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Interest Groups and the Impossibility of Democratic Socialism: Hayek, Jewkes, and the Arrow Theorem

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Abstract: Andrei Shleifer and Robert W. Vishny (1994) have used Public Choice analysis to criticize market socialism. Peter J. Boettke (1995) and Peter T. Leeson and Boettke (2002) have argued that F. A. Hayek's *Road to Serfdom* (2007 [1944]) constituted a form of Public Choice analysis as well. Boettke and Leeson say that Hayek adumbrated a form of Arrow's Impossibility Theorem. This essay shows that Hayek was joined by John Jewkes in presaging a form of the Arrow theorem. In addition, this essay expands on the analysis by Boettke and Leeson, elucidating the broader implications which the Arrow theorem has for democratic socialism in particular. Democratic socialism is demonstrated to be impossible, in the sense that it cannot successfully accomplish the goals of its advocates. This is because the Arrow theorem implies that democratic political institutions are fundamentally incompatible with socialist economics.

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

JEL Codes: A12, B24, B25, B51, B53, D70, P10, P20, P30, P50

In an influential paper, Andrei Shleifer and Robert W. Vishny (1994) 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. Although the target of Shleifer's and Vishny's criticism is market socialism, their arguments apply equally well to democratic socialism.

But Shleifer and Vishny (1994: 170) explicitly state that while they are sympathetic to F. A. Hayek (2007 [1944])'s arguments in *The Road to Serfdom*, 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). 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

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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. Although Shleifer and Vishny (1994)'s general argument is persuasive, Hayek's own contribution was undeservedly neglected.

Even two authors highly sympathetic to Hayek, viz. Lawson and Clark (2010: 231), concede that Hayek's theory was “[not] particularly detailed,” and even 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 sophisticated than this and less inconsistent with each other than Lawson and Clark (2010) suggest. According to Peter J. Boettke (1995), Hayek's (2007 [1944]) demonstrated familiarity with several of the key claims of contemporary Public Choice. Some of Hayek's arguments were even advanced 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, all of these authors – Shleifer and Vishny, Lawson and Clark, and Boettke and Leeson – have 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.¹ In the *Road to Serfdom*, Hayek (2007 [1944]: 51) 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.”. Meanwhile, for his part, Jewkes described Hayek's *Road to Serfdom* (2007 [1944]) as “masterly” (Jewkes 1968 [1948]: xiii) for its “analysis which has never been confuted” (Jewkes 1968 [1948]: 182 note). Therefore, Jewkes's criticism of democratic socialism deserves notice, if for no other reason than the pursuit of intellectual history.²

This paper will compare the arguments made by Shleifer-Vishny on the one hand and Hayek-Jewkes on the other, demonstrating their mutual compatibility. Furthermore, it will expand on the Boettke-Leeson claim that Hayek presaged Arrow's Impossibility Theorem. Finally, this essay will explore how the Hayek-Jewkes Arrow-type argument affects the policy of democratic socialism. We will demonstrate that the Arrow-type argument poses a grave dilemma for democratic socialism. Democratic socialism must be deemed “impossible”

in the sense that it cannot satisfy the desires of its advocates. Because of Arrow's Impossibility Theorem, the political institution of democracy is fundamentally incompatible with the economic system of socialism.

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 application of economic price theory, and it does not attempt to show whether socialism must fail for purely economic, non-political 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 (1938)-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. This essay takes no stand against Shleifer and Vishny's (1994: 166) claim that Lange (1938) did refute Hayek and Mises. 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.

The essay proceeds as follows: section I summarizes Shleifer and Vishny (1994). Section II, the heart of this paper, explores in detail the arguments of Hayek and Jewkes. This section elaborates on Boettke's and Leeson's claim that Hayek presaged Arrow's Impossibility Theorem, showing that Jewkes joined Hayek in this accomplishment. Furthermore, this section shows how Hayek's and Jewkes's arguments are fatal to democratic socialism, demonstrating that socialist economics are fundamentally incompatible with democratic political institutions.

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

First, we review Shleifer's and Vishny's (1994) criticisms of market socialism in order to compare them to Hayek's and Jewkes's arguments against democratic socialism. 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 (1938)'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.). 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).³ 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.⁴

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 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. There is no room in Lange (1938)'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. 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),⁵ 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. Meanwhile, 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

I. A Brief Summary

Like Shleifer and Vishny (1994), Hayek (2007 [1944]) and Jewkes (Jewkes 1968 [1948]) used economic analysis to criticize the political institutional logic of democratic socialism. Their argument is therefore a form of Public Choice (Boettke 1995 re: Hayek). But Hayek and Jewkes went beyond Shleifer's and Vishny's (correct) argument that political officials will misuse their power and be insufficiently incentivized, giving rise to economic inefficiency. 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. It is not that the government officials will have the wrong priorities or that they will use their power with malicious intent. Their argument is not primarily that power corrupts. In contrast to Shleifer and Vishny, Hayek and Jewkes 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. The political and economic systems simply do not match up in any coherent fashion.

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.⁶

Hayek first argued that the socialist rejection of competition would unintentionally empower interest groups and encourage special pleading for protection (Boettke 1995: 10).⁷ 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.⁸

It should be realized that what Hayek chiefly criticized was 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.⁹ 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."¹⁰ 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).¹¹ Fittingly, Lawson and Clark (2010: 235) note that according to their empirical verification of Hayek's thesis,¹²

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.¹³ This was the classical meaning of “socialism” as intended by socialists themselves. This is also what contemporary advocates of democratic socialism or economic democracy have in mind, although they are not always so explicit or lucid (see Makovi 2016a). Fundamentally, what socialism so defined means is the abolition or severe restriction of the price system, where explicit government commands and regulations replace the information and incentivize function of prices.

The remainder of this essay will expand specifically on those features of Hayek's thought which approached Arrow's Impossibility Theorem, showing that John Jewkes joined Hayek in these arguments as well. This essay will go beyond Boettke (1995) and Boettke and Leeson (2002) and demonstrate how Arrow's Impossibility Theorem challenges the possibility of democratic socialism.

2. *The Impossibility of Agreeing on a Plan*

In *The Road to Serfdom*, 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).¹⁴ 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 [1948]: 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 [1948]: 130). No coherent central plan can arise from this, according to Jewkes (1968 [1948]: 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.

3. 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.).¹⁵ 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).

Shleifer and Vishny's (1994) claim that rent-seeking inefficiencies will be endemic to market socialism is not as fatal to democratic socialism as Hayek's (2007 [1944]) and Jewkes's (1968 [1948]) argument. A socialist could reply to Shleifer and Vishny that they are willing to tolerate a reduction in productivity and GDP if it means greater equality or if this allows mankind to take its destiny into its own hands. But Hayek and Jewkes argued that rent-seeking under democratic socialism would not merely lead to inefficiency, but chaos and absurdity. It is not merely that GDP will suffer a diminution. Instead, it is impossible to form a coherent, unitary economic plan under democracy. This fact is fatal to democratic socialism. Democratic political institutions and socialist economics are fundamentally incompatible.

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- 1 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.
- 2 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.
- 3 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.
- 4 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).
- 5 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. But 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? As Hayek said to Lange, the socialist government must somehow second-guess the socialist entrepreneur's every decision.
- 6 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.
- 7 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.”

- 8 For a discussion of Hayek's thesis of the inseparability of political and economic freedom, see Makovi (2016b).
- 9 That regulation constitutes *de facto* nationalization, see Mises (1981 [1922]: 45). That such was done by the Nazi regime, see Mises (1974 [1950]: 24f.).
- 10 Farrant and McPhail (2009: 12, 15) disagree with Caldwell. For a defense of Caldwell against Farrant and McPhail, see Makovi (2016b). (I thank Vlad Tarko for directing me to Farrant and McPhail [2009]).
- 11 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.
- 12 I thank Vlad Tarko for directing me to Lawson and Clark (2010).
- 13 I thank Willem J. A. van der Deijl for forcing me to clarify this point.
- 14 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).
- 15 Shleifer and Vishny cite Olson (1965) and Becker (1983). I would add Stigler (1971), Posner (1974), Butler (2012: 36f.), and Stevens (1993: 214-229).