberal democracy in general, state that “[b]ecause the judiciary in an illiberal democracy is under-resourced, it is unable to enforce the individual rights documented in the constitution.” But unlimited popular sovereignty cannot tolerate the enumeration of any individual rights to begin with. It is not merely that the courts cannot enforce rights, but instead, rights cannot be specified at all, for any such enumeration would supersede democracy and illegitimately constrain the sovereign popular will. There cannot be anything beyond the will of the people to which the courts can appeal. It is the will of the people which is sovereign above all else. And since the dictator represents the will of the people, no court – no matter how independent – can appeal to any normative principle above the dictator's will. If there were any such normative principle, then sovereignty would necessarily be located not in the will of the people but in that normative principle which has been placed above the will of the people.

Under democratic socialism as well, as long as democracy is conceived in this unlimited fashion, then there no normative principles to appeal to above the sovereign popular will. If the government owns the printing presses and imposes selective censorship, what principle can anyone appeal to against this? It is the will of the people which is sovereign, not any individual liberties or rights. Whether the majority votes to oppress the minority, or whether the people elect an authoritarian populist, there is no higher principle to which one can appeal to object to the government's policies. But then democratic socialism cannot promise to be any less despotic and tyrannical than non-democratic socialism. Distinguishing between “liberal democracy of the Anglo-Saxon and Swiss kind on the one hand and the Jacobin brand of democracy on the other,” Wilhelm Röpke (1998 [1957]: 66) notes that the latter precludes the “metademocratic” constitutional limits imposed by the former (Röpke 1998 [1957]: 68). Therefore, he says (Röpke 1998 [1957]: 69),

Democracy is, in the long run, compatible with freedom only on condition that all, or at least most, voters are agreed that certain supreme norms and principles of public life and economic order must remain outside the sphere of democratic decisions.

But democratic socialism necessarily rests on the illiberal principle that *nothing* is outside the sphere of democratic decisions.

By any conception of democracy, then, democratic socialism is incoherent. If democracy is a means to

limit power, then it is incompatible with the unlimited power which socialism necessarily requires for its implementation. And if democracy is an end unto itself, constitutive of the good, then it cannot tolerate constitutional limits on democratic or socialist power which restrict the exercise of socialism or democracy in order to protect individual rights. If democracy is itself constitutive of the good, then illiberal outcomes of democracy must be accepted as necessarily good. In either case, democratic socialism is unable to promise that individual rights will be protected.

But the democratic socialists have taken little notice of this problem. As Lavoie (1985a: 137) notes in his survey of their literature, “[i]n all these articles and books there is no coherent argument about why we should expect the political changes implicit in national planning somehow not to lead to a drastic centralization of political and economic power. Instead, there is simply a strong emphasis on the virtues of democratic or local or collective decision-making.”

5. The Impossibility of Agreeing on a Plan

As if this were not enough, there is in fact yet another another problem with democratic socialism. As Hayek argued (2007 [1944]: 106f.),

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 separate plans do not make a planned whole.

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, defeating the purpose of socialism. David Schweickart, an advocate of economic democracy, admits the problem as well, saying (1992: 23),

Although the society is democratic, it would not be feasible to attempt a popular vote on each investment project. Not only does the sheer number of projects render such a procedure unworkable, but it would negate a major benefit of socialized investment: the conscious adoption of a reasonably coordinated, coherent set of investment priorities

Hayek and Schweickart seem to agree: a transitory elected government composed of disagreeing factions cannot produce a coherent, consistent plan. No consensus will be forthcoming where “there exists no agreed view on

what ought to be done” (Hayek 2007 [1944]: 101).

Democracy may be workable for the management and regulation of a free-market economy simply because the government's activities are so restricted. A “night-watchman” state has far less to do than a socialist state. In other words, the smaller the scope of government, the simpler the task of achieving democratic consensus. But socialism dramatically expands the scope of government to embrace all aspects of life whatsoever. Nothing approaching a consensus can be obtained when the government's scope is so expanded to embrace all aspects of life. Whereas markets promote diversity and pluralism, governance demands uniformity. The more government supplants markets, the more uniformity replaces diversity. Greater reliance on government means that people cannot be allowed to go their own way, but more and more people must somehow produce an agreement or consensus on more and more subjects. “[T]he 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” (Hayek 2007 [1944]: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” (Hayek 2007 [1944]: 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” (Hayek 2007 [1944]: 103).³⁷ The problem is that under socialism (Hayek 2007 [1944]: 104), 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.

Indeed, John Jewkes shows that the central economic plans of Britain's Labour and Conservative parties were all mutually-contradictory (Jewkes 1968: 80-96, 1978: 61-76). Everyone agreed they wanted planning but nobody agreed what the plan should be. 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 (1968: 133; cf. *ibid.* 218):

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.

And so (to quote a statement made in an unrelated context: “Thresher” 174) the product of democratic socialism will be “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.” 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.”

Interestingly, Michael Harrington seems to have caught a glimpse of this problem, saying (1978: 443),
[D]ebates over priorities . . . would be resolved by a democratic process in which parties would compete with one another over conflicting programs. That, however, would not mean a mere extension of present-day “pluralist” theory, which ignores the way formal democratic rights, precious as they are, can be subverted by economic and social inequalities.

But Harrington does not explain how democratic socialism would avoid the pitfalls of democratic pluralism. He even admits (1978: 446), “I am positing the necessity of conflict among organizations that would interpret the common good in terms of the particular good of different strata of the citizenry.” After this admission, it is not clear what there is left of democratic socialism to salvage.

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

In some respects, the foregoing analysis by Hayek and Jewkes is similar to that of Shleifer and Vishny, but there are 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 standard Public Choice literature, they argue that under market socialism, the government will cater to well-organized minority interests rather than promote the public good, creating economic inefficiencies (Shleifer and Vishny 1994: 171f.).³⁸ They concede that the same problem exists under democratic capitalism, but they claim that the inefficiencies would be greater under democratic socialism (Shleifer and Vishny 1994: 172-174). Similarly, Don Lavoie (1985a: 131) notes that many advocates of democratic socialism are rightly critical of rent-seeking and special-interest privileges but he avers this problem “is likely to be worsened in a regime in which a single national planning office is given greater governmental power.”

Contrary to the claim that Hayek was ignorant of Public Choice arguments such as these, Peter Boettke has noted (1995: 10) that Hayek also understood the logic of “concentrated benefits, dispersed costs.” Furthermore, Hayek realized that this issue of special-interest lobbying and privilege is related to our previously discussed problem of unlimited, majoritarian democracy. Absolute democracy does not always or even necessarily usually result in the majority's oppressing the minority. Instead, it sometimes results in the very opposite, where minorities log-roll together to obtain special privileges for themselves. Hayek wrote (1984b [1976]: 125), “Omnipotent democracy indeed leads of necessity to a kind of socialism, but to a socialism which nobody foresaw or probably wanted . . . [operating on] the power of those persons or groups [in the minority] to extort special benefits from the government [of the majority].” Furthermore, Hayek said (1984a [1976]: 356f.),

In such a democratically elected assembly with unlimited power to confer special benefits and impose special burdens on particular groups, a majority can be formed only by buying the

support of numerous special interests, through granting them such benefits at the expense of a minority. . . . It is the result of this bargaining process which is dignified as the 'will of the majority.' . . . [N]o genuine agreement among a majority exists, but for which the support of a majority has been obtained by deals. . . . In an omnipotent assembly which is concerned mainly with particulars and not with principles, majorities are therefore not based on agreement of opinions, but are formed by aggregations of special interests mutually assisting each other.

Hayek's argument poses a special challenge to the theory of deliberative democracy, according to which (Hague and Harrop 2007: 46f.)

we should view democracy as a method of communication. ... In an open debate arguments based on private interests are soon recognized and discounted; public reason involves appeal to the public good. ... In such conditions, a consensus should emerge about what is truly in the public interest, with reason triumphing over interests.

This theory presumes that majorities *are* “based on agreement of opinions . . . [whereas in fact, they] are formed by aggregations of special interests mutually assisting each other” (Hayek 1984a [1976]: 357). Hague and Harrop (2007: 47) incisively point out that “few advocates of deliberative democracy offer specific guidance on institutional arrangements to secure their objective.”

However, there is an important nuance in Hayek's and Jewkes's argument which the foregoing analysis omits, extending beyond the logic of interest group privileges and rent-seeking. Unlike Shleifer and Vishny, Hayek and Jewkes do not merely argue that interest group lobbying will lead to more economic inefficiency. Instead, Hayek's and Jewkes's argument is more fundamental: the outcome of interest group lobbying at all is fundamentally at odds with the very essence and intention of socialism. Central economic planning only makes sense if there is a unitary, consistent, coherent central plan. The very existence of conflicting interest groups which influence government, regardless of the magnitude of the inefficiency they engender, defeats the very purpose of socialism.

One of the 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. 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. Many socialists were concerned not only with inequality and poverty but also with the fact that the unplanned spontaneous order of the market economy seemed irrational and inscrutable. It was unjust that rational human beings had to obey irrational price signals. Only socialism – the conscious, central direction of the economy – would allow man to finally live as *man* and not animal, guiding his own destiny, living rationally according to his own will. The anarchy of production was an existential injustice which made a mockery of humankind, as Engels made clear in *Socialism: Utopian and Scientific* (Engels 1892 [1890]: ch. 3):

But when once [the] nature [economic and productive forces are] understood, they can, in the hands of the producers working together, be transformed from master demons into willing servants. . . . [We will] subject them more and more to our own will, and by means of them to reach our own ends. . . . With the seizing of the means of production by society, production of commodities is done away with, and, simultaneously, the mastery of the product over the producer. Anarchy in social production is replaced by systematic, definite organization. The struggle for individual existence disappears. Then, for the first time, man, in a certain sense, is finally marked off from the rest of the animal kingdom, and emerges from mere animal conditions of existence into really human ones. The whole sphere of the conditions of life which environ man, and which have hitherto ruled man, now comes under the dominion and control of man, who for the first time becomes the real, conscious lord of nature, because he has now become master of his own social organization. The laws of his own social action, hitherto standing face-to-face with man as laws of Nature foreign to, and dominating him, will then be used with full understanding, and so mastered by him. Man's own social organization, hitherto confronting him as a necessity imposed by Nature and history, now becomes the result of his own free action. The extraneous objective forces that have, hitherto, governed history, pass under the control of man himself. Only from that time will man himself, more and more consciously, make his own history — only from that time will the social causes set in movement by him have, in the main and in a constantly growing measure, the results intended by him. It is the ascent of man from the kingdom of necessity to the kingdom of freedom.

For socialists, abolishing the anarchy of production took on cosmic importance. It was not merely about achieving social justice. It was about freeing mankind from an animal existence and finally letting it live as human beings. The abolition of capitalism meant mankind would be free to fulfill its destiny as rational beings. As David Ramsay Steele (1992: 39-43), this abhorrence to the anarchy of production is related to the critique of commodity fetishism. “For Marx, commodity fetishism is something which always arises automatically from the fact that the market is unplanned” (Steele 1992: 40). Steele (1992: 41) argues that for Marx, this is more important than material inequality:

It is this absence of control by human beings of their individual and collective destinies which is the true source of the pathos of *Capital*. Readers impressed primarily by the documented physical deprivation and squalor have read it superficially. *Capital* is a saga of the mysterious, macabre adventures that befall people who have lost conscious control of their collective lives.

But, Steele (1992: 43), “Marx never considers that the fetishism of commodities maybe no odder than the fetishism of committees.”

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 that interest group lobbying will engender economic inefficiency, but conceivably, a socialist could be willing to tolerate greater economic inefficiency if this maximized other, more important goals, such as income equality. In fact, properly understood, this would not entail economic inefficiency at all, because efficiency means the satisfaction of one's goals at least cost. If one's goal is income equality, then it may be efficient to sacrifice wealth maximization in favor of equality. In rent-seeking and the conferral of privileges for special interests somehow promoted equality, then this might actually be efficient. But according to Hayek and Jewkes, interest groups would produce not merely economic inefficiency but directionless and incoherent anarchy. Similarly, Lavoie (1985a: 161) says about the democratic socialists that, "To the extent that they insist on genuinely decentralized decision-making they are proposing the arbitrary and uncoordinated injection of contradictory policies by all levels and departments of government. In other words they have a prescription for chaos, not rational planning."

If Hayek and Jewkes are correct, it is not merely that socialism is inefficient, as Shleifer and Vishny claim. Instead, socialism utterly fails its aspiration to enable man to live according to reason. The existence of rent-seeking under socialism means that mankind will fail to elevate itself beyond the animal reliance on the forces of nature. If socialism means chaotic jockeying among interest groups with an irrational, indeterminate outcome, then man is still a slave to forces beyond his control. The inconvenience of economic inefficiency pales against the cosmic injustice of the anarchy of production which would remain unresolved under socialism.

Whereas Shleifer and Vishny rely on Mancur Olson (1965) and Gary Becker (1983) for their model of regulation, Hayek's and Jewkes's theory of incoherence and instability of decision-making under democratic socialism appears to be an example of the general problem of Arrow's Impossibility Theorem (Boettke and Leeson 2002, Boettke 1995: 19). 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. 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). 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. The wider the scope of government, and the more authority democratic institutions are entrusted with, the more likely an Arrow paradox is to occur. The wider the scope of government, the more likely one will have to resort to dictatorship to guarantee rational governance.

The Arrow theorem poses a grave dilemma for democratic socialism. What socialism fundamentally aims to accomplish is the transformation of society from what Michael Oakeshott (1975) called a "civil association" of shared means – such as private property and the rule-of-law – intended to enable all its members

to pursue their own happiness as they individually define it for themselves, into an “enterprise association” of a single set of shared ends common to all members of society. It is doubtful whether this goal is morally desirable or whether it is compatible with individual freedom, for the rule-of-law as Hayek understood it can exist only in what Oakeshott called a civic association (Capaldi and Lloyd 2011: xxiii). But even if – for the sake of argument – we assume that this transformation of society into an enterprise association is compatible with liberty and individual rights, the fact is that the Arrow paradox means that it is impossible for democratic institutions to successfully accomplish this transformation. Democratic institutions, subject to the Arrow paradox, are unable to translate diverse individual ends into a single set of shared ends. This is not so damaging for capitalistic or market-based institutions, because these have the more modest purpose of maintaining society as a mere civic association. Since the goal of such institutions is not to unite society behind one single set of ends, their effectiveness is not undermined as much by the Arrow paradox. But because democratic socialism intends to unite society behind some single set of shared ends and to transform society into an enterprise association, the Arrow paradox is particularly fatal to democratic socialism. Only dictatorship is consistently capable of accomplishing socialism's call to transform society from a civic to an enterprise association.

Similarly, Hayek and Jewkes do not merely say 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. Democratic socialism cannot work because there is no way to deduce societal preferences or the one and only “general will.” Just as Mises showed that socialism cannot economically calculate the optimal production decisions, likewise, Hayek, Jewkes, and Arrow showed that neither can socialism “calculate” the will of the people or the optimal political policy without resorting to dictatorship. If we interpret Hayek's argument as a form of the Arrow theorem, then we can understand his claim that the chaos and incoherency of democratic economic planning will tend to conclude with the people demanding the appointment of a dictator who can bypass the legislature and finally “get things done.”

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. Arrow's Impossibility Theorem states that one may eliminate paradoxes only at the cost of dictatorship and that one may avoid dictatorship only at the cost of suffering democratic paradoxes. This undermines the “naive view of democratic governance [which] dominated discourse” at the time of Hayek and Jewkes and refutes the notion that “[t]he voting process unambiguously conveyed the necessary information” (Boettke 1995: 15).

7. What Happens in the Next Election?

Now, let us suppose that somehow, against all odds, a democratic socialist government has succeeded in

planning the economy without resorting to any authoritarianism or dictatorship. There is one crucial fact which the democratic socialists appear to have neglected: democracy entails periodic elections. We certainly cannot assume the democratic socialists will always win. So what happens if during the next election, the people vote 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 Jewkes (1968: 166, 152, 166) 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.

And so, said Jewkes (1968: 152, 166f.), 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.”

In fact, some of the advocates of democratic socialism themselves did not shy away from this anti-democratic conclusion. As Hayek (2007 [1944]: 105) noted:

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.

And further (Hayek 2007 [1944]: 105n4),

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”!

The problem is especially severe for Michael Walzer (1978: 358, 2010) who, as we have seen, equates democratic socialism – or “socialism-in-the-making” – with the democratic process. What happens if the people vote for capitalism or laissez-faire? Or what if they vote for fascism? Is this still socialism? And we already saw that absolute, unlimited democracy allows the people to elect an authoritarian despot who is unencumbered by any constitutional restrictions on the exercise of his power. In general, the coherency and consistency of any socialist plan is threatened by unpredictable political changes, and democracy does nothing less than to institutionalize and systematize such unpredictability.

Robert A. Dahl's (1985) defense of workplace democracy suffers from a similar dilemma. As Mayer (2001: 230) notes, according to Dahl, “The fact that [non-democratic workplace management] is sanctioned today by majority rule and majority opinion is no justification, for moral rights cannot legitimately be suspended by a show of hands.” So apparently, democracy is to be the ruling concept, except when the people democratically reject democracy. Then democracy is invalid. The people must have democracy even they democratically declare that they do not want it (cf. Talmon 1960: 205, 236). The liberal conception – which we have discussed earlier – that democracy is subordinate to the protection of individual rights – and that popular sovereignty is not unlimited – is strangely invoked just once: if the people vote to reject unlimited popular sovereignty, then their vote is nugatory because the people have a right to unlimited sovereignty which they are not allowed to democratically reject. Heads, Dahl wins; tails, the people lose.

These considerations suggest that any attempt to implement democratic socialism may wind up traveling back down the road paved by Robespierre's Terror during the French Revolution. Green (1986)'s review of Dahl's (1985) advocacy of compulsory workplace democracy is revealing: the reason “why historically men came to demand liberty, or limited government . . . was because centuries of experience had taught that governments which set out to create the good life for their people ended up by forcing *one* conception of the good life on them.” As Jacob Talmon (1960) shows, the followers of Rousseau really did believe in individual liberty and human rights. The failure of the French Revolution had nothing to do with with a disregard for liberal individualism. Instead, Talmon argues, the problem was that the French *philosophes* assumed that there was *one* natural order which best accorded with human nature, and they were confident that this natural order was a self-evident, Cartesian truth (cf. Hayek 1948: 1-32). Rousseau and Robespierre were sure that majoritarian democracy would unerringly result in a unanimous discovery and ratification of the General Will. Because the truth was so obvious, they simply could not conceive of the possibility that factions and disagreements might persist under democracy. When not everyone agreed with Robespierre on what the General Will was – and the truth was, remember, self-evident – the only conclusion he could draw was that some people were simply evil or stupid. In such a case, it was consistent with human rights and liberties to follow Rousseau's counsel to “force

people to be free” – to force people to live in accordance with the self-evidently true and best lifestyle. The rest, of course, is history.

Bryan Caplan (n.d. #1) shows that something similar happened to the anarchists during the Spanish Civil War: the anarchists were forced to resort to state-socialism to implement their scheme. But, says Caplan, this was not because the anarchists were insincere in their denunciations of state violence and compulsion. The anarchists really did mean everything they said when they rejected the Weberian state (Caplan n.d. #1; cf. Caplan n.d. #2 s.v. “9. How would left-anarchy work?”). The problem was that they assumed that anarchism would successfully accomplish their socialist aims. But when they implemented workplace democracy, they discovered that some factories were materially furnished better than others. The workers in some factories thus obtained higher incomes than others (Caplan n.d. #1; cf. Mises 1981 [1922]: 238, 242). This was not what the anarchists envisioned. There were two solutions: either the anarchists could hold true to their anarchism and let things be, or else they could create a Weberian state and compel the richer factories to subsidize the incomes of the workers of the poorer factories. In the end, the anarchists took the second route, and their socialist aims prevailed over their anarchist means (Caplan n.d. #1). They had to create a state to redistribute incomes when their anarchist workplace democracy did not produce the outcomes which they had expected.

Similarly, one wonders whether the democratic socialists have ever conceived of the possibility that they might actually lose an election!³⁹ What will they do if the people vote for capitalism? Will the democratic socialists accept this democratic outcome, or will they insist that socialism must be implemented at all costs, even if this means abandoning democracy? Like the French *philosophes*, the democratic socialists have assumed that everyone will vote for what they believe they ought to. But when the people vote differently, what will the democratic socialists do? A democratic socialist cannot legitimately specify both the means of democracy and the end of socialism, for this is an illegitimate act of what Michael Novak (1986: 172) terms “definitional imperialism,” where one *defines* a given set of means as accomplishing a given set of ends.⁴⁰ One may indeed hypothesize that a given set of means will accomplish a given set of ends, but when it comes time to verify the hypothesis, one must make a choice: either means or ends. Either one implements democracy and discovers whether the hypothesis is verified – that is, whether the people indeed turn out to choose socialism as hypothesized – or else one decides upon socialism and then chooses to implement whichever means will successfully produce that given end, even if it turns out that those means are necessarily anti-democratic, contrary to the original hypothesis. So to pose the question again: if it turns out that the people will not vote for socialism, what will the democratic socialists choose? Will they choose non-socialist democracy or non-democratic socialism? Will they simply become plain democrats, accepting whatever the people have willed, even if it has nothing to do with socialism? Or will they become Soviet-style socialists, relying on a vanguard party to implement the true General Will and compel the people to be free? Surely the people will thank them later . . . right?

8. International Economic Integration: Where Goods Do Not Cross Borders, Armies Will

Our final reason for the incoherence of democratic socialism is the deleterious effects it would have on international relations. By virtue of its socialist nature, a thoroughgoing democratic socialism would seriously disrupt international trade and threaten peaceful foreign relations, possibly even giving rise to warfare, but certainly leading to tense relations. Insofar as democratic socialists strive for peace and the protection of human rights, these foreign policy consequences are incompatible with the goals of democratic socialism.

This argument was made most clearly by Ludwig von Mises (1985 [1944], esp. ch. 3, pt. 4-10)⁴¹ and by Gustav Cassel (1934), but it is compatible with Hayek's analysis. Indeed, Hayek approvingly cites both Mises and Cassel (Hayek 2007 [1944]: 239f.).⁴² Focusing on the socialist attitude towards international commerce, Mises and Cassel argue that militancy, belligerency, and bellicosity are logical consequences of the consistent pursuit of socialism. Being a market-based activity, international trade is opposed to the values of socialism. As such foreign commerce is ideologically anathema, the truly socialist state is necessarily autarkic (Mises 1985 [1944], Osterfeld 1992: 7).⁴³

Furthermore, foreign trade reduces national sovereignty by ceding economic power to the foreign trading partner (Mises 1985 [1944], Osterfeld 1992: 181f.). No government can exercise power beyond the territory subject to its own sovereignty. Imports must be paid for with exports, and purchasing imports requires producing goods for exports which satisfy foreigners. This means the government's domestic economic plan must satisfy the whims of fickle foreigners who are not subject to the government's sovereignty.

Meanwhile, freedom of international trade allows foreign competition to undermine and defeat domestic intervention and regulation. Freedom of trade between two states limits the ability of the governments of either one of those two states to intervene in their domestic economies. A government cannot successfully intervene in its domestic market unless it is insulated from foreign markets. For example, if a state wishes to boost domestic wages in a given industry by establishing minimum wages or legally privileging unions, then it must establish trade barriers to keep foreign states from undercutting those wages by offering cheaper goods. Contrariwise, when a state is unable to impose such barriers to trade, its ability to domestically intervene is limited because any attempt at domestic intervention will too quickly prove itself to be self-defeating. For example, when the state of Washington tried to legally favor unions, Boeing responded by voting with its feet and relocating to the "right to work" state of South Carolina. In such a case, it is too obvious that domestic intervention was responsible for undesirable consequences. But had Boeing been forbidden to vacate Washington, it would have been more difficult for voters to discern that legal regulations had artificially raised the cost of business. Trade restrictions are resorted to as a form of cost-concealment, a means by which foreigners are forbidden to expose the manner in which domestic interventionism has raised costs and reduced productivity.

Hence, where there is freedom of international trade, conditions in foreign markets will tend to

undermine and disrupt the domestic central plan of the socialist state and expose its vacuousness. Where international trade is unrestricted, domestic intervention will too quickly prove self-defeating. Therefore, under thoroughly consistent socialism, foreign trade must be limited if not entirely precluded so that the state can plan with confidence without its sovereignty being undermined. But if imports are banned, then the state must militarily conquer those territories which possess desired resources (Mises 1985 [1944], Cassel 1934). The logical consequence of such autarky is therefore militant expansionism. Hence, the Nazi pursuit of *Lebensraum*, “living space.”

Lord Percy of Newcastle (1955) offered a similar analysis of this dynamic, arguing that absolute democracy – sovereignty of the popular will – leads to nationalism, which in turn restricts foreign relations. According to Percy (1955: 61), “the very idea of a constitution is essentially repugnant to the pure democrat.” Further, “a sovereign people must not allow its own decrees of yesterday to limit its freedom to meet the needs of today. . . . Thus the incompatibility of unmixed democracy with settled law” (Percy 1955: 50). Popular sovereignty cannot tolerate any limitations on its own democratic authority. But the General Will cannot easily be determined or expressed except at the local level (Percy 1955: 56, 62). One solution to this dilemma is nationalism (Percy 1955: 75-110). The sovereign people is united by a common nationality and the constitutionally unlimited General Will is expressed at the national level. But such nationalism quickly leads to a closed economic democracy which turns to belligerency and militarism. According to Percy (1955: 99f.),

[M]ost of the members of the new family of nations, created by the Peace of Versailles . . . existed, so the argument had run, because their peoples were entitled to sovereignty. If their governors could not find a way to be democratic nationalists, they were bound to try to assert themselves as economic nationalists. For the corporate franchises and the international dealings of world capitalism are the most irritating possible challenges to the claim of a sovereign people to sole power within its own territory. An economic democracy must be a closed system; hence Marx's thesis that it could be established only in a World state as the result of an international revolution. . . . Thus, to vary the metaphor, the best diagnosis of the convulsions of Europe between the wars is that they were the result of economic shock, operating on a constitution undermined by the peculiar religious mania of nationalism.

In short, both unlimited democracy and socialism lead to national socialism. Neither unlimited democracy nor socialism nor nationalism can tolerate foreign interference in domestic economic planning nor can they allow diminution of domestic popular sovereignty. Therefore, insofar as they are followed consistently to their logical ends, they all lead to autarky, belligerency, and militarism.

Woodrow Wilson was wrong: it is not true that democracies never go to war against each other simply *because* they are democracies. If anything, unlimited democracies will go to war *more* often because their nationalism demands economic autarky. If there is any nation which is less likely to go to war, it is those nations

which permit international free-trade at the expense of popular or national sovereignty. If democracies have in fact been less likely to go to war, it is because they have tended to be liberal democracies, but as we have seen, the liberal aspect operates as a limiting check on the democratic element (Hague and Harrop 2007: 49). Liberal democracies have been unlikely to go to war because they have been more liberal than democratic.

It is for such reasons that Hayek argued in the *Road to Serfdom* (2007 [1944]) that German National Socialism was not a corruption or departure from socialism. Instead, the Nazis had merely pursued socialism to its logical conclusion. According to Hayek, the Nazis had simply been more willing than the German Social Democrats to use whatever means were necessary to implement socialism (Hayek 2007: 146, 160, 182). Lord Percy called the Germans “an insurgent people, claiming the 'right to work' in a territory sufficiently extended, and a State effectively socialized, for that purpose” (Percy 1955: 103; cf. 105).

We can summarize this extended argument with the Manchester School's aphorism that “Where goods do not cross borders, armies will.” Domestic economic intervention cannot succeed without international isolation and restriction of trade. Foreigners cannot be allowed to undercut and circumvent domestic regulation. But this in turn leads to warfare. Thus, Nazi/Soviet military expansionism was merely a consequence of socialist economic policy pursued consistently to its final implications. At best, if warfare is avoided, then domestic interventionism leads to complete isolation and insularity; nearly all contact with foreigners must be restricted in order to safeguard the integrity of the domestic economic plan. Democratic socialism must restrict international trade and foreign relations in order to ensure the effectiveness of the central plan and protect the people's democratic popular sovereignty. But this would give rise to consequences in foreign policy contrary to the cosmopolitan and humanitarian values of the democratic socialists. Democratic socialism is inconsistent with international multiculturalism, and it requires discriminating against foreigners – treating them as something other than one's fellow human beings possessing equal rights and dignity.

IV. CONCLUSION

To summarize, there are at least five *political* reasons why democratic socialism is incoherent and why it is inconsistent with the protection of individual rights and liberties. None of these reasons rest on the argument that economic calculation is impossible under socialism; for the sake of argument, we could assume that Lange-Lerner-Taylor were correct and that Mises-Hayek were wrong, and we would still have to conclude that democratic socialism is impossible, in the sense that it cannot accomplish its purpose. First, because without differential wages, labor cannot be allocated without politically assigning people to their occupations. In other words, socialism requires the abolition of the freedom to choose one's own job and home. Otherwise, the government cannot ensure that the economic plan will be executed as intended. For the same reason, no government may tax and regulate incomes and occupations *and* simultaneously demand a given level of production and employment by that industry without resorting to command and compulsion. To maintain the

freedom of occupation, wages must be free to vary as much as they do under capitalism, but then it is doubtful what purpose socialism will serve. This is a more general case of Milton Friedman's (1962) argument that political and economic freedom cannot be dissociated (cf. Lawson and Clark 2010). Individual freedom depends on the free operation of the price-mechanism.

Second, democratic socialism is incoherent and self-defeating 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. This contradiction can be avoided by defining democracy instead as an end unto itself: the government should execute the will of the people simply because popular sovereignty is defines the good. But this precludes the imposition or maintenance of any constitutional restraints on the exercise of government power, and it will result in totalitarian or illiberal democracy. Whether democracy is conceived as a means or as an end, either way, democratic socialism is inconsistent with limited government and guaranteed protection of the individual rights of minorities.

Third, democratic socialism is incoherent because democracy inevitably results in government by shifting majorities, where majorities are cobbled together by log-rolling minorities together and through grants of pork-barrel and privileges for special interests. Hence, according to Hayek (2007 [1944]) and Jewkes (1968 [1948]), democratic socialism cannot furnish the unitary, long-term, consistent planning which socialism demands. Socialism aims to transform society from what Oakeshott called a civil association of shared means into an enterprise association of shared ends, but Hayek and Jewkes showed this is impossible for democratic institutions to accomplish. This is a variant of Arrow's Impossibility Theorem (Boettke 1995, Boettke and Leeson 2002). According to Shleifer and Vishny (1994), the problem with socialism is simply that it would engender rent-seeking and economically inefficient resource allocation. But Hayek and Jewkes argue that interest groups pose a more serious problem for democratic socialism than simple economic inefficiency: 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 self-interest and personal welfare above the correct and faithful implementation of the central economic plan. Nor is the problem only that pressure groups create the economic inefficiencies familiar to scholars who have studied rent-seeking. Shleifer and Vishny (1994) make familiar Public Choice arguments which are definitely correct and important, 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 are perfectly benevolent and other-regarding, democratic socialism must still necessarily fail to accomplish its goals. 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. The Arrow paradox says that either democratic socialism will be random and incoherent, or else it will be dictatorial.

Fourth, the democratic socialists have not sufficiently accounted for the possibility that they might lose an election. If the people vote for socialism, then well and good. But what if the people vote for capitalism? What then? In such a case, the democratic socialists can become either plain democrats – accepting the non-socialist outcome as good and acceptable simply because it is the will of the people – or else they can – like Robespierre following Rousseau – form a vanguard party and compel the people to be free. Either the democratic socialists must become plain democrats or else they must resort to Soviet-style command socialism.

Finally, democratic socialism or economic democracy is – like economic nationalism – incompatible with cosmopolitanism and international peace. Domestic interventionism cannot be sustained as long as imports are allowed undermine the plan. Thorough domestic interventionism is impossible without protectionism and national self-sufficiency. This in turn must result in either bellicosity, belligerency, and warfare, or else isolationism and complete disregard for foreigners. Either way, democratic socialism is therefore inconsistent with a philosophy which regards all human beings around the world as essentially equal in rights and dignity.

Countless humanitarians have placed their hopes and dreams for a better future for mankind in socialism. But they soon realized that Soviet-style socialism inevitably produced a totalitarianism and a disregard for human happiness worse than anything capitalism had ever had. Therefore, many of these socialist humanitarians soon began to advocate democratic socialism instead – socialism with a human face. Unfortunately for them, democratic socialism can never function as they have hoped. Even if socialism were economically rational and feasible, a specifically democratic institutionalization of socialism is *politically* impossible, in the sense that democratic socialism cannot accomplish the goals and purposes set for it. Even if democracy were somehow maintained with socialism, either one or the other – socialism or democracy – 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. Meanwhile, peaceful relations with foreign nations would prove impossible. The problem is not abuse of power – betrayal of trust – or economic inefficiency, but a fundamental logical incompatibility of means and ends.

And we must reiterate these facts, for as we noted at the beginning of this essay, those who do not learn from history are doomed to repeat it. We cannot assume that students born during the 21st century will have learned the lessons of the collapse of the Soviet Union and the failure of actually existent socialism. We must understand these lessons ourselves and then painstakingly convey them to our pupils if history is not to repeat

itself.

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- 1 That regulation constitutes *de facto* nationalization, see Mises (1981 [1922]: 45). That such was done by the Nazi regime, see Mises (1974 [1950]: 24f.).
- 2 Farrant and McPhail (2009: 12, 15) disagree with Caldwell, quoting several statements by Hayek where Hayek himself explicitly states that he *does* believe the welfare state *will* lead to serfdom (Farrant and McPhail 2009: 8, 13f., 15). One thing that should be noted, however, is that sometimes, what Hayek said was *not* that the welfare state *itself* would lead to totalitarian socialism, but rather, that the *ideas* underlying the welfare state would eventually lead to totalitarian socialism (Farrant and McPhail 2009: 8 n. 11). See further next note for more on the dispute between Farrant and McPhail (2009) and Caldwell (in Hayek 2007 [1944]). (I thank Vlad Tarko for directing me to Farrant and McPhail [2009].)
- 3 This emphasis on the operation of the price system is crucial. Farrant and McPhail (2009: 10 n. 17), arguing against Hayek's thesis, remark that Hayek approvingly cites Ludwig von Mises's *Kritik des Interventionismus* (Mises 1996 [1929]; cf. Mises 1998). According to Farrant and McPhail (2009: 10 n. 17), "Mises argues that the mixed economy is inherently unstable." But Farrant and McPhail (2009) do not explore what Hayek's citation of Mises really means. Mises's book (Mises 1929; cf. Mises 1998) was written specifically regarding price-controls. Mises argued that interventions which controlled prices – setting floors and ceilings – would lead to shortages and surpluses which would necessitate additional interventions to fix the problems caused by price-controls. Mises argued that one price-control led to another until every price in the entire economy was controlled or supplanted by command-and-control, at which point the result would be *de facto* socialism (cf. Mises 1974 [1950]). But Mises's argument does not apply to taxes and subsidies which preserve the operation of the price-system. Significantly, in an essay predominately discussing how price-controls lead to socialism, Mises briefly criticizes progressive taxation, but his argument is not that progressive taxation leads to socialism or totalitarianism, but only that progressive taxation reduces savings and investment and leads to capital decumulation (Mises 1974 [1950]:32; cf. Mises 1981 [1922]: 237). Special attention should also be paid to a statement by Hayek in a 1976 lecture (Hayek 1984b [1976]) explicitly arguing that his thesis in the *Road to Serfdom* applies not only to central planning but also to redistribution of wealth (Hayek 1984b [1976]: 119). This seemingly corroborates Farrant and McPhail's (2009) criticism of Caldwell's (in Hayek 2007 [1944]) argument that Hayek's *Road to Serfdom* was not intended to apply to the welfare-state. Farrant and McPhail (2009) note that the contemporary welfare state is definitely not totalitarian, and so Hayek is apparently wrong. But Hayek (1984b [1976]: 120)'s reason undermines Farrant and McPhail's argument: Hayek believes that redistribution of wealth will be accompanied by price-controls on labor in order to establish "fair" wage-rates, and so the logic of interventionism will eventually require the government to control all prices until it is forced to establish a totalitarian socialist system (cf. Mises 1929 & 1998). An entire section of the essay will be devoted to problems of allocating labor in the absence of freely fluctuating prices, but for now, it will suffice to say that Hayek seemed to believe that the modern welfare state would take us along the road to serfdom only insofar as it rejected the price system. This consideration weighs in favor of Caldwell's defense of Hayek (in Hayek 2007 [1944]) against Farrant and McPhail's (2009) criticism.

- 4 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 completely unlike the sort of regulatory command-and-control and nationalization to which Hayek's thesis in the *Road to Serfdom* applies.
- 5 I thank Vlad Tarko for directing me to Lawson and Clark (2010).
- 6 I thank Willem J. A. van der Deijl for forcing me to clarify this point.
- 7 If one argues that the workers do not possess enough capital to establish a firm on their own, then this means the owner of capital provides a valuable service for which they deserve compensation. Why should the capitalist sacrifice their savings and establish a firm if the employees are entitled to appropriate the entire firm and shut the capitalist out?
- 8 Burczak (2011: 136) and Mayer (2001: 231f.) argue that under workplace democracy, instead of the owners of capital hiring labor and paying wages, labor would lease capital from its owners. But besides the fact that this would outlaw certain voluntary contracts – what Nozick (1974:163) called “capitalist acts between consenting adults” – we must point out that it is already legal under free-market capitalism for labor to lease capital. Once again, the capitalist utopia subsumes the socialist one.
- 9 Prychitko (1998) makes two criticisms of Burczak: first, Burczak's “thin” socialism might undesirably “thicken” into central planning due to the difficulty of defining the “whole product” to which labor is entitled, especially in an interconnected economy where many firms produce intermediate products to be embodied later in final consumer goods. Second, Prychitko says, Burczak's own principles converge on a free-market libertarian consent theory of justice. According to Burczak, a capital-owner cannot hire labor, but worker self-managed firms should rent capital. Therefore, a firm cannot hire janitors, but several janitors should join and form a self-managed janitorial services firm so that other firms will rent their janitorial services. But what, asks Prychitko, happens when a single janitor forms his own self-managed firm of one? According to Burczak's principles, this self-managed firm of one should be entitled to rent its capital out to other firms. But its capital is nothing other than the single janitor. So if self-managed firms of one laborer are permitted, then Burczak's socialism converges on a free-market consent theory of justice. I would add: rather than deciding in advance, by *a priori* logic, whether labor or capital is responsible for and deserving of the “whole product” of production, and whether labor or capital is responsible for exercising the entrepreneurial function, we should allow markets – meaning consensual social interaction and contract – to *discover* who is responsible and deserves which return (cf. Hayek 2002; Mises 1981 [1922]: 48).
- 10 Callari (2009) criticizes Burczak's (2006) workplace democracy for neglecting several traditional Marxian critiques of markets, such as the critiques of “commodity fetishism” and the “anarchy of production.” Cf. Hayek (1948: 209)'s criticism of market socialism that it is “so thoroughly unorthodox from a socialist point of view that one rather wonders whether their authors have not retained too little of the traditional trappings

of socialist argument to make their proposals acceptable to socialists who are not economists.”

- 11 Burczak also advocates subsidized credit (2009: 390, 2011: 139) and a guaranteed minimum income (2009: 392, 2011: 139-144), but these are economic issues beyond the scope of our political discussion. For a criticism of subsidized credit, see esp. Lavoie (1985a: 157-160, 173-210).
- 12 Hayek (1948: 197-199) replied that it would be impossible to deny political officials discretion in the way Lange specified, because costs are not as objective as Lange thought, and so higher-level officials would have to constantly second-guess the subjective cost accounts of their inferiors. In a different way, Shleifer and Vishny [1994] argue that Lange failed to specify what incentive these officials have to faithfully obey Lange's system, and so Public Choice government failures will be endemic in the attempted implementation of Lange's market socialism. Schweickart (1992: 28) specifies that under economic democracy, there must be “socialist entrepreneurs” who innovate, take risks and speculate, making his system remarkably subject to the respective criticisms of Hayek and Shleifer-Vishny. When a social entrepreneur's risky innovation turns out to have been mistaken, how will the socialist system be able to determine whether this was a responsible risk which was worth taking despite its eventual failure – because the failure could not have been foreseen – or whether this was an irresponsible risk whose failure the socialist entrepreneur should have foreseen? The socialist government must somehow second-guess the socialist entrepreneur's every decision.
- 13 Cf. Hayek's (1948: 186) criticism of Lange (1938)'s market socialism, taking notice of
how much of the original claim for the superiority of planning over competition is abandoned if the planned society is now to rely for the direction of its industries to a large extent on competition. Until quite recently, at least, planning and competition used to be regarded as opposites, and this is unquestionably still true of nearly all planners except a few economists among them. I fear that the schemes of Lange and Dickinson will bitterly disappoint all those scientific planners who, in the recent words of B. M. S. Blackett, believe that “the object of planning is largely to overcome the results of competition.”
- 14 In reply to Heilbroner (1978a), Coser (1978) dissents, arguing that the welfare-state is not the capitalist system's self-defense against the workers, but quite the opposite: the welfare-state is the hard-won achievement of workers who fought to pursue socialist aims. Cf. Walzer (2010).
- 15 Denitch (1978)'s response to Heilbroner advocates guild socialism or syndicalism, and Heilbroner (1978b: 360) replies with skeptical sympathy towards Denitch's scheme. But Heilbroner generally refers more to planning than to syndicalism.
- 16 For further analysis of Orwell's views, see Makovi (2015, 2016) and the sources cited therein, especially Roback (1985) and Crothers (1994).
- 17 Shleifer and Vishny cite Olson (1965) and Becker (1983). I would add Stigler (1971); Posner (1974); Butler (2012: 36f.); Stevens (1993: 214-229).
- 18 Cf. Lavoie's (1985a: 131) statement that while advocates of democratic socialism are right to criticize rent-seeking, their solution to this problem – viz. expanding the government's power over the economy – would

make the problem worse. A better solution, Lavoie says, is to limit government's ability to bestow privilege on anybody and to reduce the number of benefits it has to offer anyone.

- 19 For an interesting fictional illustration of how political incentives undermine market socialism, see Spufford (2010: 283-299, esp. 292). For a review of Spufford's novel, showing how much historical detail it reliably embodies despite its fictional nature, see Henderson (2012-2013).
- 20 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 exceedingly brief, and what he did say on our subject, Hayek and Jewkes said in much 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.
- 21 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). One important criticism made by several reviewers – both positive and negative – is that Jewkes failed to realize that his defense of the price-system and Say's Law was inconsistent with his simultaneous endorsement of Keynesian macroeconomic management.
- 22 That Austrian market process theory is compatible with Public Choice political process theory, see Boettke and López (2002) and Ikeda (2003). I thank an anonymous referee for pointing me to these papers.
- 23 Ludwig von Mises (1981 [1922]: 203f.) also noticed the connection between socialism's attack on competition and its unintentional rehabilitation of interest group politics: “In exposing the effects of protection, Liberalism broke the aggressive power of particular interests. . . . In order to rehabilitate protection, it was necessary to destroy Liberalism. . . . Once Liberalism has been completely vanquished, however, and no longer menaces the protective system, there remains nothing to oppose the extension of particular privileges.”
- 24 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 (2016). And Cotton pointed out to the author 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 too had realized the allocational dilemma created by the abolition of differential wages.
- 25 Cf. another work by the same author, Jewkes (1978)'s *A Return to Free Market Economics?: Critical Essays on Government Intervention* (pp. 67, 70, 84). 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.) 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.

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." Of course, the government could pay doctors a premium to incentivize them to voluntarily relocate to less desirable districts, but then there would be inequality of income, which seems incompatible with socialism. 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.

- 26 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. In a 1994 preface to the *Road to Serfdom*, Milton Friedman agreed that this law confirmed Hayek (see Hayek 2007: 261). For a detailed summary and analysis of this law, see Farrant (2015), who is more sanguine about this law than are Hayek, Jewkes, and Friedman.
- 27 Moreover, Babeuf would have regimented and regulated even leisure (Talmon 1960: 247) just as the fascist and communist countries later would (Hayek 2007 [1944]: 132n6, 177).
- 28 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. But Newsinger notes (1999:139) that "Labour Government on this occasion seems to have brought out the worst in him [Orwell]." For a more sympathetic interpretation of what Orwell meant, see Farrant (2015).
- 29 I thank Vlad Tarko for referring me to Lawson and Clark (2010).
- 30 Friedman (1962: 16f.) and Jewkes (1968 [1948]: 198) both note as well that when the state is the sole employer, citizens will be afraid to criticize the government lest they lose their jobs (cf. Rothbard 1977: 26).
- 31 Of course, this essay disagrees with Heilbroner's caveat that "Command by planning need not, of course, be totalitarian." But Heilbroner concedes that socialism is authoritarian, and so his concession means more to our thesis than his caveat.
- 32 Heilbroner is also quoted in Boaz (2005, 2016). For empirical verification of Heilbroner (1978a: 347, 1986: 126)'s statements about the correlation between political and economic liberty, see Lawson and Clark (2010).
- 33 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]: 112-123). The socialist Jacob Marschak (Hayek 2007 [1944]): 17) called this particular chapter "excellent and

truly inspiring” (Hayek 2007 [1944]: 251).

- 34 Mises (1981 [1922]: 60f.) also considered democracy a means, not an end: “The significance of the democratic form of constitution is not that it represents more nearly than any other the natural and inborn rights of man [nor] . . . is [it] to be explained by the fact that democracy is worthy of love for its own sake. The fact is that it performs functions which he [the citizen] is not prepared to do without.” Democracy is merely instrumental. For Mises (*ibid.*), the purpose of democracy is to enable peaceful transition of power and make violent revolution unnecessary. But Mises (*ibid.*) does *not* expect democracy to necessarily elect preferable political officials nor select superior political policies compared to any other constitutional form.
- 35 Dahl's (1985) argument for workplace democracy appears to make democracy constitutive of the good as well. Dahl argues that we all have a right to democracy even more than we have a right to economic liberty (see Adamson 1989: 127-192, Mayer 2001: 230). For Dahl, workplace democracy “is a matter of right” and “Dahl [has] shifted the debate about workplace democracy from the question of its consequences to the question of what justice demands” (Mayer 2001: 222). It seems that for Dahl, our right to democracy is not contingent on whether democracy is instrumentally useful for accomplishing other ends; democracy is its own end. Dahl justifies workplace democracy by arguing that a workplace is like a polity, and that just as a polity must be governed democratically, so too a workplace. (Incidentally, Meyer [2001: 236-247] replies that since employees are not forced to obtain employment by any given employer, but are free to choose whether and where to seek employment, their rights are not violated if they are not offered any democratic control of the firm.)
- 36 Mises (1981 [1922]: 71) disagrees, arguing that a democratic but illiberal regime is preferable to an authoritarian liberal regime because a frustrated illiberal majority of the people will turn to violent revolution. This is related to Mises's (1981 [1922]: 60f.) view that the purpose of democracy is not to promote better policies but only to prevent violent revolution by providing for a peaceful transition of political power. Apparently, Mises thinks it is better for a minority to surrender to an irrational mob than to attempt resistance. He seems to be offering the political equivalent of the notion that it is often better for an individual to surrender to a mugger than to resist. Mises counsels the path of least resistance, and for Mises, the solution to illiberal democracy is not to compel the people to accept a liberal, undemocratic regime against their wills, but to convince them to freely elect a liberal regime. Bryan Caplan (2011 *passim*) highlights Mises's belief that one way or another – by election or by violent revolution – the majority will eventually prevail, and therefore, Mises held, the desideratum is to convince the majority to make better choices by educating them; cf. Caplan and Stringham (2005).
- 37 This may buttress Buchanan's and Tullock's argument for qualified majority parliamentary voting in *Calculus of Consent* (1962). If Hayek is right that government ought to act only where there is agreement, this might imply that all legislation should command the support of a super-majority. For reviews of Buchanan's and Tullock's argument, cf. Butler (2012: 95-100), Stevens (1993: 134-139), and Hinich and Munger (1997: 100-103).

- 38 Shleifer and Vishny cite Olson (1965) and Becker (1983). I would add Stigler (1971), Posner (1974), Butler (2012: 36f.), and Stevens (1993: 214-229).
- 39 I thank Tom G. Palmer for making this point in conversation.
- 40 Similarly, Talmon (1960: 35, 264) argues that Hobbes, Rousseau, and Marx all illegitimately *defined* their respective states as being non-oppressive. In conversation, Lode Cossaer pointed out to me that “the current (non-classical liberal) literature on federalism hasn’t learned the lesson that one can’t merely posit institutions and then decide what the outcome will be. The literature is dominated by ‘mere’ normative ideas.” Similarly, Brennan (2014: 62-64) discusses what he calls “the other Cohen fallacy” of “identifying regimes with values or motives.” According to Brennan, G. A. Cohen *defines* both socialism and capitalism as comprising both institutions *and* motives: socialism is both common ownership of the means of production *and* moral virtue, and capitalism is both private property *and* greed. Brennan (2014: 63) insists that capitalism and socialism are institutions only, producing whatever practical consequences they do, and that they must be analytically distinguished from motives and intentions. Brennan (2014: 64) concludes, “We cannot just decide to insert evil motivations into the very definition of capitalism in order to argue that capitalism is evil. That would be both bad philosophy and bad lexicography.”
- 41 Mises's analysis in (1985 [1944]) is very similar to what he wrote previously in (1983 [1919]). The difference is one work was written following WWI and the other, in response to WWII. His later work is more mature and detailed, but his earlier work is valuable as well. See also Mises (1990: 137-165) for another expression of a similar argument. Mises (1981 [1922]: 205-208) makes a surprisingly different argument.
- 42 Hints at a similar analysis are offered by Jewkes (1968: 111, 218, 223, 234, 236).
- 43 Talmon (1960: 239) indicates that Babeuf's communistic scheme for France was averse to international trade as well. The motivation here was slightly different: foreign commodities were demoralizing (Talmon 1960: 239; cf. Mises 1981 [1922]: 197). “[T]he cosmopolitan Babouvist creed preached extreme national isolation” (Talmon 1960: 244) in order “to safeguard the regenerated people 'against the contagion of pernicious examples which might otherwise enervate the force of manners, and the love of equality” (Talmon 1960: 245). Granted, this national isolationism did not imply for Babeuf the use of military force against foreigners (Talmon 1960: 245). Nevertheless, “[f]ree intercourse with other states would not be entered upon so long as they had not adopted the principles of France” (Talmon 1960: 245). Time and again, socialism consistently implies national isolation lest foreigners interfere with the delicately and scrupulously laid plans of the masterminds. In the case of Babeuf's France, the “plan” was ideological and cultural, not economic, but the basic principle is the same: no government may plan conditions – economic or cultural – in its own country unless the citizens are isolated from relations with foreigners.