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13 May 2016

Online at <https://mpra.ub.uni-muenchen.de/71296/>

MPRA Paper No. 71296, posted 15 May 2016 07:43 UTC

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

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Abstract: Milton Friedman (1962) famously argued there can be no freedom of speech where the government owns the printing presses. According to Friedman, political freedom presupposes economic freedom (cf. Lawson and Clark 2010). Less well-known are 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

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democracy; totalitarianism; public choice; government failure; impossibility; corvee; corvée; serfdom; slavery; involuntary; coercive; compulsion; compulsory; labor; servitude

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

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

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 argues (1962:16-18), the freedom of speech cannot be maintained when the government owns all the printing presses (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 lest countless individuals choose to become professional dissenters, and the quantity of dissent supplied 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 expressed. Even a benevolent and altruistic socialist government cannot abdicate this necessarily totalitarian power (cf. Farrant and McPhail 2010b:81). 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 – especially on the free operation of the price-system.³ Furthermore, we shall see that John Jewkes (1968 [1948]) also used labor economics in the same way as Hayek did.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, because freedom hangs on the preservation of the price-system.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 and the price-system. 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. 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. We shall conclude that Hayek made interesting and important observations concerning labor economics which reinforce Friedman's claim that political liberty presupposes economic liberty (cf. Lawson and Clark 2010). The nature of Hayek's contribution has been obscured because the debate has confusingly focused on a distinction between “socialism” and the “mixed economy,” whereas a better distinction is between interventions which do and do not interfere with the price-system. 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 this 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 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 is not that 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, 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 (cf. Farrant and McPhail 2010b:81).¹⁰

On the other hand, the Control of Engagements Order of 1947 was short-lived and its enforcement was weak (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.” But *pace* McPhail and Farrant, this does not refute Hayek, but on the contrary, it confirms him. Hayek's

claim 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. But if egalitarianism requires labor-conscription, 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 alleviate. Democratic socialism must resort to conscription of labor, not because power will be maliciously abused but because wages will be 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. 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) responded 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 egalitarians.

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. 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 – 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. 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: in order to promote income equality while maintaining productive output, a socialist regime must forcibly assign everyone to his occupation. Otherwise, the government cannot ensure the plan will be implemented. Either a democratic socialist government will insist on this coercion, or else it will relent, preserving democratic values at the cost of abandoning income equality. 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. 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

But is any of this 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, 2010a, 2010b, 2011a) 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. But we must examine *why* Hayek thought *The Road to Serfdom* applied

to 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 too discriminatory to satisfy the rule-of-law. If redistribution of wealth is indeed 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's argument against Hayek becomes less damaging.

Moreover, Hayek (1966) suggests 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, 2011a:1122, 2011c:8n14) / McPhail and Farrant (2013:976) note, sometimes Hayek emphasized the ideas and morals endogenously engendered by the welfare state, creating a sort of feedback cycle. Similarly, it seems that according to Hayek, is not just 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. After a moral principle is abandoned once or twice, it becomes easier to abandon it forever more. As the Talmudic aphorism says, “once a person sins once and repeats it, it [subjectively and psychologically] becomes permitted for him.” If this slippery slope has been avoided, it may be precisely thanks to Hayek's warning (cf. Witt 1992).

But Hayek went further than calling attention to an ideological slippery slope and the neglect 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 public 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 (Röpke 1992 [1942]:260; cf. 1987 [1951]:7f.):

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.

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 production and employment from one industry to another, welfare states have not generally attempted to counteract this tendency by compulsory redirection of labor.

But suppose the governments were to take Mill seriously and disconnect production from distribution 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. 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 arbitrary figure regardless of prices – say, that there must be such-and-such a number of coal miners and such-and-such an output of coal. This could not be accomplished without forced labor. 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*.

Modern welfare states have instead 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 the implementation of such controls would carry totalitarian consequences. 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. Welfare states simply 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

Our foregoing discussion has implications for recent debates over Hayek's legacy. In a series of articles, Farrant and McPhail (2009, 2010a, 2010b, 2011a, 2012) / McPhail and Farrant (2012, 2013) (hereafter: F&M, M&F) have questioned the validity and soundness of Hayek's arguments. First, F&M 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, F&M say, Hayek's arguments must be mistaken. F&M 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. F&M 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 F&M misunderstand and under-appreciate 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 F&M's claims in two ways: first, F&M must reconsider the significance of Hayek's claim that political freedom requires economic freedom (cf. Boettke 1995, Lawson and Clark 2010). If F&M 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.

F&M are completely right to criticize simple-minded commentators who use *The Road to Serfdom* to conflate Obamacare with Stalin's Five Year Plans and to condemn the Obama administration as equivalent to Hitler (F&M 2010a, 2010b, 2012:95; M&F 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 and yet wrong 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.²⁰ Therefore, against F&M's (2010b) claim that Hayek himself would have agreed with those who ignorantly compare Obama to Hitler, we emphasize the contingent nature of Hayek's arguments. Whereas F&M (2011a:108) call Hayek's logic "threadbare and unpersuasive,"²¹ we insist with Boettke (1995) that Hayek's works express a variety of important theoretical insights.²²

If the welfare state has not take us down the same road to serfdom as command-and-control socialism, as F&M say Hayek predicted it would, 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). F&M (2009:10n17, 2010a: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 (F&M). For example, a debate whether Hayek would have supported public education or school vouchers will be fruitless if we insist on categorizing public education as “socialism” and vouchers as “mixed economy.” Instead, we should recognize that vouchers are more compatible with the price-system. Put this way, it is immediately obvious why Hayek probably would have preferred vouchers.²⁴

F&M cite Samuelson (F&M 2009:5,9,11,12; 2010a:107; 2010b:84; 2012:101) and Sachs (F&M 2010a: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.²⁵ 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 rein 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* the socialism which Hayek criticized. Hayek called attention to this fact, noting in this 1976 preface to *The Road to Serfdom* (2007 [1944]:54) that,

At the time I wrote, socialism meant unambiguously the nationalization of the means of production and the central economic planning which this made possible and necessary. In this sense Sweden, for instance, is today very much less socialistically organized than Great Britain or Austria, though Sweden is commonly regarded as much more socialistic.²⁶

If anything, Scandinavian “socialism” has vindicated Hayek precisely because its relative 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.²⁷ 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.²⁸ The success of the Swedish system is quite consistent with Hayek's theoretical reasons for approving the institution of a minimum social safety net (Hayek 1977:87), and his endorsement of Friedman's negative income tax (Ebeling 1977:12).

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.

Fittingly, Lawson and Clark (2010:235) note that

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).

The multidimensional nature of the EFW allows us to avoid sterile debates between socialism and the mixed economy.²⁹ Rather than trying to pigeonhole actually existent economies into one category or the other, we may recognize that different interventions have different effects, affecting prices and property in different ways. This multidimensional understanding of economic freedom also allows us to better understand Hayek. Furthermore, if we understand Hayek to be concerned with the operation of the price-system, then his political and his economic works turn out to share a common theme; “The Use of Knowledge in Society” (Hayek 1945) turns out to be arguing much the same point as *The Road to Serfdom*. *Ceteris paribus*, any reading of Hayek which unifies his works ought to be preferred.

IV. CONCLUSION

It is well-known that Friedman (1962:16-18) illustrated 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 Jewkes (1968 [1948]) chose instead to illustrate the inseparability principle using labor economics, demonstrating the necessity of compulsory labor whenever the price-system is abandoned. 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?

Previous debates over Hayek's legacy have been confused because they insisted on a dichotomy between socialism and the mixed economy. This distinction is too simplistic and uni-

dimensional and it does not do justice to the richness of Hayek's thought. Hayek criticized any system which interfered with prices and property, regardless of what we would call it. While Hayek may not have predicted the future accurately, this does not negate the validity of his analytical framework, nor does this refute 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 This essay will *not* discuss Hayek's view that Keynesian unemployment policy would give rise to the problems of planning discussed in *The Road to Serfdom*; for this, see Farrant and McPhail (2011b, 2011c).
- 4 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). One important criticism made by several reviewers of Jewkes's book 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. Cf. Jackson (2010), Farrant and McPhail (2011b, 2011c).
- 5 The argument that economic calculation is impossible under socialism has been made elsewhere (Hayek 1935, 1945, 1948:119-208 – 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).
- 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. Cf. Farrant and McPhail (2011c:7n5).

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 Moreover, even if Hayek's analytical insights are all valid in themselves, I will concede to F&M that on at least one occasion, Hayek misapplied – or failed to apply – his abstract analytical insights to given policies and regimes. As we shall see, I use Hayek's insights to analyze Sweden differently than he himself did.

21 On the other hand, F&M (2010b:89n7) believe that in his treatment of “why the worst get on top,” “Hayek has a deep understanding of the mechanics and logic inherent in any genuinely totalitarian political machinery” but that his analysis is wholly inapplicable to any Western bureaucracy.

22 Hayek is sometimes neglected in discussions of Public Choice. 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. Hayek is also criticized for neglecting the contributions of Public Choice (cf. Boettke 1995). Boettke (1995) replies that Hayek's (2007 [1944]) *Road to Serfdom* anticipated at least three basic teachings of Public Choice: 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 Hayek a fourth discovery, viz. the impossibility of distinguishing between political and economic freedom (cf. Lawson and Clark 2010). That Austrian market process theory is compatible with Public Choice political process theory, see Boettke and López (2002) and Ikeda (2003).

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

24 Cf. Hayek's approval of the institution of a minimum social safety net (Hayek 1977:87) and his endorsement of Friedman's negative income tax (Ebeling 1977:12).

25 Here, I use Hayek's analytical framework to judge Sweden differently than Hayek himself did. As F&M (2009:22n; cf. 2010a:116n3) note, “In a 1977 interview, when asked why 'do Sweden and many Scandinavian welfare states seem to be prospering?', Hayek suggests that '[t]he standard feeling that life is really not worth living is very strong in Sweden’” (Hayek, 1992 [1977]:9).

26 F&M (2009:15, 2010a:111, 2010b:86) / M&F (2013:980n1) make much of the fact that this passage continues to express a prediction that Swedish socialism will “slowly, indirectly, and imperfectly” bring about the same consequences as full-blown planning. Section II of this essay has already explored why Hayek believed this: because he wrongly believed that price-controls would play a more crucial role in the mixed economy than they ultimately did.

27 I owe this argument to Phillip W. Magness.

28 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.

29 I owe this point to Daniel J. D'Amico.