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Hayek and Arrow's Impossibility Theorem: The Difficulty of Democratic Consensus

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Abstract: Andrei Shleifer and Robert W. Vishny use Public Choice analysis to criticize market socialism, but they dismiss Hayek's *Road to Serfdom* as irrelevant. Contrariwise Boettke and Leeson argue that Hayek advanced a form of Public Choice analysis, including an adumbration of Arrow's Impossibility Theorem. This essay elaborates that claim and elucidates the specific implications which the Arrow theorem has for democratic socialism. Democratic socialism is impossible, in the sense that it cannot successfully accomplish the goals of its advocates, because the Arrow theorem implies that democratic political institutions are fundamentally incompatible with socialist economics. Similar problems apply to deliberative democracy.

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

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In an influential paper, Andrei Shleifer and Robert W. Vishny (1994) utilize basic Public Choice

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to argue that market socialism would be susceptible to the inefficiencies of rent-seeking because politicians cannot be sufficiently incentivized to promote economically efficient resource allocation. Although the target of Shleifer's and Vishny's criticism is market socialism, their arguments would appear to apply to numerous economic systems, such democratic socialism and social democracy.

But Shleifer and Vishny (1994: 170) dismiss F. A. Hayek's *The Road to Serfdom* (2007 [1944]) because Hayek's work “made a relatively bigger impression on public opinion than on the economics profession” (Shleifer and Vishny 1994: 168). Nor do Shleifer and Vishny explain in any detail what Hayek's arguments were. According to their laconic summary, Hayek “argued that democracy is impossible in a country where a single leader has all the power that comes with controlling capital” (Shleifer and Vishny 1994: 170). While this is not inaccurate, it is extremely over-simplified. Hayek's argument was much more detailed than this and it deserves further attention. Although Shleifer and Vishny's general argument is persuasive, Hayek's own contribution is undeservedly neglected.

Even two authors highly sympathetic to Hayek concede that Hayek's theory was “[not] particularly detailed” (Lawson and Clark 2010: 231), and even they can identify only three specific arguments which Hayek made: first, that power corrupts; second, that planners must subject voters to propaganda and political controls in order to dupe voters into supporting the code of values guiding and underlying the planners' plan; and third, that if voters' preferences are not stable, then for the plan to maintain stability and consistency, it must be administered non-democratically. Lawson and Clark note that these latter two explanations are inconsistent: according to one, voters are tricked into democratically supporting the plan, and according to the other, the plan is insulated from democracy, kept out of the voters' hands so that their support is not even necessary. By one account, the voters are duped, and by another, they are bypassed.

But Hayek's arguments are far more sophisticated than this and less inconsistent with each other than Lawson and Clark (2010) suggest. According to Peter J. Boettke (1995), Hayek (2007 [1944])

demonstrated familiarity with several of the key claims of contemporary Public Choice, including a form of Arrow's Impossibility Theorem (Boettke 1995: 19f., Boettke and Leeson 2002).¹ According to Hayek, no single consistent, coherent plan can be arrived at by democratic means. The need to dupe voters and/or to keep the plan out of their hands are simply two corollaries of a single Arrow paradox, equivalent to agenda-setting on the one hand and dictatorship on the other. Hayek's argument was more sophisticated than many have realized, and it deserves more attention.

This essay will compare the arguments made by Shleifer-Vishny on the one hand and Hayek on the other, demonstrating their mutual compatibility. Furthermore, it will expand on the Boettke-Leeson claim that Hayek presaged Arrow's Impossibility Theorem. Finally, this essay will explore how the Hayek/Arrow-type argument affects the respective policies of democratic socialism and deliberative democracy. I will demonstrate that the Arrow-type argument poses a grave dilemma for democratic socialism and for deliberative democracy. These two systems must be deemed “impossible” in the Misesian sense that they cannot satisfy the desires of its advocates.² Because of Arrow's Impossibility Theorem, the political institution of democracy is fundamentally incompatible with both the economic system of socialism as well as the achievement of democratic consensus by deliberation³

The essay proceeds as follows: section I summarizes Shleifer and Vishny (1994). Section II explores Hayek's arguments, elaborating Boettke's and Leeson's claim that Hayek presaged Arrow's Impossibility Theorem. Section III describes how Hayek's arguments have different implications for socialism than Shleifer and Vishny's. Finally, section IV shows how Hayek's arguments against socialism apply to deliberative democracy as well.

I. SHLEIFER AND VISHNY'S “THE POLITICS OF MARKET SOCIALISM” (1994)

According to Shleifer and Vishny (1994: 165f.), “Under all forms of market socialism . . . politicians' objectives must determine resource allocation. Market socialists have traditionally assumed

that politicians will assume an efficient resource allocation.” Advocates of democratic or market socialism “all presume efficiency-maximizing politicians” (Shleifer and Vishny 1994: 167) and when they prescribe what a good government ought to do, they “presume that it actually wants to do so” (Shleifer and Vishny 1994: 167). Their criticism is essentially an application of the familiar and accepted conclusions of Public Choice (Shleifer and Vishny 1994: 168) and it basically predicts a failure of political institutions to create appropriate incentives or to prevent the abuse of power. Shleifer and Vishny use the economic theory of rational, utility-maximizing individuals to cast doubt on the general willingness of politicians – who are human – to implement market socialism the way it is supposed to be.

Shleifer and Vishny (1994: 166) claim that Oskar Lange (1938)'s proposal for market socialism successfully refuted Ludwig von Mises's argument that economic calculation is impossible under socialism. Therefore, they criticize only the political feasibility of market socialism, not its theoretical economic validity. They would appear to agree with Heilbroner's (2008) statement about Soviet-style central planning, that “[t]he crucial missing element is not so much 'information,' as Mises and Hayek argued, as it is the motivation to act on information” (cf. Caldwell 1997: 1875-1886).

In addition, Shleifer and Vishny have a second argument against market socialism: citing Mancur Olson (1965) and Gary Becker (1983), they argue that market socialism is vulnerable to rent-seeking, creating economic inefficiencies (Shleifer and Vishny 1994: 171f.). They concede that the same problem exists under democratic capitalism, but they claim that the inefficiencies would be worse under market socialism (Shleifer and Vishny 1994: 172-174).⁴ Hence, the criticism by Shleifer and Vishny of market socialism is a simple – though nonetheless valuable – application of straightforward, textbook Public Choice: political officials will have insufficient incentive to implement market socialism according to the specified rules, and rent-seeking inefficiencies will undermine the rules and efficacy of the system.⁵

II. HAYEK'S ARGUMENTS

Like Shleifer and Vishny (1994), Hayek (2007 [1944]) used economic analysis to criticize the political institutional logic of democratic socialism. His argument is therefore a form of Public Choice (Boettke 1995 re: Hayek). Whereas some scholars believe that Hayek completely ignored Public Choice (Boettke 1995: 7), Boettke (1995: 8) claims that *The Road to Serfdom* “set out to explicate how socialist ideas change the demands on democratic institutions and how these institutions are in turn transformed into instruments of totalitarian rule because of their inability to meet these changing demands in a manner consistent with democratic principles.” Hayek's contribution was the Public Choice application of specifically Austrian economic theory to decision-making within non-market settings (Boettke 1995: 19).⁶

In fact, several of Hayek's arguments are highly similar to those of Shleifer and Vishny, making it all the more surprising that Shleifer and Vishny dismissed Hayek's arguments as irrelevant. According to Boettke, Hayek claimed that the socialist rejection of competition would unintentionally empower interest groups and encourage special pleading for protection (Boettke 1995: 10).⁷ Thus, Hayek understood one of the central claims of modern Public Choice, the logic of concentrated benefits and dispersed costs (Boettke 1995: 10). Furthermore, Hayek's defense of the rule of law – that laws should be abstract and generally applicable to all – may be understood as a call for a legal rule which eliminates opportunities for interest groups to obtain special exemptions and concessions by special pleading (Boettke 1995: 10). In Boettke's reading, Hayek's argument is very similar to Shleifer and Vishny's concerning rent-seeking.

Like Shleifer and Vishny, Hayek also understood that “power corrupts,” that political officials are self-interested humans as well. According to Boettke (1995: 11f.), Hayek examined the institutional

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

But Hayek went beyond Shleifer's and Vishny's (correct) argument that political officials will misuse their power and be insufficiently incentivized, giving rise to economic inefficiency. Hayek anticipated Arrow's Impossibility Theorem, which “could be reinterpreted as an application of Mises's impossibility thesis to non-market decision making via democratic voting” (Boettke 1995: 19). Just as Mises argued that a socialist planner could not economically calculate, a democratic socialist polity – said Hayek – could not “calculate” the will of the people. Similarly, Arrow showed that it is impossible to aggregate a multitude of individually ordinal and transitive preference functions into one single ordinal-transitive social preference function. Any possible voting rule whatsoever will be susceptible to one of several paradoxes, and given individually transitive and ordinal preferences, there is no mathematically-guaranteed way to aggregate them together into one social preference function while avoiding paradoxes. The only means by which the political preference function can satisfy all of Arrow's conditions and avoid paradox is through dictatorship, because dictatorship avoids the need to aggregate individual preference functions into one social preference function in the first place (Butler 2012: 32; Stevens 1993: 47, 143-145; Hinich and Munger 1997: 95-99). While Hayek's argument is not mathematical in nature, and he does not prove it with the same systematic logical rigor as Arrow, the

two nevertheless argued much the same point. Unfortunately, at the time Hayek wrote, “a naïve view of democratic governance dominated discourse” and it was believed that “[t]he voting process unambiguously conveyed the necessary information” (Boettke 1995: 15). Therefore, critics could not understand Hayek's point (Boettke 1995: 13-18). In fact, Hayek's point is still misunderstood today (Boettke and Snow 2012:431 re: McPhail and Farrant 2012:424f.).

According to Hayek, democratic socialism gives rise to difficulties more profound than the mere allocational inefficiencies of rent-seeking. Instead, democracy is fundamentally incompatible with socialism on the most basic, essential level. The problem is not merely that politicians will abuse their power or that socialism will give rise to economic inefficiency. Rather, democracy and socialism are fundamentally incompatible and democratic socialism is incoherent. It is not merely that government officials will have the wrong priorities or that they will use their power with malicious intent – that power corrupts. In contrast to Shleifer and Vishny, Hayek argues that even a perfectly well-intentioned, benevolent, and altruistic government will nevertheless fail to accomplish the purposes of socialism because the political institutions of democracy are fundamentally incompatible with the economic goals of socialism. The political and economic systems simply do not match up in any coherent fashion.

The fundamental problem is that promotion of “the common good” or “the general welfare” requires aggregating individual preference scales into one single, societal scale. As he said (2007 [1944]: 101),

To direct all our activities according to a single plan presupposes that every one of our needs is given its rank in an order of values which which must be complete enough to make it possible to decide among all the different courses which the planner has to choose. It presupposes, in short, the existence of a complete ethical code in which all the different human values are allotted their due place.

This is the very same problem of preference aggregation which Arrow famously studied. McPhail and

Farrant (2012:424f.) complain that Hayek does not mention Condorcet cycling, to which Boettke and Snow (2012:431) respond that nevertheless, Hayek – like Arrow – was making “a point about whether we can form a coherent social welfare function via democratic means.” Like Arrow, Hayek understood that “Coherent planning presupposes agreement on a common value scale, but such a value scale is next to impossible the more the scope of the state grows. . . . In other words, socialist aspirations run into trouble because society has no coherent value scale.”

According to Hayek, the problem is not immediately apparent because the popular agreement on the necessity for planning may conceal a disagreement on the precise values and goals which planning is to achieve.⁸ The problem is that under socialism (Hayek 2007 [1944]: 104),

the agreement on the desirability of planning is not supported by agreement on the ends the plan is to serve. The effect of the people's agreeing that there must be central planning, without agreeing on the ends, will be rather as if a group of people were to commit themselves to take a journey together without agreeing where they want to go: with the result that they may all have to make a journey which most of them do not want at all.

And so the product of democratic socialism will be – to quote a statement made in another context – “one big compromise, just like a bill in the Assembly that no one wants to pass but no one is willing to kill. The thing gets modified and diddled in committee until it's equally unacceptable to everyone” (“Thresher” 174).⁹ Therefore, as Nicholas Capaldi and Gordon Lloyd have noted (2011: p. xxi, n. 4), “Marxists have always been rightly contemptuous of democratic socialism because shifting majorities literally makes even the façade of economic planning impossible.” Like Arrow, Hayek argued that the impossibility of preference aggregation could be avoided only through dictatorship. When the plan fails for the reasons indicated, “It is inevitable that they should impose their scale of preferences on the community for which they plan” (Hayek 2007 [1944]:106). Thus, “The belief is becoming more and

more widespread that, if things are to get done, the responsible authorities must be freed from the fetters of democratic procedure” (2007 [1944]:108).

Furthermore, Hayek argued (2007 [1944]: 106f.), this problem could not be solved by decentralization or delegation:

Nor can a coherent plan be achieved by breaking it up into parts and voting on particular issues. A democratic assembly voting and amending a comprehensive economic plan clause by clause, as it deliberates on an ordinary bill, makes nonsense. An economic plan, to deserve the name, must have a unitary conception. Even if a parliament could, proceeding step by step, agree on some scheme, it would certainly in the end satisfy nobody. A complex whole in which all the parts must be most carefully adjusted to each other cannot be achieved through a compromise between conflicting views. . . . Even if, by this expedient, a democracy should succeed in planning every sector of economic activity, it would still have to face the problem of integrating these separate plans into a unitary whole. Many separate plans do not make a planned whole.

Thus, democratic procedure simply cannot produce the unitary economic planning which socialism demands. Democratic socialism can furnish only a disjointed hodge-podge of contradictory laws and regulations which have no unifying theme or purpose, defeating the purpose of socialism. No consensus will be forthcoming where “there exists no agreed view on what ought to be done” (Hayek 2007 [1944]: 101). Democracy may be workable for the management and regulation of a free-market economy simply because the government's activities are so restricted. A “night-watchman” state has far less to do than a socialist state. In other words, the smaller the scope of government, the simpler the task of achieving democratic consensus. But socialism dramatically expands the scope of government to embrace all aspects of life whatsoever. A consensus is more difficult to achieve the broader the scope of the state's activities. Nothing remotely resembling a consensus can be obtained when the

government's scope is so expanded to embrace all aspects of life. Whereas markets promote and encourage diversity and pluralism, governance demands uniformity. The more government supplants markets, the more uniformity replaces diversity. Greater reliance on government means that people cannot be allowed to go their own way, but more and more people must somehow agree on more and more subjects. As Hayek said, “[T]he probability that they [those attempting to achieve a democratic consensus] will agree on a particular course of action necessarily decreases as the scope of such action extends” (Hayek 2007 [1944]:103). “We may rely on voluntary agreement to guide the action of the state only so long as it is confined to spheres where agreement exists” (Hayek 2007 [1944]: 103). But in pursuing a socialist policy, “democracy embarks upon a course of planning which in its execution requires more agreement than in fact exists” (Hayek 2007 [1944]: 103).¹⁰

While *The Road to Serfdom* – written in 1944 – contains Hayek's most complete exposition of these arguments, he had in fact already adumbrated the essence of this claim as long ago as 1935. Jesús Huerta de Soto (2010: 268n53) quotes Hayek's second essay on economic calculation, published in 1935 (Hayek 1935: 216f. rpt. in Hayek 1948: 160):

The dictator, who himself ranges in order the different needs of the members of the society according to his views about their merits, has saved himself the trouble of finding out what people really prefer and avoided the impossible task of combining the individual scales into an agreed common scale which expresses the general ideas of justice. But if he wants to follow this norm with any degree of rationality or consistency, if he wants to realize what he considers to be the ends of the community, he will have to solve all the problems which we have discussed already.

Huerta de Soto comments (2010: 268n53), “we see here that as early as 1935, Hayek appears to have made precursory mention of 'Arrow's impossibility theorem' when he wrote of the impossible task of combining individual value scales into a common scale.”

Only a few years later, in 1938 and 1939 – still prior to the 1944 publication of *The Road to Serfdom* – Hayek expanded this brief statement into a more complete argument. In two pamphlets, both titled “Freedom and the Economic System,” written in 1938 and 1939, Hayek dealt with the problem in a manner almost as complete as that in *The Road to Serfdom*. According to Hayek, central economic planning “presupposes a much more complete agreement on the relative importance of the different ends than actually exists” (Hayek 1997 [1938]: 182, 1997 [1939]: 193). Planning requires preference aggregation or “a complete ranging of the different ends in the order of their importance” (1997 [1938]: 183; cf. 1997 [1939]: 201). This would necessitate “the existence of . . . a complete moral code in which all the relative values of all human ends . . . are assigned a definite place and a definite quantitative significance” (1997 [1939]:201f.). As in *The Road to Serfdom*, Hayek argued in 1938 and 1939 the probability of agreement on a single scale of values declines as the scope of government activity expands (1997 [1938]: 184, 1997 [1939]: 205). The agreement that planning is necessary, combined with the inability to agree on the details of the plan, tends to create the demand for “some single person” to “be freed from the fetters of democratic procedure” in order “to get things done” (1997 [1938]: 184, 1997 [1939]: 205). Delegation will not work because “Many special plans do not yet make a planned whole” (1997 [1939]: 205). In one passage written in 1939, Hayek is actually more explicit and complete than anything he wrote in *The Road to Serfdom*. Explaining why the impossibility of preference aggregation leads to dictatorship, Hayek noted in 1939 that economic rationality applies only to an individual's pursuit of his own personal ends. When preferences cannot be aggregated, collective decision-making cannot be rational. Rationality can be achieved only by substituting the will of an individual for the will of the collective – exactly as Arrow proved. In Hayek's words (1997 [1939]: 206):

'Rational' action is only possible in the service of a given system of ends, and if society as a whole is to act rationally it must be given such a common scale of values. The

dictator will find at a very early stage that if he wants to carry out the will of the people he will have to tell them what to want.

Thus, Hayek's realization of these Arrow-type problems predates the publication of *The Road to Serfdom* in 1944. He first conceived of these Arrow-type issues at least as early as 1935, and by 1938 and 1939, he had elaborated his original 1935 insight almost as completely as he would in 1944.

III. IMPLICATIONS FOR SOCIALISM

As we saw, Shleifer and Vishny (1994: 171f.) argue that market socialism will give rise to rent-seeking inefficiencies. Essentially, GDP will be less than it could have been and resources will be misallocated. And as we saw, Boettke (1995: 10) argues that Hayek also understood the logic of “concentrated benefits, dispersed costs.” But unlike Shleifer and Vishny, Hayek does not merely argue that interest group lobbying will lead to more economic inefficiency. Instead, Hayek's argument is more fundamental: the very existence of interest group lobbying is fundamentally at odds with the very essence and intention of socialism. Central economic planning only makes sense if there is a unitary, consistent, coherent central plan. The very existence of conflicting interest groups which influence government, regardless of the magnitude of the inefficiency they engender, defeats the very purpose of socialism.

One of the fundamental Marxist criticisms of the market had been that the market economy is an “anarchy of production” which must be replaced with conscious, rational direction. Socialists found it unconscionable that the market was being driven by price-signals which seemed to emerge from nowhere. Only a consciously-designed system, they thought, was deserving of rational human beings. As Mises said (1981 [1922]: 413),

To the socialist, the coming of Socialism means a transition from an irrational to a

rational economy. Under Socialism, planned management of economic life takes the place of anarchy of production; society, which is conceived as the incarnation of reason, takes the place of the conflicting aims of unreasonable and self-interested individuals.

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

But when once [the] nature [economic and productive forces are] understood, they can, in the hands of the producers working together, be transformed from master demons into willing servants. . . . [We will] subject them more and more to our own will, and by means of them to reach our own ends. . . . With the seizing of the means of production by society, production of commodities is done away with, and, simultaneously, the mastery of the product over the producer. Anarchy in social production is replaced by systematic, definite organization. The struggle for individual existence disappears. Then, for the first time, man, in a certain sense, is finally marked off from the rest of the animal kingdom, and emerges from mere animal conditions of existence into really human ones. The whole sphere of the conditions of life which environ man, and which have hitherto ruled man, now comes under the dominion and control of man, who for the first time becomes the real, conscious lord of nature, because he has now become master of his own social organization. The laws of his own social action, hitherto standing face-to-face with man as laws of Nature foreign to, and dominating him, will

then be used with full understanding, and so mastered by him. Man's own social organization, hitherto confronting him as a necessity imposed by Nature and history, now becomes the result of his own free action. The extraneous objective forces that have, hitherto, governed history, pass under the control of man himself. Only from that time will man himself, more and more consciously, make his own history — only from that time will the social causes set in movement by him have, in the main and in a constantly growing measure, the results intended by him. It is the ascent of man from the kingdom of necessity to the kingdom of freedom.

For socialists, abolishing the anarchy of production took on cosmic importance. It was not merely about achieving social justice. It was about freeing mankind from an animal existence and finally letting it live as human beings. The abolition of capitalism meant mankind would be free to fulfill its destiny as rational beings (Lavoie 1985a: 46). As David Ramsay Steele (1992: 39-43) notes, this abhorrence to the anarchy of production relates to the critique of commodity fetishism. “For Marx, commodity fetishism is something which always arises automatically from the fact that the market is unplanned” (Steele 1992: 40). Steele (1992: 41) argues that for Marx, this is more important than material inequality:

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

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

Therefore, Hayek's criticism cuts closer to the heart of the matter than Shleifer's and Vishny's.

Shleifer and Vishny predict that interest group lobbying will engender economic inefficiency, but conceivably, a socialist could be willing to tolerate greater economic inefficiency if this maximized other, more important goals, such as income equality. As Hayek noted (1935: 240 rpt. in 1948: 178),

But even if it could be agreed what exactly would be the effects of any of the proposed systems on the national income, there would still be the further question of whether any given reduction, either of its present absolute magnitude or of its future rate of progress, is not too high a price for the realization of the ethical ideal of greater equality of incomes. On this question, of course, scientific argument must give way to individual conviction

In fact, if equality is the goal of socialism, then sacrificing economic productivity for equality would not entail economic inefficiency at all, because efficiency means the satisfaction of one's goals at least cost. If one's goal is income equality, then it may be efficient to sacrifice wealth maximization in favor of equality. If rent-seeking and the conferral of privileges for special interests somehow promoted equality, then this might actually be efficient. If this is the case, the Shleifer and Vishny's critique is irrelevant. But according to Hayek, interest groups would not merely produce economic inefficiency but they would give rise to directionless and incoherent anarchy. Similarly, Lavoie (1985a: 161) says about the democratic socialists that, "To the extent that they insist on genuinely decentralized decision-making they are proposing the arbitrary and uncoordinated injection of contradictory policies by all levels and departments of government. In other words they have a prescription for chaos, not rational planning."

If Hayek is correct, it is not merely that socialism is inefficient, as Shleifer and Vishny claim. Instead, socialism utterly fails its aspiration to enable man to live according to reason. The existence of rent-seeking under socialism means that mankind will fail to elevate itself beyond the animal reliance on the forces of nature. If socialism means chaotic jockeying among interest groups with an irrational,

indeterminate outcome, then man is still a slave to forces beyond his control. The inconvenience of economic inefficiency pales against the cosmic injustice of the anarchy of production which would remain unresolved under socialism.

The Arrow theorem – presaged by Hayek – thus poses a grave dilemma for democratic socialism. What socialism fundamentally aims to accomplish is the transformation of society from a “civil association” of shared means – such as private property and the rule-of-law – intended to create a “spontaneous order” which enables all its members to pursue their own happiness as they individually define it for themselves, into a hierarchical “enterprise association” or “organization” of a single set of shared ends common to all members of society (Hayek 1973, Oakeshott 1975). It is doubtful whether this goal is morally desirable or whether it is compatible with individual freedom, but even if – for the sake of argument – we assume that this transformation of society into an organization or enterprise association is compatible with liberty and individual rights, the fact is that the Arrow paradox means that it is impossible for democratic institutions to successfully accomplish this transformation.

Democratic institutions, subject to the Arrow paradox, are unable to translate diverse individual ends into a single set of shared ends. This is not so damaging for capitalistic or market-based institutions, because these have the more modest purpose of maintaining society as a mere civic association. Since the goal of such institutions is not to unite society behind one single set of ends, their effectiveness is not undermined as much by the Arrow paradox. But because democratic socialism intends to unite society behind some single set of shared ends and to transform society into an enterprise association, the Arrow paradox is particularly fatal to democratic socialism. Only dictatorship is consistently capable of accomplishing socialism's call to transform society from a civic to an enterprise association.

Hayek does not merely say that pressure groups will create economic inefficiencies. His criticism is more fundamental: the unitary, coherent, consistent plan demanded by socialism simply cannot be obtained under democracy. Democratic socialism cannot work because there is no way to

deduce societal preferences or the one and only “general will.” Just as Mises showed that socialism cannot economically calculate the optimal production decisions, likewise, Hayek and Arrow showed that neither can socialism “calculate” the will of the people or the optimal political policy without resorting to dictatorship. If we interpret Hayek's argument as a form of the Arrow theorem, then we can understand his claim that the chaos and incoherency of democratic economic planning will tend to conclude with the people demanding the appointment of a dictator who can bypass the legislature and finally “get things done.” Furthermore, either the dictator will dupe the people into supporting his plan or else he will use undemocratic means to bypass the people. Whereas Lawson and Clark (2010: 231) claim that Hayek contradicted himself in offering these two possibilities contradict each other, in fact, they are simply two equally valid resolutions to the Arrow paradox, corresponding to agenda-setting and dictatorship.

The point here is not that democratic socialism must necessarily be dictatorial, but rather that it must be dictatorial in order to produce a unitary socialist economic plan. Contrariwise, democratic socialism may eschew dictatorship but in doing so, it creates the possibility that the central economic plan will be incoherent and random. Arrow's Impossibility Theorem states that one may eliminate paradoxes only at the cost of dictatorship and that one may avoid dictatorship only at the cost of suffering democratic paradoxes. This undermines the “naive view of democratic governance [which] dominated discourse” at the time of Hayek and refutes the notion that “[t]he voting process unambiguously conveyed the necessary information” (Boettke 1995: 15).

Interestingly, David Schweickart, an advocate of economic democracy, seems to admit some of these problems, saying (1992: 23),

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

conscious adoption of a reasonably coordinated, coherent set of investment priorities.

Schweickart seems to agree with Hayek: democracy cannot produce a “reasonably coordinated, coherent set of investment priorities.” Another democratic socialist, Michael Harrington seems to have caught a glimpse of this problem as well, saying (1978: 443),

[D]ebates over priorities . . . would be resolved by a democratic process in which parties would compete with one another over conflicting programs. That, however, would not mean a mere extension of present-day “pluralist” theory, which ignores the way formal democratic rights, precious as they are, can be subverted by economic and social inequalities.

But Harrington does not explain how democratic socialism would avoid the pitfalls of democratic pluralism. He even admits (1978: 446), “I am positing the necessity of conflict among organizations that would interpret the common good in terms of the particular good of different strata of the citizenry.” Neither Schweickart nor Harrington offers any resolution to the problems discovered by Hayek.

IV. DELIBERATIVE DEMOCRACY

Although Hayek's *Road to Serfdom* was written exclusively in response to Soviet-style command socialism (Caldwell in Hayek 2007 [1944]:30f., Caldwell 2011, Boettke and Snow 2012, Godard 2013), his theory nevertheless poses severe difficulties for deliberative democracy as well.¹¹ Democratic socialism and deliberative democracy are by no means equivalent, but they share the need to achieve a consensus in order to transform society from a civic association into an enterprise association. Therefore, we should not be surprised that Hayek's analysis of how factionalism ruins democratic socialism, applies to deliberative democracy as well. Specifically, Hayek perceived that

unlimited democracy does not always or even necessarily usually result in the majority's oppressing the minority. Instead, it sometimes results in the very opposite, where minorities log-roll together to obtain special privileges for themselves. As Hayek wrote (1976b: 306), “Omnipotent democracy indeed leads of necessity to a kind of socialism, but to a socialism which nobody foresaw or probably wanted . . . [operating on] the power of those persons or groups [in the minority] to extort special benefits from the government [of the majority].” As Hayek (1967a: 93, 96) further explained, an unlimited democracy must be driven by organised interests to use its power of 'legislation' to serve particular private ends. . . . Democratic government free to benefit particular groups is bound to be dominated by coalitions of organised interests, rather than serve the general interest in the classical sense of 'common right and justice, excluding all partial or private interests'.¹²

Hayek argued (1967b: 100) that the only way to prevent this was by limiting the substance of legislation to general, abstract, purpose-independent rules which do not specify particular persons or goals (cf. Boettke 1995: 10). Furthermore, Hayek said (1976a: 156f.),

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

Similarly, Hayek said (1973b: 143),

the majority is not likely to be based on true agreement on principles, but will probably consist of coalitions of various organized interests which will mutually concede to each other special advantages. Where, as is almost inevitable in a representative body with unlimited powers, decisions are arrived at by a bartering of special benefits to different groups, and where the formation of a majority capable of governing depends on such bartering, it is almost inconceivable that these powers will be used only in the true general interests.

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

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

This theory presumes that majorities *are* “based on agreement of opinions . . . [whereas in fact, they] are formed by aggregations of special interests mutually assisting each other” (Hayek 1976a: 157).

Hague and Harrop (2007: 47) incisively point out that “few advocates of deliberative democracy offer specific guidance on institutional arrangements to secure their objective.” The Hayek-Arrow argument is therefore applicable to both democratic socialism and to deliberative democracy because both rely on the achievement of consensus.

Whereas Shleifer and Vishny (1994) claim that market socialism will merely give rise to rent-seeking inefficiencies, Hayek argues that democratic socialism will produce sheer indeterminate chaos. An advocate of democratic socialism or deliberative democracy could reply to Shleifer and Vishny that they are willing to tolerate a reduction in productivity and GDP if this means greater equality, or if it allows mankind to take its destiny into its own hands, or if it assists society in achieving consensus. But

Hayek argued that rent-seeking under democratic socialism and deliberative democracy would not merely lead to inefficiency, but chaos and absurdity. It is not merely that GDP will fall. Instead, it is impossible to form either a consensus or a coherent, unitary economic plan under democracy. This fact is fatal to democratic socialism and possibly to deliberative democracy as well, because both seek to transform of society from a “civic association” or “spontaneous order” of shared means into an “enterprise association” or “organization” of shared ends.. Democratic political institutions and socialist economics are fundamentally incompatible, and neither does democracy promote consensus and agreement. Democracy does not enable the creation of a single shared order of values to which all can agree. Instead, Hayek argued that government should be limited to enabling individuals to pursue their own individual values and purposes.

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- 1 Boettke (1995) discerns these other Public Choice-style contributions in *The Road to Serfdom* as well: the logic of collective action which enables special interests to obtain privileges (cf. rent-seeking), that political behavior is conditioned by the institutional constraints and incentives of the office (“why the worst get on top”), and the impossibility of maintaining political freedom without economic freedom (cf. Lawson and Clark 2010).
- 2 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 (Hayek 1948: 146, Lavoie 1985b: 152f., Steele 1992: 109).
- 3 This essay is an exercise in political theory, exploring the political-institutional reasons why democratic socialism or economic democracy must necessarily fail to accomplish the aims and intentions of its advocates. It is *not* an application of economic price theory, and it does not attempt to show whether socialism must fail for purely economic, non-political reasons. That argument has been made elsewhere, in the Austrian literature on the impossibility of economic calculation under socialism (Hayek 1935; Hayek 1948: 77-91, 119-208; Brutzkus 1935; Mises 1981 [1922]: 95-194; Hoff 1981 [1938]; Leoni 2009 [1965]; Lavoie 1985a; Lavoie 1985b; Steele 1992; de Soto 2010; Boettke 1998; Boettke 2012: 76-96, 226-240). For the sake of argument, this essay assumes that there is no problem of rational economic calculation under socialism. As far as is this essay is concerned, the Lange (1938)-Lerner-Taylor solution of market socialism might as well have successfully refuted Mises's, Hayek's, and Rothbard's claim that rational economic calculation is impossible under socialism. This essay takes no stand against Shleifer and Vishny's (1994: 166) claim that Lange (1938) *did* refute Hayek and Mises. What this essay will argue is that democratic socialism must fail, not necessarily because it is socialist, but because it is democratic. Even if socialism were economically feasible, it cannot be successfully institutionalized by democratic means and still accomplish its goals.

- 4 Cf. Lavoie's (1985a: 131) statement that while advocates of democratic socialism are right to criticize rent-seeking, their solution to this problem – viz. expanding the government's power over the economy – would make the problem worse. A better solution, Lavoie says, is to limit government's ability to bestow privilege on anybody and to reduce the number of benefits it has to offer anyone. Cf. Boettke (1995: 10), who finds a similar argument in Hayek.
- 5 For an interesting fictional illustration of how political incentives undermine market socialism, see Spufford (2010: 283-299, esp. 292). For a review of Spufford's novel, showing how much historical detail it reliably embodies despite its fictional nature, see Henderson (2012-2013).
- 6 That Austrian market process theory is compatible with Public Choice political process theory, see Boettke and López (2002) and Ikeda (2003).
- 7 Ludwig von Mises (1981 [1922]: 203f.) also noticed the connection between socialism's attack on competition and its unintentional rehabilitation of interest group politics: “In exposing the effects of protection, Liberalism broke the aggressive power of particular interests. . . . In order to rehabilitate protection, it was necessary to destroy Liberalism. . . . Once Liberalism has been completely vanquished, however, and no longer menaces the protective system, there remains nothing to oppose the extension of particular privileges.”
- 8 Indeed, according to John Jewkes, the economic plans of Britain's Labour and Conservative parties were all mutually-contradictory (Jewkes 1968 [1948]: 80-96, 1978: 61-76). Everyone agreed they wanted planning but nobody agreed what the plan should be. Because no consensus could be reached, democratic socialism devolved into interest-group-lobbying, where every faction strove to funnel pork to its own constituents. As Jewkes noted, the minister of a regime of central economic planning “will be subject to powerful pressure groups” which will “inevitably make him the guardian of some vested interest” (Jewkes 1968 [1948]: 130). No coherent central plan can arise from this, according to Jewkes (1968 [1948]: 133; cf. *ibid.* 218):

an integrated scheme must inevitably be examined by those whose interests and

knowledge are essentially local and piecemeal. The plan will be subjected to distortion through the activities of pressure groups.

In the foreword to the 1956 edition of *The Road to Serfdom*, Hayek (2007 [1944]: 51) cites an early (1948) 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* (2007 [1944]) as “masterly” (Jewkes 1968 [1948]: xiii) for its “analysis which has never been confuted” (Jewkes 1968 [1948]: 182 footnote).

9 The context of “Thresher” 174 is unrelated to our topic, but the quote seemed apt.

10 This may buttress Buchanan's and Tullock's argument for qualified majority voting in *Calculus of Consent* (1962). If Hayek is right that government ought to act only where there is agreement, this might imply that all legislation should command the support of a super-majority. For reviews of Buchanan's and Tullock's argument, cf. Butler (2012: 95-100), Stevens (1993: 134-139), and Hinich and Munger (1997: 100-103).

11 According to Boettke, Hayek's form of the Arrow theorem underlies Hayek's criticism elsewhere of the political provision of public goods: what are the demand-revealing processes when goods are politically provided? (Boettke 1995: 20). Hayek did not ideologically assume market failures away, but he recognized that like the market process, the political process is imperfect as well – except that the political process does not engender the same incentives nor information as markets do to promote error detection and correction (Boettke 1995: 20).

12 Cf. Hayek (1967b: 100): “An assembly with unlimited powers is in a position to use that power to favour particular groups or individuals and it is an inevitable consequence that it will come to be constituted of coalitions of particular interests offering particular benefits to their supporters.”