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Labor Economics in a Planned Economy: F. A. Hayek and John Jewkes on the Impossibility of Democratic Socialism

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Abstract: Milton Friedman (1962) is associated with the claim that political and economic freedom cannot be distinguished (cf. Lawson and Clark 2010), using the famous example that there can be no freedom of speech where the government owns the printing presses. Less well-known is F. A. Hayek's example, drawn from labor economics, used to illustrate the same principle. Hayek was joined in this by his less well-known colleague, John Jewkes. Hayek and Jewkes argued that without a freely operating price system, central economic planning cannot function without compulsory regimentation of labor. Similarly, no state may simultaneously fix “fair” wages *and* demand a given pattern of productive output and employment. It is impossible to both achieve income equality *and* accomplish an economic plan. Hayek's and Jewkes's examples help explain why democratic socialism is impossible, in the sense that it cannot accomplish what its advocates desire.

Keywords: Hayek; Road to Serfdom; democratic socialism; market socialism; economic democracy; totalitarianism; public choice; government failure; impossibility; corvee; corvée; serfdom; slavery; involuntary; coercive; compulsion; compulsory; labor; servitude

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

Peter J. Boettke (1995) has noted that F. A. Hayek is sometimes criticized for allegedly neglecting the contributions of Public Choice economics. Boettke replies that Hayek's (2007 [1944]) *Road to Serfdom* anticipated at least three basic teachings of Public Choice:¹ first, the logic of collective action which enables special interests to obtain privileges. Second, the fact that political behavior is conditioned by the institutional constraints and incentives of the office (“why the worst get on top”). Third, Arrow's Impossibility Theorem (cf. Boettke and Leeson 2002, Makovi 2015b). In addition, Boettke discerns in Hayek a fourth discovery, *viz.* the impossibility of distinguishing between political and economic freedom. However, contemporary Public Choice

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analysis has not focused as much attention on whether political and economic freedom can be separated from one another.

The argument that political and economic freedom cannot be distinguished is most famously associated with Milton Friedman who said (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.”² For example, Friedman famously 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 e.g. Michael Harrington advocates (1978: 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.³

Less well-known, however, is Hayek's use of labor economics to prove the same point which Friedman illustrated using the freedom of speech. This essay explores Hayek's little-known use of labor economics to illustrate how political and economic freedom cannot be distinguished. Furthermore, we shall see that a lesser-known economist, John Jewkes (1968 [1948]),⁴ also used labor economics in the same way as Hayek did to prove the same claim.⁵

Using Hayek's and Jewkes's example of labor economics, this essay will demonstrate that democratic socialism is “impossible” in the sense that it can never successfully accomplish the goals of its advocates. Democratic socialism is impossible not because socialist economics necessarily fail, but because democratic political institutions are fundamentally incompatible with the aims and needs of socialism. Therefore, this essay shall utilize labor economics to prove that democratic socialism is *politically* impossible, not that it is economically unfeasible. 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.⁶

The essay proceeds as follows: section I defends Hayek against recent criticisms of his overall thesis in *The Road to Serfdom* (Hayek 2007 [1944]). Before we can evaluate Hayek's example of labor economics in particular, we must first understand what Hayek was arguing against and whether his overall argument was more or less generally valid. Section II examines Hayek's specific example from the area of labor economics,

demonstrating the impossibility of reconciling socialism with democratic liberties.

I. THE ROAD TO SERFDOM, BROADLY RECONSIDERED

It is often objected that the modern welfare state refutes Hayek's claims (Farrant and McPhail 2009). Today's welfare states have most certainly *not* led us down the road to serfdom as Hayek allegedly predicted. This may be considered a refutation of Hayek's claim that political and economic freedom cannot be distinguished. But in fact, what Hayek (and Jewkes) really criticized 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.⁷ Hayek was not primarily concerned with high levels of taxation and redistribution of income such as we might find in Sweden. Therefore, Bruce Caldwell states (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.”⁸

The reason why the welfare state does not take us down the same road to serfdom as the command-and-control state, is because taxation and redistribution of income do not interfere with the operation of the price system the way command-and-control does. 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.

This emphasis on the operation of the price system is crucial. Farrant and McPhail (2009: 10 n. 17), arguing against Hayek's thesis, briefly 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 1996 [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 1984 [1976]) explicitly arguing that his thesis in the *Road to Serfdom* applies not only to central planning but also to redistribution of wealth (Hayek 1984 [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 (1984 [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. Assuming price-controls are imposed, 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 1996 [1929] & 1998). Hayek believed 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.

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).⁹ Fittingly, Lawson and Clark (2010: 235) note that according to their empirical analysis,¹⁰

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" in this essay, 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.¹¹ 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.

II. THE COERCIVE, ILLIBERAL NATURE OF PLANNING: HAYEK AND JEWKES ON THE ALLOCATION OF LABOR UNDER SOCIALISM

Now that we have seen that Hayek considered his thesis in *The Road to Serfdom* to apply principally to command socialism, and only secondarily to the welfare state insofar as the welfare state imposed price-controls, we may examine Hayek's and Jewkes's use of labor economics to illustrate the principle that economic and political freedoms cannot be distinguished nor separated.

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.¹² As Hayek wrote (1984 [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 [1948])'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 [1948]: 90). And further (Jewkes 1968 [1948]: 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.¹³

And this was not mere idle and unrealistic theorizing by Jewkes, for (Jewkes 1968 [1948]: 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).¹⁴

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 (1994),¹⁵ 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).¹⁶

Astoundingly, none other than the most famous advocate of democratic socialism – George Orwell himself – seems to have lately realized this logical consequence.¹⁷ 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).¹⁸ 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 1984 [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 1984 [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 (1978: 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 (1984 [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!¹⁹

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.

Michael Harrington (1978: 443f.), an advocate of democratic socialism, approvingly cites Lange (1938) and yet he also declares (1978: 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 (1978: 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 1978: 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 (1978: 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.

Once again, this phenomenon is really but a specific example of the more general impossibility of separating political from economic freedom (Lawson and Clark 2010; Friedman 1962; Boettke 1995: 10f.; Rothbard 1977: 25). Milton Friedman (1962: 16-18) chose to illustrate this principle using the freedom of speech. He famously argued that there can be no freedom of the press where the government owns the printing presses. But perhaps Hayek and Jewkes chose instead to use the example of involuntary nature of labor under socialism because in this case, the problem is so much more stark and forbidding. 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. If socialism requires regimenting labor, what hope for any other kind of freedom can there be?

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 (1978: 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.²⁰ 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 (1978: 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 (1978: 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.”²¹

As we noted earlier, Hayek's argument in *The Road to Serfdom* is a contingent one: whether a given government intervention will lead us down the road to serfdom depends on precisely whether and how that intervention will force people to live their lives differently than they otherwise would have. Moreover, it depends on 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. Not every government intervention is therefore equally likely to reduce us to slavery. A tax which allows production, employment, and consumption to adjust themselves to the new pattern of prices will not interfere with human freedom to the same extent as a regulation which simultaneously fixes a tax upon a resource or type of labor *and* nevertheless insists on given level of productive output. Hayek's argument must be understood as deeply institutionally contingent. Nevertheless, his argument still stands: it is an empirical truth that economic and political liberties cannot be distinguished (Lawson and Clark 2010). Milton Friedman's (1962: 16-18) more famous illustration of this principle using the freedom of the press, should be accompanied with Hayek's and Jewkes's examples drawing on labor economics. Above all, human rights cannot be protected nor secured without freedom of prices and property.

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- 1 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.
- 2 For an empirical verification of this claim, see Lawson and Clark (2010).
- 3 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).
- 4 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.
- 5 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).
- 6 That argument that economic calculation is impossible under socialism has been made elsewhere by practitioners of the Austrian School of economics (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. 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.
- 7 That regulation constitutes *de facto* nationalization, see Mises (1981 [1922]: 45). That such was done by the Nazi regime, see Mises (1974 [1950]: 24f.).
- 8 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].)

- 9 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.
- 10 I thank Vlad Tarko for directing me to Lawson and Clark (2010).
- 11 I thank Willem J. A. van der Deijl for forcing me to clarify this point.
- 12 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 (2016a). 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.
- 13 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 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.
- 14 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.
- 15 For further analysis of Shleifer and Vishny (1994), comparing their criticisms of market socialism to Hayek's and Jewkes's arguments against democratic socialism, see Makovi (2016b, 2016c).
 - 16 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).
 - 17 On Orwell as an advocate of democratic socialism, see Makovi (2015, 2016a), Roback (1985), Crothers (1994), White (2008), and Newsinger (1999).
 - 18 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).
 - 19 Cf. Hayek (1948: 209)'s criticism of Lange's (1938) 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."
 - 20 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.
 - 21 Heilbroner is also quoted in Boaz (2005, 2016).