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Labor in a Planned Economy: Hayek and Jewkes on the Reliance of Freedom on Prices

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Abstract: Milton Friedman (1962) is known for the claim that political freedom presupposes economic freedom (cf. Lawson and Clark 2010). Friedman's famous example is that there cannot be freedom of speech where the government owns the printing presses. Less well-known is F. A. Hayek's and John Jewkes's illustrations of the same principle, both drawing from labor economics. Economic planning – the abandonment of a freely operating price system – cannot function without resorting to compulsory assignment 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. Among Hayek's enduring contributions, therefore, is a demonstration that liberty hangs on the maintenance of the price-system.

Keywords1: Hayek; Road to Serfdom; democratic socialism; market socialism; economic democracy; totalitarianism; public choice; government failure; impossibility; corvee; corvée;

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serfdom; slavery; involuntary; coercive; compulsion; compulsory; labor; servitude

Keywords2: Hayek; socialism; public choice; labor; government failure

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The argument that economic freedom presupposes political freedom 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.” It is possible to protect individual liberties without democratic elections, but political freedom is impossible without economic freedom (Lawson and Clark 2010). 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, Mises 1981 [1922]:538).¹ Even were the government to decide to subsidize subversive dissent – as e.g. Harrington advocates (1978a:443, 1978b:357; cf. Lavoie 1985a:139) – the government would have to decide whose dissent was legitimate and worthy of subsidy. The government could not subsidize all dissent for then countless individuals would choose to become professional dissenters, and the quantity of dissent supplied would approach infinity (Friedman 1962:18). But if the government can only afford to subsidize some dissent and not others, and if there no private source of credit or funding for dissenters, then the democratic socialist government has an absolute power to decide whose dissent will be given a platform. Even a benevolent and altruistic socialist government cannot abdicate this necessarily totalitarian power. The democratic socialist government must necessarily declare that some dissent is

illegitimate, creating the same problem of totalitarianism which democratic socialism was meant to avoid in the first place.²

Less well-known, however, is Hayek's use of labor economics to prove the same point. This essay explores Hayek's neglected use of labor economics to illustrate how political freedom relies on economic freedom. Furthermore, we shall see that a lesser-known economist, John Jewkes (1968 [1948]), also used labor economics in the same way as Hayek did.³ Both Hayek's and Jewkes used labor economics to demonstrate that democratic socialism is “impossible” in the sense that it can never successfully accomplish the goals of its advocates.⁴ Even if it were possible to implement an economically rational form of socialism, its political institutions could not be democratic; nor could it promise to safeguard individual rights and liberties against government abuse.⁵

This feature of Hayek's – and Jewkes's – argument has been neglected, especially in recent discussions concerning the ultimate validity, soundness, and usefulness of Hayek's contributions. Any appreciation or criticism of the value of Hayek's works must take into consideration Hayek's arguments about labor economics. This essay proceeds as follows: section I examines Hayek's earlier statements – especially in *The Road to Serfdom* – about the relationship between freedom of occupation and maintenance of the price-system, especially in the context of full-blown command planning. This section discusses Jewkes as well. Section II shows that the same analytic framework which Hayek used in *The Road to Serfdom* to analyze labor economics under full command socialism, was used by him in later works – especially *The Constitution of Liberty* and *Law, Legislation, and Liberty* – to analyze labor economics in the modern welfare state or mixed economy. Section III uses the findings of the previous two

sections to reconsider recent debates over the nature and validity of Hayek's claims and contributions. We shall conclude that Hayek made interesting and important observations concerning labor economics which reinforce the Friedman's claim that political liberty presupposes economic liberty (cf. Lawson and Clark 2010). While Jewkes has not been mentioned in the debates over Hayek's legacy, in general, whatever is said about Hayek will largely apply to Jewkes as well. Section IV concludes.

I. HAYEK AND JEWKES ON THE ALLOCATION OF LABOR UNDER SOCIALISM

1. Labor Economics according to Hayek and Jewkes

All planning is necessarily coercive; it is impossible to plan the economy without planning individual people's lives. Planning means 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” (2007 [1944]:124). But 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 (Mises 1981 [1922]:107). 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 classrooms. For government to plan the production of books and classrooms is to plan the terms and conditions on which people will be able to obtain knowledge. Therefore, Hayek (2007 [1944]:126) 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.” “The authority directing all economic activity . . . would control the allocation of the limited means for all our ends” (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” (2007 [1944]:127).⁶

Marx said that “in place of the government over persons comes the administration of things,” to which Mises (1981 [1922]:73) replied, “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.” Furthermore, Mises said (1981 [1922]:493),

Whatever people do in the market economy, is the execution of their own plans.

In this sense every human action means planning. What those calling themselves planners advocate is not the substitution of planned action for letting things go. It is the substitution of the planner's own plan for the plans of his fellow men.

Friedman (1962) agreed that political freedom presupposes economic freedom, showing that there cannot be freedom of speech where the government owns the printing presses. But Hayek and Jewkes instead used labor economics to illustrate the same principle. Planning, they said, demands the coercive regimentation of labor, precluding freedom of occupation and even the choice where to live. As Hayek (2007 [1944]:129) states, “If they want to plan, they must control the entry into the different trades and occupations.” This is due to the problem of economically allocating labor efficiently absent the price-system. In a market economy, labor is allocated through differential wages. Every form of labor has some market-clearing wage, and

wages rise or fall to equilibrate supply and demand for labor. But under socialism, where wages are either equal or approximately equal, the only way to allocate labor is by political command, dictating by fiat who is to be employed where. But a system of compulsory, involuntary employment is hardly compatible with the aspirations of democratic socialism.⁷

Therefore, John Jewkes observed in *The New Ordeal by Planning* (1968 [1948]) that “whatever the original intentions of the planners, compulsion of labour soon becomes inevitable. For how, otherwise can labour be got into the appropriate jobs?” (1968 [1948]:90). And further (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.

Nor was Jewkes engaging in mere idle and unrealistic theorizing. 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 (Farrant 2015, Caldwell 2007:47n19). Jewkes (1968 [1948]:191, 193) lamented that

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.

Referring to that same law, Hayek (2007 [1944]:47) noted that 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.”⁸

Jewkes argued that this involuntary servitude was not a consequence of any despotic intent or moral depravity or abuse of power, but was dictated “by the logic of events” (1968 [1948]:193) and by “the inexorable demands of the plan” (*ibid.*). Likewise, according to Hayek (2007 [1944]:47), “[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.” In contrast to Shleifer and Vishny (1994)'s Public Choice criticism of market socialism,⁹ the problem here with democratic socialism is not that the politicians will abuse their power or be insufficiently benevolent or lack proper incentives. There is no principle-agent problem here (cf. Caldwell 1997:1875ff.). No matter how benevolent the political officials are, and no matter their incentives, any thoroughgoing and successfully-implemented democratic socialism, say Hayek and Jewkes, *must* be totalitarian. If anything, the more sincere and disinterested the politicians are, the more thoroughly they will strive to implement the socialist plan by regimenting labor, without any regard for their own self-interest.¹⁰

On the other hand, the Control of Engagements Order of 1947 was short-lived and its enforcement did not amount to much (Farrant 2015). Quoting Toye, McPhail and Farrant (2012:426) note that “the [Labour] government’s determination not to violate its own democratic precepts meant that it could not take the measures necessary to guarantee the execution of its own plans.” The Labour government could not tolerate the illiberal consequences of its own

professed commitment to planning, and its liberal commitment to freedom and democracy superseded its profession of planning. But *pace* McPhail and Farrant (2012:426), this does not refute Hayek, but on the contrary, it confirms him. The claim of *The Road to Serfdom* was that planning and freedom are incompatible (cf. Lawson and Clark 2010). The fact that Labour ultimately had to choose between the two proves Hayek right. Hayek had argued only that planning and freedom could not be obtained simultaneously, and the fact that Labour chose one over the other is consistent with Hayek's (then novel) claim.¹¹

Healthcare provides one interesting example of this labor problem. In another book, *A Return to Free Market Economics?*, Jewkes notes that socialized medicine cannot guarantee true equality of access to medical care – including 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” (1978:84; cf. pp. 67, 70).¹² Of course, the government could pay doctors a premium to incentivize them to voluntarily relocate to less desirable districts, but this implies income inequality. 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.¹³

Astoundingly, none other than the most famous advocate of democratic socialism (Makovi 2015a, 2016a) – George Orwell himself – seems to have realized these issues. 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).¹⁴

Thus, Hayek and Jewkes have shown how abandonment of the price-system and enforced income equality tends to necessitate resort to labor-conscription – at least, if economic activity is to be maintained. Even Orwell agreed with this. 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 totalitarian, then democracy will do little to help. Democratic socialism must resort to conscription of labor not because power has been maliciously abused but because wages have been forced towards equality. Even the most kind-hearted and benevolent planner would have little choice.

2. Freedom of Occupation under Market Socialism

Strictly speaking, however, government ownership or regulation of the means of production does not require equality of wages. Oskar Lange could state “[f]reedom of choice of

occupation [is] assumed” under socialism (1938:83) and that we can “assume that freedom of choice in consumption and freedom of choice of occupation are maintained” by socialism (1938:72) precisely because Lange accepted 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. Therefore, Lange specified that under market socialism, wages will be determined by essentially the same method they are in a free-market, with approximately the same kind of inequality (cf. Caldwell 1997:1862).

But it is hard to imagine how any socialist would be satisfied with such inequality. As Hayek (1978 [1976]:304) 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!¹⁵

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 efficiently as well, and there is no reason why the market-clearing rate for their labor ought to be significantly different under socialism than under capitalism. But 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 Piketty (2014 [2013])'s *Capital in the Twenty-First Century* should make it clear that Lange's endorsement of radical income inequality will not 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 the same \$100 dividend given to someone who earns only \$50,000. 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. Because value is marginal, an egalitarian distribution of the social dividend *will* affect labor incentives. Lange neglected the income and substitution effects of labor versus leisure. 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 efficiently allocate labor.

Assuming that the *planned* pattern of productive output is sacrosanct – and this implies a similarly *planned* pattern of employment – the social dividend cannot be distributed in such a way as to reduce inequality because this would influence the choice of occupation. Freedom of choice of occupation thus requires that the government abstain from interfering with inequality of income. Wages and incomes must be permitted to be radically unequal. 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.

Since Harrington (1978:443f.) and Schweickart (1992:11) – two advocates of democratic socialism or economic democracy – both approvingly cite Lange, it might be assumed that their schemes both presuppose freedom of choice of occupation – and therefore, inequality as well. But in fact, neither Harrington nor Schweickart understands Lange's system. Harrington (1978:443f.) 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.” Harrington (1978:446) adds 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 approximately as large as they already are under capitalism. He advocates (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. Like Harrington, Schweickart specifies that wage differentials will be restricted in order to limit income inequality (1992:20n7) even though this is incompatible with his reliance on Lange (1992:11).¹⁶ Harrington and Schweickart cannot have their cake and eat it too; they 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 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 inversely proportioned one, with exactly as much socialism as there is *not* freedom, and vice versa. Another 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. Farrant (2015) is correct to point out that the Control of Engagements Order of 1947 was short-lived and barely enforced, and McPhail and Farrant (2012:426) rightly call attention to the fact that the Labour government refused to thoroughly execute its own plans in order to maintain its adherence to democracy. But this actually confirms Hayek and Jewkes, who had simply claimed that planning and freedom are incompatible (cf. Lawson and Clark 2010). The

fact that Labour could not maintain democratic freedom without abandoning planning and egalitarianism is exactly what Hayek and Jewkes had claimed all along.

II. THE CONTEMPORARY WELFARE STATE

The question remains, however, whether any of this is relevant to the modern welfare state or mixed economy. Caldwell (2007: 30f., 2011) states that Hayek's *Road to Serfdom* does *not* apply to the welfare state. But Farrant and McPhail (2009, 2010) and McPhail and Farrant (2012, 2013) note that Hayek claimed that his argument in *The Road to Serfdom* *did* apply to the modern welfare state (cf. Hayek 1978 [1976]:300).¹⁷ Farrant and McPhail argue that because the modern welfare state is *not* totalitarian and because *The Road to Serfdom's* thesis *does* apply to the welfare state (by Hayek's own admission), therefore, it follows that the thesis of *The Road to Serfdom* must be wrong. The syllogism is logically valid.

But while that deduction is valid (i.e. the conclusion follows from the premises), it is not sound (i.e. accurate) because there are missing premises. We must examine what Hayek specifically said about the welfare state. Hayek's earlier and later works must not be conflated, and their respective historical and institutional contexts must be considered (Caldwell 2011, Boettke and Snow 2012). While all of Hayek's works share a common analytical framework, this framework is applied differently, depending on the institutional context and political environment.

The first thing to recall is the central role which Hayek's conception of the rule-of-law plays in *The Road to Serfdom* (2007 [1944]:112-123). We should therefore expect Hayek's criticism of the welfare state to reflect his theory of the rule-of-law. Indeed, in *The Constitution*

of Liberty (2011 [1960]:148-165) and again in *Law, Legislation, and Liberty* (1977:62-106), he argued that redistribution of wealth to achieve social justice inherently violates the rule-of-law. Treating people equally will result in unequal outcomes and achieving equal outcomes requires treating people unequally (2011 [1960]:150; 1966:170; 1977:82). Hayek interpreted the demand for “social justice” – i.e. fair incomes – as appropriate only for an “organization” with unitary ends, deliberately shaped by a single human will, but inappropriate for a “catallaxy” (market economy), a legal order based on formal, purpose-independent rules which enable individuals to pursue their own ends (1966:170-172; 1977:69, 75, 85, 96f., 102f.). Hayek's distinction between “catallaxy” and “organization” is similar to that which Oakeshott drew between a civic association and an enterprise association, and Hayek believed that the rule-of-law could survive only in a civic association (cf. Capaldi and Lloyd 2011: xxiii). Only if society per se has some teleological end is it meaningful to declare that certain end-state outcomes are fair or unfair. By contrast, if society is understood to be a spontaneous order where individuals are free to separately pursue their own ends, then it is only the rules which can be fair or unfair, not the outcomes. There is no set of general, abstract, procedural rules of justice whose execution will achieve an end-state satisfying social justice (1977:85f.). Replacing commutative with distributive justice means displacing private law by public law (1977:87). Achieving a given end-state requires a discretionary authority to give specific orders to individual people. Transforming society from a civic association, a spontaneous order governed by purpose-independent rules, into an organization or enterprise association governed by a single comprehensive, overriding will, is totalitarian in the literal sense (1977:104; cf. *ibid.* 83, 99, 180n2). Thus, Hayek understood the end-state conception of social justice to be contrary to the rule-of-law. Similarly,

Hayek (1966:175) rejected the progressive income tax as discriminatory and too individually specific to satisfy the rule-of-law. Therefore, Hayek would dispute Farrant and McPhail (2009)'s assertion that the modern welfare state is not totalitarian. If redistribution of wealth is itself a violation of the rule-of-law, then the modern welfare state must take us along the road to serfdom, almost by definition. Of course, one may dispute Hayek's assertion that redistribution is inconsistent with the rule-of-law. But this means disputing subjective, normative ethics, and so Farrant and McPhail (2009)'s argument against Hayek becomes less damaging.

Moreover, although Hayek (1966) does not say so explicitly, one gets the impression that his fear was that once one or two measures of “social justice” are enacted, violating the rule-of-law, there will be no intellectually consistent way to reject any other inroads on the rule-of-law. As Farrant and McPhail (2009:8n11) / McPhail and Farrant (2013:976) note, 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 totalitarianism. It is not that the progressive income tax will by itself alone lead us down the road to serfdom. Instead, once one violation of the rule-of-law is granted – no matter how innocuous in isolation – there will no reason not to grant countless others. Hayek criticized one pinprick because he knew that once the principle was granted that a person may prick another with moral impunity, there was the possibility of death by a million pinpricks. If the slippery slope has been avoided, it may be precisely thanks to Hayek's warning.

But Hayek went further than calling attention to an ideological slippery slope and attributing to the welfare state the abandonment of the rule-of-law. In *The Constitution of Liberty* (2011 [1960]) and in *Law, Legislation, and Liberty* (1977), Hayek added that the redistribution of

wealth would create specific consequences in labor markets which would necessitate totalitarian inroads, similar to what we have seen in *The Road to Serfdom*. Hayek predicted that people would object to inequalities of income that did not correspond to moral desert or merit (Hayek 2011 [1960]:156). Pursuing “social justice,” the welfare state 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 1978 [1976]:300f.). But, he said, this is inconsistent with freedom of occupation: “distributive justice is irreconcilable with freedom in the choice of one's activities” (Hayek 2011 [1960]:156n12). Once incomes are fixed, not according to the economic value of the labor but according to merit and desert, labor will no longer be efficiently allocated and employees will have no idea where they ought to go. “If the remuneration did not correspond to the value that the product of a man's efforts has for his fellows, he would have no basis for deciding whether the pursuit of a given object is worth the effort and risk. He would necessarily have to be told what to do” (Hayek 2011 [1960]:159f.).¹⁸ And again (1977:82):

a government aiming to secure for its citizens equal material positions . . . would have to undertake to tell people what to do. Once the rewards the individual can expect are no longer an appropriate indication of how to direct their efforts to where they are most needed, because these rewards correspond not to the value which their services have for their fellows, but to the moral merit or desert the persons are deemed to have earned, they lose the guiding function they have in the market order and would have to be replaced by the commands of the directing authority.

Hayek continued (1977:84), “Nor could anyone who is assured remuneration according to some

principle which is accepted as constituting 'social justice' be allowed to decide what he is to do” because remuneration would be according to moral desert instead of economic value. Therefore, Hayek (1977:92) concluded, income inequality

is a necessary concomitant of any system in which remuneration is based on the values the services have to the user and not on an assessment of merit earned. It must therefore prevail in any social order in which the individual is free to choose whatever occupation he can find and is not assigned to one by authority.

For example, suppose we decide that janitors and electrical engineers are equally deserving of the same income. Once this parity is established – as we shall see, it makes little difference whether by price-controls or by taxation and subsidy – the law of price-controls will operate. The market-clearing wages of electrical engineers are greater than the market-clearing wages of janitors, and once their wages are compulsorily equated, there will be a relative surplus of janitors and a relative shortage of electrical engineers. Whether this implies manifest shortages and surpluses, or whether the suboptimal misallocation is concealed, depends on the specific interventions. A minimum wage will create an unemployable surplus. But while a subsidy will create an over-supply, the over-supply will not be an unemployable surplus. Furthermore, unemployment created by a price floor can be concealed by a government price-support, i.e. a promise to provide government jobs to all those who cannot find private employment at the stipulated wages. But whether the over- and under-supplies are concealed or manifest, the inefficient misallocation is real. Unless chaos and inefficiency are tolerated, the labor of janitors and electrical engineers must be compulsorily allocated to ensure that precisely the right number are employed. Thus, “every such attempt at deliberate control of some remunerations is bound to

create further demand for new controls” (Hayek 2011 [1960]:164). One intervention begets another, just as Mises (1996 [1929], 1998) predicted.

In a 1976 lecture, Hayek (1978 [1976]) repeated several of these points. Speaking about the welfare state, Hayek (1978 [1976]:300) “greatly doubt[ed] their capacity to combine their aim of a through government redistribution of wealth with the preservation, in the long run, of a modicum of personal freedom.” Hayek claimed that to achieve its goals, the welfare state must “preserve functioning markets [in the] . . . factors of production . . . *and* also somehow . . . to influence at least the prices of labour . . . To satisfy both of these requirements in full is impossible.” (1978 [1976]:300). Echoing Mises's theory of intervention (Mises 1996 [1929], 1998), Hayek (1978 [1976]:300) continued, “Though the process may be gradual, a government which begins to control prices to secure popular conceptions of justice is bound to be driven step by step towards the control of all prices; and, since this must destroy the functioning of the market, to a central direction of the economy.” In this lecture, Hayek also repeated the argument that with the abolition of differential wages must come the compulsory direction of labor (Hayek 1978 [1976]:307):

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.

If the salaries of janitors and of electrical engineers are made equal, then no individual has any

way of knowing whether he will serve the common good better by being one or the other. He loses access to the data which would inform him of society's needs as well as the incentive to act on any such information. Therefore, the government must compel him to choose that occupation where labor is more relatively scarce.

It is important to notice that taxation of incomes is a form of price-control on labor as well. If the natural market rate for a given type of labor is \$100,000, then there is not much difference between taxing that labor to the amount of \$30,000 versus fixing that labor at \$70,000 and leaving it un-taxed. The over- and under-supply may be concealed or manifest, but they exist either way.

The reason why progressive income taxes have not produced obviously totalitarian outcomes, however, is because contemporary welfare states have not attempted 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 occupations and how much output they will produce. They have manipulated prices but tolerated the market consequences of those manipulations. As Hayek's mentor and colleague, Mises said (1981 [1922]:446), in a free-market, “taxation . . . imposes certain obstacles in individual businesses, but leaves the market to deal with its effect upon the prices of commodities and wages, on profits, interest, and rents.”

Hayek's emphasis on the role of prices recalls Röpke's distinction between “compatible” and “incompatible” interventions:

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. (Röpke1992 [1942]:260; cf. 1987 [1951]:7f.)

Similarly, referring to J. S. Mill, Hayek spoke of “Mill's Muddle,” the belief that production and distribution could be disconnected from one another (Ebeling 1977:11). In fact, production *is* distribution; the same prices simultaneously incentivize and remunerate production, and to alter distribution is therefore to alter production. But contemporary welfare states have *not* attempted to direct distribution in one direction and production in the other. Instead, they have intervened in one and let the other adjust itself accordingly. If taxing one form of labor and subsidizing another has resulted in a shift in productive output and employment from one industry to another, welfare states have not generally attempted to counteract this tendency by compulsory redirection of labor. Welfare states have thus eschewed any attempts to *plan* – which is why there are no obviously totalitarian consequences.

But suppose the governments were to take J. S. Mill seriously, and really attempt to disconnect production and distribution in order to achieve distributive or social justice. Suppose 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. Or

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 – regardless of prices. 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 arbitrarily determine incomes according to egalitarian standards of “fairness” – whether by setting a tax or by fixing a wage-rate – and simultaneously fix a level of employment and output in the corresponding industry, without resort to *corvée*.

By contrast, modern welfare states have chosen to relatively equalize wages but permit production and employment to vary themselves, *not* according to any *plan*. No welfare state today fixes the prices of labor in the way which Hayek feared they would. But this does not refute Hayek's argument that *if* welfare states were to fix wages – whether by redistribution or by price-control – *and* to insist on a specific pattern of output and employment regardless of prices – *then* we would wind up traveling along the road to serfdom. The fact that welfare states today have wisely eschewed price-controls does not refute Hayek's prediction that such controls would carry totalitarian consequences were they to be implemented. Therefore, Farrant and McPhail are incorrect to assert that the thesis of *The Road to Serfdom* has been falsified by the non-totalitarian nature of contemporary welfare states. The reason is that welfare states have not adopted the policies which Hayek feared they would, but we have no reason to doubt Hayek's claim that if welfare states had attempted to implement price-controls on labor without affecting productive output, this would have required compulsory regimentation of labor. Moreover, if

Hayek's prediction was wrong, it is may be because his warning was heeded (cf. Caldwell 1997:1868f., Witt 1992, Boettke and Snow 2012).¹⁹

III. *THE ROAD TO SERFDOM* RECONSIDERED

Hayek is sometimes neglected in discussions of Public Choice,²⁰ and he is also criticized for neglecting the contributions of Public Choice. Boettke (1995) replies that Hayek's (2007 [1944]) *Road to Serfdom* anticipated at least three basic teachings of Public Choice:²¹ first, the logic of collective action which enables special interests to obtain privileges. Second, 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, Boettke and Snow 2012, Makovi 2016b). In addition, Boettke (1995) discerns in in Hayek a fourth discovery, *viz.* the impossibility of distinguishing between political and economic freedom (cf. Lawson and Clark 2010).

In a series of articles, Farrant and McPhail (2009, 2010, 2011, 2012) / McPhail and Farrant (2012, 2013) have questioned the validity and soundness of Hayek's arguments. First, Farrant and McPhail contend that contrary to Caldwell (2007: 30f), Hayek's arguments were not directed solely against full-blown command planning and socialism, but that Hayek also believed his arguments applied to the contemporary welfare state or mixed economy as well. Because the welfare state has not resulted in Soviet- or Nazi-style totalitarianism, Farrant and McPhail say, Hayek's arguments must be mistaken. Farrant and McPhail also reject Caldwell's (2011) claim that *The Road to Serfdom's* criticism of central planning must be distinguished from Hayek's milder criticism of the welfare state in *The Constitution of Liberty* (2011 [1960]) and in *Law,*

Legislation, and Liberty (1977). Caldwell (2011, 1997:1866-1871) argues that *The Road to Serfdom* must be understood in its specific historical and institutional context (cf. Boettke and Snow 2012) and that it must not be confused with Hayek's later works, which are more relevant to the political situation today. Farrant and McPhail claim that Hayek himself considered all his works to relate to a single, ongoing theme. In reply, Caldwell (2011) and Boettke and Snow (2012) have argued that Farrant and McPhail misunderstand and underappreciate Hayek's arguments.

None of the participants in this debate, however, have mentioned how central the price-system is to Hayek's argument that political liberty presupposes economic liberty. We have seen that among Hayek's claims was that freedom of occupation cannot be maintained without the free operation of the price-system. Without prices, labor can be allocated only compulsorily. This forces us to reevaluate Farrant and McPhail's claims in two ways: first, Farrant and McPhail must reconsider the significance of Hayek's claim that political freedom requires economic freedom (cf. Boettke 1995, Lawson and Clark 2010). If Farrant and McPhail wish to question the merit of Hayek's contributions, they will have to contend with Hayek's argument that freedom of occupation cannot be maintained without prices. Second, in demonstrating how crucial prices are to Hayek's claims, this essay suggests that it may be a red-herring to ask – as the previous participants to this debate have – whether Hayek criticized socialism or the welfare-state. Instead, we should say that Hayek criticized any suspension or interference with prices, regardless of whether this was in the context of socialism or the mixed economy.

Farrant and McPhail are completely right to criticize simple-minded commentators who use *The Road to Serfdom* to condemn the Obama administration (2010, 2012:95; McPhail and

Farrant 2012:423f., 2013:967). At the same time, Boettke (1995), Caldwell (1997, 2011), and Boettke and Snow (2012) are correct that Hayek's works have contributed a number of useful and valuable analytical insights which are applicable to a variety of economic systems and policies. Authors on both sides of the debate are all correct because they have been asking the wrong question: they have assumed that either Hayek criticized only socialism, or else he criticized both socialism and the mixed economy in exactly the same way. Instead, we argue that Hayek's arguments were institutionally contingent: Hayek criticized a given system or policy insofar as it interfered with the price-system. Socialism and the mixed-economy interfere with prices in different ways and so they produce different effects, but they fall under the same analytical umbrella of interference with prices.²²

If the welfare state has not take us down the same road to serfdom as command-and-control socialism, it may be because because taxation and redistribution of income do not interfere with the operation of the price system the way command-and-control does (Ikeda 2015:409, 414). Farrant and McPhail (2009:10n17, 2010:118n13) briefly remark that Hayek approvingly cites Ludwig von Mises's *Kritik des Interventionismus* (Mises 1996 [1929]; cf. Mises 1998).²³ But they do not explore the deeper significance of Hayek's citation of Mises. That work by Mises was written specifically regarding price-controls, arguing that interventions which controlled prices – setting floors and ceilings – would lead to shortages and surpluses which would tend to motivate 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, resulting in *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, and his argument is *not* – as one might expect – 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). Obviously, Mises considered price-controls and progressive taxation to lead to quite different outcomes, and it is fair to hypothesize that Hayek likely thought similarly. Hayek's arguments are more easily understood if we interpret him to be distinguishing – like Röpke (1992 [1942]:260, 1987 [1951]:7f.) – between interventions which are compatible with the price-system and those which are not. This interpretation of Hayek is more fruitful than debating whether Hayek meant to criticize only command planning (Caldwell) or the mixed economy as well (Farrant and McPhail). Similarly, for example, a debate between public schooling and school vouchers will be more productive if we compare how compatible each is with the price-system, rather than trying to pigeon-hole one into the category of “socialism” and the other into “the mixed economy.” We suggest that Hayek would have been more favorable towards vouchers than public schooling because the former is more compatible with the price-system than the latter.

Farrant and McPhail cite Samuelson (Farrant and McPhail 2009:5,9,11,12; 2010:107; 2012:101) and Sachs (Farrant and McPhail 2010:98) who argue that if Hayek were correct, we may have expected Scandinavian socialism to have turned totalitarian by now. But if we understand Hayek to be criticizing interference with the price-system, we see that this criticism misses the point entirely. The Scandinavian system has historically relied more on redistribution of income than regulation or nationalization. In fact, Sweden offers a high degree of protection of

private property and freedom to internationally trade (Stein 1991, Sanandaji 2011, Tupy 2016, Mitchell 2016). To a large degree, Scandinavian “socialism” (sic) has entailed giving some individuals a cash subsidy and then allowing them free reign to spend this cash however they desire in a free market. In many ways, Sweden is more pro-market than the United States. This is *not* socialism of the sort Hayek criticized. Fittingly, Lawson and Clark (2010:235) note that according to their empirical analysis,

the Hayek–Friedman hypothesis 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).

If anything, Scandinavian “socialism” has vindicated Hayek precisely because its success is built upon a maintenance of the price-system. Scandinavia has generally eschewed command-and-control regulation of the sort which would have interfered with the price-system. This suggests that it is not safety nets which make robust markets viable – by protecting the least-well-off from the vagaries of markets -- but the opposite: it is robust markets which produce the wealth which makes safety nets affordable.²⁴ This explains why Sweden can afford its welfare system while Greece and Venezuela cannot. Highly-regulated economies cannot absorb the costs of extensive welfare states. Sweden has vindicated Hayek by combining a high level of income taxation and redistribution with a low level of regulation and command, thereby maintaining the price-system and private property.²⁵

Furthermore, there is the crucial question whether actors are permitted to freely adjust

their behavior to the tax regime, or whether the state demands behaviors which run counter to the incentives created by the taxes – in other words, whether the state requires its subjects to behave as if taxed products and activities are not taxed at all (cf. Mises 1981 [1922]:446). Suppose the state were to tax the incomes of those employed in a given industry and yet insist that the level of employment in that industry remain the same as it was prior to the imposition of the tax. A command to behave as if taxation does not exist interferes with the price-system more than the taxation itself.

IV. CONCLUSION

It is well-known that Friedman (1962:16-18) chose to illustrate the principle of the inseparability of political and economic freedom using the freedom of speech. He famously argued that there can be no freedom of the press where the government owns the printing presses (cf. Rothbard 1977:26, Mises 1981 [1922]:538). But Hayek (2007 [1944], 2011 [1960]) and John Jewkes (1968 [1948]) chose instead to illustrate the inseparability principle using labor economics, demonstrating the necessity of compulsorily labor under socialism. According to Hayek and Jewkes, egalitarian socialism necessitates the abolition or severe restriction of differential wages, making it impossible to allocate labor according to any economic plan without resorting to compulsion and regimentation. Moreover, as we saw, Hayek predicted that the welfare state would adopt labor regulations which would interfere with the operation of the price system and deny the rule-of-law, necessitating resort to compulsory labor.

Perhaps Hayek and Jewkes chose this example because the problem is so much more stark and forbidding. 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 would not be terrified by the prospect of slavery, the paradigmatic denial of individual freedom. And yet socialism cannot operate without literal slavery – compulsory labor. Fittingly, Hayek's work was titled, *The Road to Serfdom*. If socialism requires regimenting labor, what hope for any other kind of freedom can there be?

While Hayek may not have predicted the future accurately, this does not negate the validity of his criticism of particular interventions which the government happily turned out to eschew. His argument that political liberty is impossible without economic liberty has not been refuted (Lawson and Clark 2010). Hayek's argument is an institutionally contingent one, and whether a given intervention will lead us down the road to serfdom depends how compatible a given intervention is with the functioning of the price system. A tax which allows production, employment, and consumption to adjust themselves to the new pattern of prices will not interfere with 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. Nor is his analysis of given policies is wrong simply because the government adopted different policies in the end. The analytical framework is not less valid simply because history took one turn rather than another – especially if we consider the possibility that Hayek's predictions might have been falsified precisely because others heeded his warning (cf. Caldwell 1997:1868f, Witt 1992, Boettke and Snow 2012).

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- 1 Furthermore, Friedman (1962:16f.) and Jewkes (1968 [1948]:198) both note 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, Mises 1981 [1922]:538).
- 2 Similar considerations vitiate Schweickart's (1992:19, 22) proposal for an economic democracy to centrally direct investment. Schweickart claims that this would avoid the totalitarian problem of comprehensive economic planning. But to control investment is to control everything else. As Hayek said, "The basic decision must be at the center so long as the allocation of capital comes from the center. If nobody except for the government is allowed to own capital it is the government which decides all of the ultimate questions" (Ebeling 1977:11).
- 3 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, Jewkes described Hayek's *Road to Serfdom* as "masterly" (1968 [1948]:xiii) for its "analysis which has never been confuted" (1968 [1948]:182n). 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.
- 4 When Mises said socialist calculation is "impossible," he did not mean that one could not establish a persistently ongoing socialist political system. Rather, what he meant was that such a political system could never successfully accomplish the economic goals of its advocates. Similarly, Mises did not say that socialism is logically impossible but that successful socialism is practically unfeasible. The political system may be established, but it will fail to accomplish what it is meant to

(Hayek 1948:146, Lavoie 1985b:152f., Steele 1992:109).

5 That argument that economic calculation is impossible under socialism has been made elsewhere by the Austrian School of economics (Hayek 1935, 1948:77-91, 119-208 – summarized in Caldwell 1997:1858-1866; Brutzkus 1935; Mises 1981 [1922]:95-194; Hoff 1981 [1938]; Leoni 2009 [1965]; Lavoie 1985a, 1985b; Steele 1992; de Soto 2010; Boettke 1998, 2012:76-96, 226-240). For the sake of argument, this essay assumes that there is no problem of rational economic calculation under socialism.

6 Several socialists notably agreed. Maurice Dobb denied 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, 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). Robert Heilbroner (1978:345) admitted that

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 [and] . . . 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 concluded (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 later added (1986:126) that “democratic liberties have not yet appeared, except fleetingly, in any nation that has declared itself to be fundamentally anticapitalist.” (Heilbroner is quoted by Boaz [2005, 2016].)

- 7 Two novels offer fictionalized illustrations of this: Richter (2010 [1891]) and Hazlitt (1966 [1951]); see Makovi (2016a).
- 8 In a 1994 preface to the *Road to Serfdom*, Milton Friedman agreed that this law confirmed Hayek (see Hayek 2007 [1944]:261).
- 9 Interestingly, Shleifer and Vishny (1994)'s arguments from Public Choice appear very similar to the principle-agent problems with socialism which other economists have discovered using the economics of information (cf. Caldwell 1997: 1875-1886). In other words, Public Choice – in the hands of Shleifer and Vishny (1994) – as well as the economics of information, both focus on incentive problems.
- 10 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). 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).
- 11 Though it is no longer novel today: McPhail and Farrant (2012:423).
- 12 On the difficulties which physical geography imposes on egalitarian schemes of distribution, cf. Hoff (1981:35).
- 13 Szasz (1977:114) has also called attention to the fact that the alleged right to healthcare implies *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, 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.”
- 14 Newsinger (1999:139) notes that “Labour Government on this occasion seems to have brought out

the worst in” Orwell. Farrant (2015) interprets Orwell and the Control of Engagement Order of 1947 much less negatively.

15 Cf. Hayek (1948:209)'s criticism that Lange's (1938) market socialism 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.”

16 Even worse, Schweickart declares that labor costs are not to be accounted for at all (1992:22) in his “democratic, market-conforming plan” (1992:19). But rational economic calculation requires that labor be economically allocated and conserved (Mises 1981 [1922]:126-130; cf. Lange 1938:83).

17 Cf. Farrant and McPhail (2012): some of Hayek's supporters have defended Hayek by saying that not only did Hayek not criticize the welfare state, but furthermore, they say, Hayek would have endorsed the welfare state. Farrant and McPhail (2012) reply that no, Hayek certainly would not have.

18 Hayek's argument implies an important criticism of various forms of luck-egalitarianism and left-libertarian, which often specify that people are to be compensated for the strenuousness of their labor but not for their inborn talents. Talent is a scarce resource which must be allocated efficiently. Remunerating people for their undeserved talents may be unfair, but it is the only way to ensure that their talents are used for the good of society. If utilization of talent is not incentivized by unequal remuneration, then it must be legally compelled. Cf. Hayek (2011 [1960]:158) and Fitz-Claridge (2015). This is related to the problem of economic calculation (the knowledge problem); cf. Hayek (2011 [1960]:155, 159, 161) and Makovi (2015b:266-268).

19 On the other hand, welfare states may simply be leading us down a different kind of road which even Hayek did not foresee. Dalmia (2016) and Tabarrok (2016) argue that Muslim immigrants to Europe are turning to religious extremism because rigid labor markets – such as high minimum wages and legally empowered unions – have made it impossible for them to integrate.

20 For example, Shleifer and Vishny (1994: 168, 170), in their Public Choice criticism of market socialism mention Hayek only to say that he will not be discussed.

21 That Austrian market process theory is compatible with Public Choice political process theory, see Boettke and López (2002) and Ikeda (2003).

22 Moreover, even if Hayek's analytical insights are all valid in themselves, I would be willing – if necessary – to concede to Farrant and McPhail that Hayek might have, on occasion, misapplied his abstract analytical insights to given policies and regimes.

23 Ikeda (2015) expands on Mises's theory of interventionism. Steele (1992:103-107) criticizes Mises's theory.

24 I owe this argument to Phillip W. Magness.

25 Of course, sometimes taxes amount to *de facto* regulation. For example, Mises (1981 [1922]:230; cf. *ibid.* 447) speaks 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.

But not all taxes are equally command-like, because some taxes are more general or specific than others. A flat per-capita tax resembles command-and-control regulation less than a flat-rate income tax, which in turn is less regulatory than a progressive income tax. Taxes and subsidies on specific activities are more regulatory in nature than any of these taxes on persons. In other words, some taxes and regulations are more general or particular than others, violating the rule-of-law differently. For Hayek (2007 [1944]:112-123), the rule-of-law entails general, abstract, purpose-independent rules which apply to everyone equally, in contrast to rules which apply specifically to different people and different activities. Insofar as a tax violates the rule-of-law in Hayek's sense, it constitutes a form of command regulation. Indeed, Hayek (1966:175; cf. 2011 [1960]:430-450)

criticized specifically *progressive* income taxation for being discriminatory and therefore violating the rule-of-law.