

A close-up photograph of a hand holding a red ballot slip. The slip is being inserted into a white ballot box. The text 'SOCIAL DEMOCRACY' is printed in white, bold, sans-serif capital letters on the red slip. The background is a dark, out-of-focus grey.

**SOCIAL  
DEMOCRACY**

**HANS-HERMANN HOPPE**

Extracted from chapter 4 “Socialism Social-democratic Style” in *A Theory of Socialism and Capitalism* (Auburn, Ala.: Mises Institute and Norwell, Mass.: Kluwer Academic Publishers, 2010).

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# SOCIAL DEMOCRACY

by Hans-Hermann Hoppe

MUCH MORE SO THAN ANY THEORETICAL ARGUMENT, it has been the disappointing experience with Russian-type socialism which has led to a constant decline in the popularity of orthodox Marxist socialism and has spurred the emergence and development of modern social-democratic socialism.

Both types of socialism, to be sure, derive from the same ideological sources.<sup>1</sup> Both are egalitarian in motivation, at least in theory,<sup>2</sup> and both have essentially the same ultimate goal: the abolishment of capitalism as a social system based on private ownership and the establishment of a new society, characterized by brotherly solidarity and the eradication of scarcity; a society in which everyone is paid “according to his needs.”

From the very beginnings of the socialist movement in the mid-nineteenth century, though, there have been conflicting ideas on the methods best suited for achieving these goals. While

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<sup>1</sup>Cf. L. Kolakowski, *Main Currents of Marxism* (Oxford, 1978), 3 vols.; also W. Leonhard, *Sovietideologie heute. Die politischen Lehren* (Frankfurt/M., 1963).

<sup>2</sup>Cf. note 16 below on the assessment of the somewhat different practice.

generally there was agreement on the necessity of socializing the means of production, there were always diverging opinions on how to proceed. On the one hand, within the socialist movement there were the advocates of a revolutionary course of action. They propagated the violent overthrow of the existing governments, the complete expropriation of all capitalists in one stroke, and the temporary (i.e., until scarcity would indeed, as promised, be eradicated) dictatorship of the proletariat, i.e., of those who were not capitalists but who had to sell their labor services, in order to stabilize the new order.

On the other hand there were the reformists who advocated a gradualist approach. They reasoned that with the enlargement of the franchise, and ultimately with a system of universal suffrage, socialism's victory could be attained through democratic, parliamentary action. This would be so because capitalism, according to common socialist doctrine, would bring about a tendency toward the proletarianization of society, i.e., a tendency for fewer people to be self-employed and more to become employees instead. And in accordance with common socialist beliefs, this tendency would in turn produce an increasingly uniform proletarian class consciousness which then would lead to a swelling voter turnout for the socialist party. And, so they reasoned, as this strategy was much more in line with public opinion (more appealing to the mostly peacefully-minded workers and at the same time less frightening to the capitalists), by adopting it, socialism's ultimate success would only become more assured.

Both of these forces co-existed within the socialist movement, though their relationship was at times quite strained,

until the Bolshevik Revolution of October 1917, in Russia. In practice, the socialist movement generally took the reformist path, while in the field of ideological debate the revolutionaries dominated.<sup>3</sup> The Russian events changed this.

With Lenin in the lead, for the first time the revolutionary socialists realized their program and the socialist movement as a whole had to take a stand *vis-à-vis* the Russian experiment. As a consequence, the socialist movement split into two branches with two separate parties: a communist party either more or less in favor of the Russian events, and a socialist or social-democratic party with reservations, or against them. Still, the split was not over the issue of socialization; both were in favor of that. It was an open split over the issue of revolutionary vs. democratic parliamentary change.

Faced with the actual experience of the Russian revolution — the violence, the bloodshed, the practice of uncontrolled expropriation, the fact that thousands of new leaders, very often of questionable reputation or simply shady, inferior characters, were being swept to the political helm — the social democrats, in their attempt to gain public support, felt they had to abandon their revolutionary image and become, not only in practice but in theory as well, a decidedly reformist, democratic party. And even some of the communist parties of the West, dedicated as they were to a theory of revolutionary change, but just as much in need of public support, felt they

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<sup>3</sup>Cf. E. Bernstein, *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie* (Bonn, 1975), as a major expositor of the reformist-revisionist course; K. Kautsky, *Bernstein und das sozialdemokratische Programm* (Bonn, 1976), as exponent of the Marxist orthodoxy.

had to find some fault, at least, with the peculiar Bolshevik way of implementing the revolution. They, too, increasingly thought it necessary to play the reformist, democratic game, if only in practice.

However, this was only the first step in the transformation of the socialist movement effected by the experience of the Russian revolution. The next step, as indicated, was forced upon it by the dim experience with Soviet Russia's economic performance. Regardless of their differing views on the desirability of revolutionary changes and equally unfamiliar with or unable or unwilling to grasp abstract economic reasoning, socialists and communists alike could still, during a sort of honeymoon period which they felt the new experiment deserved, entertain the most illusory hopes about the economic achievements of a policy of socialization. But this period could not last forever, and the facts had to be faced and the results evaluated after some time had elapsed.

For every decently neutral observer of things, and later for every alert visitor and traveler, it became evident that socialism Russian-style did not mean more but rather less *wealth* and that it was a system above all, that in having to allow even small niches of private capital formation, had in fact already admitted its own economic inferiority, if only implicitly.

As this experience became more widely known, and in particular when after World War II the Soviet experiment was repeated in the East European countries, producing the very same dim results and thus disproving the thesis that the Soviet mess was only due to a special Asian mentality of the people, in their race for public support the socialist, i.e.,

the social-democratic and communist, parties of the West were forced to modify their programs further. The communists now saw various flaws in the Russian implementation of the socialization program as well, and increasingly toyed with the idea of more decentralized planning and decision-making and of partial socialization, i.e., socialization only of major firms and industries, although they never entirely abandoned the idea of socialized production.<sup>4</sup>

The socialist or social-democratic parties, on the other hand, less sympathetic from the beginning toward the Russian model of socialism and through their decidedly reformist-democratic policy already inclined to accept compromises such as partial socialization, had to make a further adaptive move. These parties, in response to the Russian and East European experiences, increasingly gave up the notion of socialized production altogether and instead put more and more emphasis on the idea of income taxation and equalization, and, in another move, on equalization of opportunity, as being the true cornerstones of socialism.

While this shift from Russian-type socialism toward a social-democratic one took place, and still is taking place in all Western societies, it was not equally strong everywhere. Roughly speaking and only looking at Europe, the displacement of the old by the new kind of socialism has been more pronounced, the more immediate and direct the experience with Russian-type socialism for the population in which the

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<sup>4</sup>On the idea of a “market-socialism” cf. one of its leading representatives, O. Lange, “On the Economic Theory of Socialism,” in M. I. Goldman, ed., *Comparative Economic Systems* (New York, 1971).

socialist and/or communist parties had to find supporters and voters.

Of all the major countries, in West Germany, where the contact with this type of socialism is the most direct, where millions of people still have ample opportunities to see with their own eyes the mischief that has been done to the people in East Germany, this displacement was the most complete. Here, in 1959, the social democrats adopted (or rather were forced by public opinion to adopt) a new party program in which all obvious traces of a Marxist past were conspicuously absent, that rather explicitly mentioned the importance of private ownership and markets, that talked about socialization only as a mere possibility, and that instead heavily stressed the importance of redistributive measures. Here, the protagonists of a policy of socialization of the means of production within the social-democratic party have been considerably outnumbered ever since; and here the communist parties, even when they are only in favor of peaceful and partial socialization, have been reduced to insignificance.<sup>5</sup>

In countries further removed from the iron curtain, like France, Italy, Spain, and also Great Britain, this change has been less dramatic. Nonetheless, it is safe to say that today only social-democratic socialism, as represented most typically by the German social-democrats, can claim widespread popularity in the West. As a matter of fact, due partly to the influence

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<sup>5</sup>On the ideology of the German Social Democrats cf. T. Meyer, ed., *Demokratischer Sozialismus* (Muenchen, 1980); G. Schwan, ed., *Demokratischer Sozialismus fuer Industriegesellschaften* (Frankfurt/M., 1979).

of the Socialist International — the association of socialist and social-democratic parties — social-democratic socialism can now be said to be one of the most widespread ideologies of our age, increasingly shaping the political programs and actual policies not only of explicitly socialist parties, and to a lesser degree those of the western communists, but also of groups and parties who would not even in their most far-fetched dreams *call* themselves socialists, like the east coast “liberal” Democrats in the United States.<sup>6</sup> And in the field of international politics the ideas of social-democratic socialism, in particular of a redistributive approach toward these-called North-South conflict, have almost become something like the official position among all “well-informed” and “well-intentioned” men; a consensus extending far beyond those who think of themselves as socialists.<sup>7</sup> What are the central features of socialism social-democratic-style?

There are basically two characteristics. First, in positive contradistinction to the traditional Marxist-style socialism,

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<sup>6</sup>Indicators for the social-democratization of the socialist movement are the rise of the socialist party and the corresponding decline of the orthodox communist party in France; the emergence of a social-democratic party as a rival to the more orthodox labor party in Great Britain; the moderation of the communists in Italy as the only remaining powerful communist party in Western Europe toward an increasingly social-democratic policy; and the growth of the socialist-social-democratic parties in Spain and Portugal under Gonzales and Soares, both with close ties to the German SPD. Furthermore, the socialist parties of Scandinavia, which traditionally had closely followed the German path and which later provided safe haven to a number of prominent socialists during the Nazi persecution (most notably W. Brandt and B. Kreisky), have long given credence to the revisionist beliefs.

<sup>7</sup>On the social-democratic position regarding the North-South conflict cf. North-South: A Programme for Survival, Independent Commission on International Development Issues (Chair: W. Brandt), 1980.

social-democratic socialism does not outlaw private ownership in the means of production and it even accepts the idea of *all* means of production being privately owned — with the exception only of education, traffic and communication, central banking, and the police and courts. In principle, everyone has the right to privately appropriate and own means of production, to sell, buy, or newly produce them, to give them away as a present, or to rent them out to someone else under a contractual arrangement. But secondly, no owner of means of production rightfully owns *all* of the income that can be derived from the usage of his means of production and no owner is left to decide how much of the *total* income from production to allocate to consumption and investment. Instead, part of the income from production rightfully belongs to society, has to be handed over to it, and is then, according to ideas of egalitarianism or distributive justice, redistributed to its individual members. Furthermore, though the respective income-shares that go to the producer and to society might be fixed at any given point in time, the share that rightfully belongs to the producer is in principle flexible and the determination of its size, as well as that of society's share, is not up to the producer, but rightfully belongs to society.<sup>8</sup>

Seen from the point of view of the natural theory of property — the theory underlying capitalism — the adoption of

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<sup>8</sup>Note again that this characterization of social-democratic socialism has the status of an “ideal type” (cf. chapter 3, n. 2). It is not to be taken as a description of the policy or ideology of any actual party. Rather, it should be understood as the attempt to reconstruct what has become the essence of modern social-democratic style socialism, underlying a much more diverse reality of programs and policies of various parties or movements of different names as the ideologically unifying core.

these rules implies that the rights of the natural owner have been aggressively invaded. According to this theory of property, it should be recalled, the user-owner of the means of production can do whatever he wants with them; and whatever the outcome of his usage, it is his own private income, which he can use again as he pleases, as long as he does not change the physical integrity of someone else's property and exclusively relies on contractual exchanges.

From the standpoint of the natural theory of property, there are not two separate processes — the production of income and then, after income is produced, its distribution. There is only one process: in producing income it is automatically distributed; the producer is the owner. As compared with this, socialism social-democratic style advocates the partial expropriation of the natural owner by redistributing part of the income from production to people who, whatever their merits otherwise, definitely did *not* produce the income in question and definitely did *not* have any contractual claims to it, and who, in addition, have the right to determine unilaterally, i.e., without having to wait for the affected producer's consent, how far this partial expropriation can go.

It should be clear from this description that, contrary to the impression which socialism social-democratic style is intended to generate among the public, the difference between both types of socialism is not of a categorical nature. Rather, it is only a matter of degree. Certainly, the first mentioned rule seems to inaugurate a fundamental difference in that it allows private ownership. But then the second rule in principle allows the expropriation of all of the producer's

income from production and thus reduces his ownership right to a purely nominal one. Of course, social-democratic socialism does *not* have to go as far as reducing private ownership to one in name only. And admittedly, as the income-share that the producer is forced to hand over to society can in fact be quite moderate, this, in practice, can make a tremendous difference as regards economic performance. But still, it must be realized that from the standpoint of the non-producing fellowmen, the degree of expropriation of private producers' income is a matter of expediency, which suffices to reduce the difference between both types of socialism — Russian and social-democratic style — once and for all to a difference only of degree.

It should be apparent what this important fact implies for a producer. It means that however low the presently fixed degree of expropriation might be, his productive efforts take place under the ever-present threat that in the future the income-share which must be handed over to society will be raised unilaterally. It does not need much comment to see how this increases the risk, or the cost of producing, and hence lowers the rate of investment.

With this statement a first step in the analysis that follows has already been taken. What are the economic, in the colloquial sense of the term, consequences of adopting a system of social-democratic socialism? After what has just been said, it is probably no longer altogether surprising to hear that at least as regards the general direction of the effects, they are quite similar to those of traditional Marxist-type socialism. Still, to the extent that social-democratic socialism settles for partial

expropriation and the redistribution of producer incomes, some of the impoverishment effects that result from a policy of fully socializing means of production can be circumvented.

Since these resources can still be bought and sold, the problem most typical of a caretaker economy — that no market prices for means of production exist and hence neither monetary calculation nor accounting are possible, with ensuing misallocations and the waste of scarce resources in usages that are at best of only secondary importance — is avoided. In addition, the problem of overutilization is at least reduced. Also, since private investment and capital formation is still possible to the extent that some portion of income from production is left with the producer to use at his discretion, under socialism social-democratic style there is a relatively higher incentive to work, to save, and to invest.

Nonetheless, by no means can all impoverishment effects be avoided. Socialism social-democratic style, however good it might look in comparison with Russian-type socialism, still necessarily leads to a reduction in investment and thus in future wealth as compared with that under capitalism.<sup>9</sup> By taking part of the income from production away from the owner-producer, however small that part may be, and giving it to people who did not produce the income in question, the costs of production (which are never zero, as producing, appropriating, contracting always imply at least the use of time, which could be used otherwise, for leisure,

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<sup>9</sup>On the following cf. L. v. Mises, *Socialism* (Indianapolis, 1981), esp. part V; *Human Action* (Auburn, Ala., 2008), esp. part 6.

consumption, or underground work, for instance) rise, and, *mutatis mutandis*, the costs of non-producing and/or underground production fall, however slightly.

As a consequence there will be relatively less production and investment, even though, for reasons to be discussed shortly, the absolute level of production and wealth might still rise. There will be relatively more leisure, more consumption, and more moonlighting, and hence, all in all, relative impoverishment. And this tendency will be more pronounced the higher the income from production that is redistributed, and the more imminent the likelihood that it will be raised in the future by unilateral, noncontractual societal decision.

For a long time by far the most popular idea for implementing the general policy goal of social-democratic socialism was to redistribute monetary income by means of income taxation or a general sales tax levied on producers. A look at this particular technique shall further clarify our point and avoid some frequently encountered misunderstandings and misconceptions about the general effect of relative impoverishment.

What is the economic effect of introducing income or sales taxation where there has been none before, or of raising an existing level of taxation to a new height?<sup>10</sup> In answering this, I will further ignore the complications that result from the different possible ways of redistributing tax money to different individuals or groups of individuals — these shall be discussed later.

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<sup>10</sup>Cf. M. N. Rothbard, *Man, Economy, and State with Power and Market* (Auburn, Ala., 2009).

Here we will only take into account the general fact, true by definition for all redistributive systems, that any redistribution of tax money is a transfer from monetary income producers and contractual money recipients to people in their capacity as nonproducers and nonrecipients of contractual money incomes. Introducing or raising taxation thus implies that monetary income flowing from production is reduced for the producer and increased for people in their roles as nonproducers and noncontractors. This changes the relative costs of production for monetary return versus nonproduction and production for nonmonetary returns.

Accordingly, insofar as this change is perceived by people, they will increasingly resort to leisurely consumption and/or production for the purpose of barter, simultaneously reducing their productive efforts undertaken for monetary rewards. In any case, the output of goods to be purchased with money will fall, which is to say the purchasing power of money decreases, and hence the general standard of living will decline.

Against this reasoning it is sometimes argued that it has been frequently observed empirically that a rise in the level of taxation was actually accompanied by a rise (not a fall) in the gross national product (GNP), and that the above reasoning, however plausible, must thus be considered empirically invalid. This alleged counterargument exhibits a simple misunderstanding: a confusion between absolute and relative reduction.

In the above analysis the conclusion is reached that the effect of higher taxes is a relative reduction in production

for monetary returns; a reduction, that is, as compared with the level of production that would have been attained had the degree of taxation not been altered. It does not say or imply anything with respect to the absolute level of output produced.

As a matter of fact, absolute growth of GNP is not only compatible with our analysis but can be seen as a perfectly normal phenomenon to the extent that advances in productivity are possible and actually take place. If it has become possible, through improvement in the technology of production, to produce a higher output with an identical input (in terms of costs), or a physically identical output with a reduced input, then the coincidence of increased taxation and increased output is anything but surprising. But, to be sure, this does not at all affect the validity of what has been stated about *relative* impoverishment resulting from taxation.

Another objection that enjoys some popularity is that raising taxes leads to a reduction in monetary income, and that this reduction raises the marginal utility of money as compared with other forms of income (like leisure) and thus, instead of lowering it, actually helps to increase the tendency to work for monetary return.

This observation, to be sure, is perfectly true. But it is a misconception to believe that it does anything to invalidate the relative impoverishment thesis. First of all, in order to get the full picture it should be noted that through taxation, not only the monetary income for some people (the producers) is reduced but simultaneously monetary income for other people (nonproducers) is increased, and for these people the marginal

utility of money and hence their inclination to work for monetary return would be reduced. But this is by no means all that need be said, as this might still leave the impression that taxation simply does not affect the output of exchangeable goods at all — since it will reduce the marginal utility of money income for some and increase it for others, with both effects canceling each other out. But this impression would be wrong.

As a matter of fact, this would be a denial of what has been assumed at the outset: that a tax hike, i.e., a higher monetary contribution forced upon disapproving income producers, has actually taken place and has been perceived as such — and would hence involve a logical contradiction. Intuitively, the flaw in the belief that taxation is “neutral” as regards output becomes apparent as soon as the argument is carried to its ultimate extreme.

It would then amount to the statement that even complete expropriation of all of the producers’ monetary income and the transfer of it to a group of nonproducers would not make any difference, since the increased laziness of the nonproducers resulting from this redistribution would be fully compensated by an increased workaholism on the part of the producers (which is certainly absurd).

What is overlooked in this sort of reasoning is that the introduction of taxation or the rise in any given level of taxation does not only imply favoring nonproducers at the expense of producers, it also simultaneously changes, for producers and nonproducers of monetary income alike, the cost attached to different methods of achieving an (increasing) monetary income. For it is now relatively less costly to attain additional

monetary income *through nonproductive means*, i.e., not through actually *producing* more goods but by participating in the process of noncontractual acquisitions of goods *already produced*. Even if producers are indeed more intent upon attaining additional money as a consequence of a higher tax, they will increasingly do so not by intensifying their productive efforts but rather through exploitative methods.

This explains why taxation is not, and never can be, neutral.

With (increased) taxation a different legal incentive structure is institutionalized: one that changes the relative costs of *production* for monetary income versus nonproduction, including nonproduction for leisurely purposes and nonproduction for monetary return, and also versus production for nonmonetary return (barter). And if such a different incentive structure is applied to one and the same population, then, and necessarily so, a decrease in the output of goods produced for monetary return must result.<sup>11</sup> While income and sales taxation are the most common techniques, they do not exhaust social-democratic socialism's repertoire of redistributive methods.

No matter how the taxes are redistributed to the individuals composing a given society, no matter, for instance, to what extent monetary income is equalized, since these

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<sup>11</sup>In addition, it should not be overlooked that even if it led to increased work by those taxed, a higher degree of taxation would in any case reduce the amount of leisure available to them and thereby reduce their standard of living. Cf. M.N. Rothbard, *Man, Economy, and State with Power and Market* (Auburn, Ala., 2009), pp. 1164f.

individuals can and do lead different lifestyles and since they allocate different portions of the monetary income assigned to them to consumption or to the formation of nonproductively used private wealth, sooner or later significant differences between people will again emerge, if not with respect to their monetary income, then with respect to private wealth. And not surprisingly, these differences will steadily become more pronounced if a purely contractual inheritance law exists. Hence, social-democratic socialism, motivated as it is by egalitarian zeal, includes private wealth in its policy schemes and imposes a tax on it, too, and in particular imposes an inheritance tax in order to satisfy the popular outcry over “unearned riches” falling upon heirs.

Economically, these measures immediately reduce the amount of private wealth formation. As the enjoyment of private wealth is made relatively more costly by the tax, less wealth will be newly created, increased consumption will ensue — including that of existing stocks of nonproductively used riches — and the overall standard of living, which of course also depends on the comforts derived from private wealth, will sink.

Similar conclusions about impoverishment effects are reached when the third major field of tax policies — that of “natural assets” — is analyzed. For reasons to be discussed below, this field, next to the two traditional fields of monetary income and private wealth taxation, has gained more prominence over time under the heading of opportunity equalization. It did not take much to discover that a person’s position in life does not depend exclusively on monetary income or

the wealth of nonproductively used goods. There are other things that are important in life and which bring additional income, even though it may not be in the form of money or other exchange goods: a nice family, an education, health, good looks, etc. I will call these nonexchangeable goods from which (psychic) income can be derived “natural assets.”

Redistributive socialism, led by egalitarian ideals, is also irritated by existing differences in such assets, and tries, if not to eradicate, then at least to moderate them. But these assets, being nonexchangeable goods, cannot be easily expropriated and the proceeds then redistributed. It is also not very practical, to say the least, to achieve this goal by directly reducing the nonmonetary income from natural assets of higher income people to the level of lower income people by, for instance, ruining the health of the healthy and so making them equal to the sick, or by smashing the good-looking people’s faces to make them look like their less fortunate bad-looking fellows.<sup>12</sup>

Thus, the common method social-democratic socialism advocates in order to create “equality of opportunity” is taxation of natural assets. Those people who are thought to receive a relatively higher nonmonetary income from some asset, like health, are subject to an additional tax, to be paid in money. This tax is then redistributed to those people whose respective income is relatively low to help compensate them for this fact.

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<sup>12</sup>A fictional account of the implementation of such a policy, supervised by “The unceasing vigilance of agents of the United States Handicapper General” has been given by K. Vonnegut in “Harrison Bergeron,” in K. Vonnegut, *Welcome to the Monkey House* (New York, 1970).

An additional tax, for instance, is levied on the healthy to help the unhealthy pay their doctor bills, or on the good looking to help the ugly pay for plastic surgery or to buy themselves a drink so that they can forget about their lot.

The economic consequences of such redistributive schemes should be clear.

Insofar as the psychic income, represented by health, for instance, requires some productive, time and cost-consuming effort, and as people can, in principle, shift from productive roles into nonproductive ones, or channel their productive efforts into different, non- or less heavily taxed lines of nonexchangeable or exchangeable goods production, they will do so because of the increased costs involved in the production of personal health.

The overall production of the wealth in question will fall, the general standard of health, that is, will be reduced. And even with truly natural assets, like intelligence, about which people can admittedly do little or nothing, consequences of the same kind will result, though only with a time lag of one generation. Realizing that it has become relatively more costly to be intelligent and less so to be non-intelligent, and wanting as much income (of all sorts) as possible for one's offspring, the incentive for intelligent people to produce offspring has been lowered and for non-intelligent ones raised.

Given the laws of genetics, the result will be a population that is all in all less intelligent. And besides, in any case of taxation of natural assets, true for the example of health as

well as for that of intelligence, because monetary income is taxed, a tendency similar to the one resulting from income taxation will set in, i.e., a tendency to reduce one's efforts for monetary return and instead increasingly engage in productive activity for nonmonetary return or in all sorts of non-productive enterprises. And, of course, all this once again reduces the general standard of living.

But this is still not all that has to be said about the consequences of socialism social-democratic-style, as it will also have remote yet nonetheless highly important effects on the social-moral structure of society, which will become visible when one considers the long-term effects of introducing redistributive policies. It probably no longer comes as a surprise that in this regard, too, the difference between Russian-type socialism and socialism social-democratic style, while highly interesting in some details, is not of a principal kind.

As should be recalled, the effect of the former on the formation of personality types was twofold, reducing the incentive to develop productive skills, and favoring at the same time the development of political talents. This precisely is also the overall consequence of social-democratic socialism.

As social-democratic socialism favors nonproductive roles as well as productive ones that escape public notice and so cannot be reached by taxation, the character of the population changes accordingly. This process might be slow, but as long as the peculiar incentive structure established by redistributive policies lasts, it is constantly operative.

Less investment in the development and improvement of one's productive skills will take place and, as a consequence, people will become increasingly unable to secure their income on their own, by producing or contracting. And as the degree of taxation rises and the circle of taxed income widens, people will increasingly develop personalities as inconspicuous, as uniform, and as mediocre as is possible — at least as far as public appearance is concerned.

At the same time, as a person's income simultaneously becomes dependent on Politics, i.e., on society's decision on how to redistribute taxes (which is reached, to be sure, not by contracting, but rather by superimposing one person's will on another's recalcitrant one!), the more dependent it becomes, the more people will have to politicalize, i.e., the more time and energy they will have to invest in the development of their special talents for achieving personal advantages at the expense (i.e., in a noncontractual way) of others or of preventing such exploitation from occurring.

The *difference* between both types of socialism lies (only) in the following: under Russian-type socialism society's control over the means of production, and hence over the income produced with them, is complete, and so far there seems to be no more room to engage in political debate about the proper degree of politicalization of society. The issue is settled — just as it is settled at the other end of the spectrum, under pure capitalism, where there is no room for politics at all and all relations are exclusively contractual.

Under social-democratic socialism, on the other hand, social control over income produced privately is actually

only partial, and increased or full control exists only as society's not yet actualized right, making only for a potential threat hanging over the heads of private producers. But living with the threat of being fully taxed rather than actually being so taxed explains an interesting feature of social-democratic socialism as regards the general development toward increasingly politicalized characters.

It explains why under a system of social-democratic socialism the sort of politicalization is different from that under Russian-type socialism. Under the latter, time and effort is spent nonproductively, discussing how to distribute the socially owned income; under the former, to be sure, this is also done, but time and effort are also used for political quarrels over the issue of how large or small the socially administered income-shares should actually be. Under a system of socialized means of production where this issue is settled once and for all, there is then relatively more withdrawal from public life, resignation, and cynicism to be observed.

Social-democratic socialism, on the other hand, where the question is still open, and where producers and nonproducers alike can still entertain some hope of improving their position by decreasing or increasing taxation, has less of such privatization and, instead, more often has people actively engaged in political agitation either in favor of increasing society's control of privately produced incomes, or against it.<sup>13</sup> With the general similarity as well as this specific difference

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<sup>13</sup>On the phenomenon of politicalization cf. also K. S. Templeton, ed., *The Politicalization of Society* (Indianapolis, 1977).

between both types of socialism explained, the task remains of presenting a brief analysis of some modifying forces influencing the general development toward unproductive politicalized personalities.

These are effected by differing approaches to the desirable pattern of income distribution.

Russian and social-democratic socialism alike are faced with the question of how to distribute income that happens to be socially controlled. For Russian-type socialism it is a matter of what salaries to pay to individuals who have been assigned to various positions in the caretaker economy. For redistributive socialism it is the question of how much tax to allocate to whom. While there are in principle innumerable ways to do this, the egalitarian philosophy of both kinds of socialism effectively reduces the available options to three general types.<sup>14</sup>

The first one is the method of more or less equalizing everybody's monetary income (and possibly also private, nonproductively used wealth).

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<sup>14</sup>On the concern of orthodox and social-democratic socialism for equality cf. S. Lukes, "Socialism and Equality," in: L. Kolakowski and S. Hampshire, eds., *The Socialist Idea* (New York, 1974); also B. Williams, "The Idea of Equality," in P. Laslett and W. G. Runciman, eds., *Philosophy, Politics, and Society*, 2nd series (Oxford, 1962). For a critique of the socialist concept of equality cf. M. N. Rothbard, "Freedom, Inequality, Primitivism and the Division of Labor," in K. S. Templeton, ed., *The Politicalization of Society* (Indianapolis, 1977); and *Egalitarianism as a Revolt Against Nature and Other Essays*, 2nd ed. (title essay; Auburn, Ala., 2000); H. Schoeck, *Envy* (New York, 1966); and *1st Leistung unanstaendig?* (Osnabrueck, 1971); A. Flew, *The Politics of Procrustes* (London, 1980); and *Sociology, Equality and Education* (New York, 1976).

Teachers, doctors, construction workers and miners, factory managers and cleaning ladies all earn pretty much the same salary, or the difference between them is at least considerably reduced.<sup>15</sup> It does not need much comment to realize that this approach reduces the incentive to work most drastically, for it no longer makes much difference — salary-wise — if one works diligently all day or fools around most of the time. Hence, disutility of labor being a fact of life, people will increasingly fool around, with the average income that everyone seems to be guaranteed constantly falling, in

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<sup>15</sup>Traditionally, this approach has been favored, at least in theory, by orthodox Marxist socialism — in line with Marx's famous dictum in his "Critique of the Gotha Programme" (K. Marx, *Selected Works*, vol. 2 [London, 1942], p. 566), "from each according to his ability, to each according to his needs." Economic reality, however, has forced the Russian-style countries to make considerable concessions in practice. Generally speaking, an effort has indeed been made to equalize the (assumedly highly visible) monetary income for various occupations, but in order to keep the economy going, considerable difference in (assumedly less visible) nonmonetary rewards (such as special privileges regarding travel, education, housing, shopping, etc.) have had to be introduced.

Surveying the literature, P. Gregory and R. Stuart (*Comparative Economic Systems* [Boston, 1985]), state: "... earnings are more equally distributed in Eastern Europe, Yugoslavia and the Soviet Union than in the United States. For the USSR, this appears to be a relatively new phenomenon, for as late as 1957, Soviet earnings were more unequal than the United States." However, in Soviet-style countries "a relatively larger volume of resources ... is provided on an extra market bases ..." (p. 502). In conclusion: "Income is distributed more unequally in the capitalist countries in which the state plays a relatively minor redistributive role ... (United States, Italy, Canada). Yet even where the state plays a major redistributive role (United Kingdom, Sweden), the distribution of incomes appears to be slightly more unequal than in the planned socialist countries (Hungary, Czechoslovakia, Bulgaria). The Soviet Union in 1966 appears to have a less egalitarian distribution of income than its East European counterparts" (p. 504). Cf. also, F. Parkin, *Class Inequality and Political Order* (New York, 1971), esp. chap. 6.

relative terms. Thus, this approach relatively strengthens the tendency toward withdrawal, disillusionment, cynicism, and *mutatis mutandis*, contributes to a relative reduction in the general atmosphere of politicalization.

The second approach has the more moderate aim of guaranteeing a minimum income which, though normally somehow linked to average income, falls well below it.<sup>16</sup>

This, too, reduces the incentive to work, since, to the extent that they are only marginal income producers with incomes from production only slightly above the minimum, people will now be more inclined to reduce or even stop their work, enjoy leisure instead, and settle for the minimum income. Thus more people than otherwise will fall below the minimum line, or more people than otherwise will keep or acquire those characteristics on whose existence payment of minimum salaries is bound, and as a consequence, again, the average income to which the minimum salary is linked

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<sup>16</sup>This approach is traditionally most typical for social-democratic socialism. In recent years it has been given much publicized support — from the side of the economics profession — by M. Friedman with his proposal for a “negative income tax” (Friedman, *Capitalism and Freedom*, Chicago, 1962, chap. 12); and by J. Rawls — from the philosophical side — with his “difference principle” (Rawls, *A Theory of Justice* [Cambridge, 1971], pp. 60, 75 ff., 83). Accordingly, both authors have received much attention from social-democratic party intellectuals. Generally, Friedman was only found “guilty” of not wanting to set the minimum income high enough — but then, he had no principled criterion for setting it at any specific point anyway. Rawls, who wants to coerce the “most advantaged person” into letting the “least advantaged one” share in his fortune whenever he happens to improve his own position, was at times even found to have gone too far with his egalitarianism. Cf. G. Schwan, *Sozialismus in der Demokratie. Theorie eine konsequente sozialdemokratischen Politik* (Stuttgart, 1982), chap. 3.

will fall below the level that it otherwise would have reached. But, of course, the incentive to work is reduced to a smaller degree under the second than the first scheme.

On the other hand, the second approach will lead to a relatively higher degree of active politicalization (and less of resigned withdrawal), because, unlike average income, which can be objectively ascertained, the level at which the minimum income is fixed is a completely subjective, arbitrary affair, which is thus particularly prone to becoming a permanent political issue.

Undoubtedly, the highest degree of active politicalization is reached when the third distributional approach is chosen. Its goal, gaining more and more prominence for social democracy, is to achieve equality of opportunity.<sup>17</sup>

The idea is to create, through redistributive measures, a situation in which everyone's chance of achieving any possible (income) position in life is equal — very much as in a lottery where each ticket has the same chance of being a winner or a loser — and, in addition, to have a corrective mechanism which helps rectify situations of “undeserved bad luck” (whatever that may be) which might occur in the course of the ongoing game of chance. Taken literally, of course, this idea is absurd: there is no way of equalizing

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<sup>17</sup>A representative example of social-democratically inclined research on equality of opportunity, in particular regarding education, is C. Jencks, and others, *Inequality* (London, 1973); the increasing prominence of the idea of equalizing opportunity also explains the flood of sociological studies on “quality of life” and “social indicators” that has appeared since the late 1960s. Cf. for instance, A. Szalai and F. Andrews, eds., *The Quality of Life* (London, 1980).

the opportunity of someone living in the Alps and someone residing at the seaside.

In addition, it seems quite clear that the idea of a corrective mechanism is simply incompatible with the lottery idea. Yet it is precisely this high degree of vagueness and confusion which contributes to the popular appeal of this concept.

What constitutes an opportunity, what makes an opportunity different or the same, worse or better, how much and what kind of compensation is needed to equalize opportunities which admittedly cannot be equalized in physical terms (as in the Alps/seaside example), what is undeserved bad luck and what a rectification, are all completely subjective matters. They are dependent on subjective evaluations, changing as they do, and there is then — if one indeed applies the equality of opportunity concept — an unlimited reservoir of all sorts of distributional demands, for all sorts of reasons and for all sorts of people.

This is so, in particular, because equalizing opportunity is compatible with demands for *differences* in monetary income or private wealth. A and B might have the same income and might both be equally rich, but A might be black, or a woman, or have bad eyesight, or be a resident of Texas, or may have ten children, or no husband, or be over 65, whereas B might be none of these but something else, and hence A might argue that his opportunities to attain everything possible in life are different, or rather worse, than B's, and that he should somehow be compensated for this, thus making their monetary incomes, which were the same before, now different. And B, of course, could argue in exactly the same way by simply

reversing the implied evaluation of opportunities. As a consequence, an unheard of degree of politicalization will ensue.

Everything seems fair now, and producers and non-producers alike, the former for defensive and the latter for aggressive purposes, will be driven into spending more and more time in the role of raising, destroying, and countering distributional demands. And to be sure, this activity, like the engagement in leisurely activities, is not only nonproductive but in clear contrast to the role of enjoying leisure, implies spending time for the very purpose of actually disrupting the undisturbed enjoyment of wealth produced, as well as its new production.

But not only is increased politicalization stimulated (above and beyond the level implied by socialism generally) by promoting the idea of equalizing opportunity. There is once more, and this is perhaps one of the most interesting features of new social-democratic-socialism as compared with its traditional Marxist form, a new and different character to the kind of politicalization implied by it. Under any policy of distribution, there must be people who support and promote it. And normally, though not exclusively so, this is done by those who profit most from it.

Thus, under a system of income and wealth-equalization and also under that of a minimum income policy, it is mainly the “have-nots” who are the supporters of the politicalization of social life. Given the fact that on the average they happen to be those with relatively lower intellectual, in particular verbal capabilities, this makes for politics which appears to lack much intellectual sophistication, to say the

least. Put more bluntly, politics tends to be outright dull, dumb, and appalling, even to a considerable number of the have-nots themselves.

On the other hand, in adopting the idea of equalizing opportunity, differences in monetary income and wealth are not only allowed to exist but even become quite pronounced, provided that this is justifiable by some underlying discrepancies in the opportunity structure for which the former differences help compensate. Now in this sort of politics the haves can participate, too.

As a matter of fact, being the ones who on the average command superior verbal skills, and the task of defining opportunities as better or worse being essentially one of persuasive rhetorical powers, this is exactly their sort of game. Thus the haves will now become the dominant force in sustaining the process of politicalization. Increasingly it will be people from their ranks that move to the top of the socialist party organization, and accordingly the appearance and rhetoric of socialist politics will take on a different shape, becoming more and more intellectualized, changing its appeal and attracting a new class of supporters.

With this I have reached the stage in the analysis of social-democratic socialism where only a few remarks and observations are needed which will help *illustrate* the validity of the above theoretical considerations.

Though it does not at all affect the validity of the conclusions reached above, depending as they do exclusively on the truth of the premises and the correctness of the deductions,

there unfortunately exists no nearly perfect, quasi-experimental case to illustrate the workings of social-democratic socialism as compared with capitalism, as there was in the case of East and West Germany regarding Russian-type socialism. Illustrating the point would involve a comparison of manifestly different societies where the *ceteris* are clearly not *paribus*, and thus it would no longer be possible to neatly match certain causes with certain effects.

Often, experiments in social-democratic socialism simply have not lasted long enough, or have been interrupted repeatedly by policies that could not definitely be classified as social-democratic socialism. Or else from the very beginning, they have been mixed with such different — and even inconsistent — policies as a result of political compromising, that in reality different causes and effects are so entangled that no striking illustrative evidence can be produced for *any* thesis of some degree of specificity. The task of disentangling causes and effects then becomes a genuinely theoretical one again, lacking the peculiar persuasiveness that characterizes experimentally produced evidence.

Nonetheless some evidence exists, if only of a more dubious quality. First, on the level of highly global observations, the general thesis about relative impoverishment brought about by redistributive socialism is illustrated by the fact that the standard of living is relatively higher and has become more so over time in the United States of America than in Western Europe, or, more specifically, than in the countries of the European Community (EC).

Both regions are roughly comparable with respect to

population size, ethnic and cultural diversity, tradition and heritage, and also with respect to natural endowments, but the United States is comparatively more capitalist and Europe more socialist. Every neutral observer will hardly fail to notice this point, as indicated also by such global measures as state expenditure as percent of GNP, which is roughly 35 percent in the United States as compared to about 50 percent or more in Western Europe.

It also fits into the picture that the European countries (in particular Great Britain) exhibited more impressive rates of economic growth in the nineteenth century, which has been described repeatedly by historians as the period of classical liberalism, than in the twentieth, which, in contrast, has been termed that of socialism and statism. In the same way the validity of the theory is illustrated by the fact that Western Europe has been increasingly surpassed in rates of economic growth by some of the Pacific countries, such as Japan, Hong Kong, Singapore, and Malaysia; and that the latter, in adopting a relatively more capitalist course, have meanwhile achieved a much higher standard of living than socialistically inclined countries which started at about the same time with roughly the same basis of economic development, such as India.

Coming then to more specific observations, there are the recent experiences of Portugal, where in 1974 the autocratic Salazar regime of conservative socialism (another type of socialism), which had kept Portugal one of the poorest countries in Europe, was supplanted in an upheaval by redistributive socialism (with elements of nationalization) and

where since then the standard of living has fallen even further, literally turning the country into a third world region.

There is also the socialist experiment of Mitterand's France, which produced an immediate deterioration of the economic situation, so noticeable — most conspicuous being a drastic rise in unemployment and repeated currency devaluations — that after less than two years, sharply reduced public support for the government forced a reversal in policy, which was almost comic in that it amounted to a complete denial of what only a few weeks before had been advocated as its dearest convictions.

The most instructive case, though, might again be provided by Germany and, this time, West Germany.<sup>18</sup>

From 1949 to 1966 a liberal-conservative government which showed a remarkable commitment to the principles of a market economy existed, even though from the very beginning there was a considerable degree of conservative-socialist elements mixed in and these elements gained more importance over time. In any case, of all the major European nations, during this period West Germany was, in relative terms, definitely the most capitalist country, and the result of this was that it became Europe's most prosperous society, with growth rates that surpassed those of all its neighbors.

Until 1961, millions of German refugees, and afterward millions of foreign workers from southern European countries became integrated into its expanding economy, and

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<sup>18</sup>On the following cf. also R. Merklein, *Griff in die eigene Tasche* (Hamburg, 1980); and *Die Deutschen werden armer* (Hamburg, 1982).

unemployment and inflation were almost unknown. Then, after a brief transition period, from 1969 to 1982 (almost an equal time span) a social-democratically led socialist-liberal government took over. It raised taxes and social security contributions considerably, increased the number of public employees, poured additional tax funds into existing social programs and created new ones, and significantly increased spending on all sorts of so-called “public goods,” thereby allegedly equalizing opportunities and enhancing the overall “quality of life.”

By resorting to a Keynesian policy of deficit spending and unanticipated inflation, the effects of raising the socially guaranteed minimum provisions for nonproducers at the expense of more heavily taxed producers could be delayed for a few years (the motto of the economic policy of former West German Chancellor Helmut Schmidt was “rather 5% inflation than 5% unemployment”). They were only to become more drastic somewhat later, however, as unanticipated inflation and credit expansion had created and prolonged the over- or rather malinvestment typical of a boom.

As a result, not only was there much more than 5 percent inflation, but unemployment also rose steadily and approached 10 percent; the growth of GNP became slower and slower until it actually fell in absolute terms during the last few years of the period. Instead of being an expanding economy, the absolute number of people employed decreased; more and more pressure was generated on foreign workers to leave the country and the immigration barriers were simultaneously raised to ever higher levels. All

of this happened while the importance of the underground economy grew steadily.

But these were only the more evident effects of a narrowly defined economic kind. There were other effects of a different sort, which were actually of more lasting importance. With the new socialist-liberal government the idea of equalizing opportunity came to the ideological forefront. And as has been predicted theoretically, it was in particular the official spreading of the idea *mehr Demokratie wagen* (“risk more Democracy”) — initially one of the most popular slogans of the new (Willy Brandt) era — that led to a degree of politicalization unheard of before.

All sorts of demands were raised in the name of equality of opportunity; and there was hardly any sphere of life, from childhood to old age, from leisure to work conditions, that was not examined intensely for possible differences that it offered to different people with regard to opportunities defined as relevant. Not surprisingly, such opportunities and such differences were found constantly,<sup>19</sup> and, accordingly, the realm of politics seemed to expand almost daily. “There is no question that is not a political one” could be heard more and more often.

In order to stay ahead of this development the parties in power had to change, too. In particular the Social Democrats, traditionally a blue-collar workers’ party, had to develop a new image.

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<sup>19</sup>Cf. as a representative example, W. Zapf, ed., *Lebensbedingungen in der Bundesrepublik* (Frankfurt/M., 1978).

With the idea of equalizing opportunity gaining ground, it increasingly became, as could be predicted, the party of the (verbal) intelligentsia, of social scientists and of teachers. And this “new” party, almost as if to prove the point that a process of politicalization will be sustained mainly by those who can profit from its distributional schemes and that the job of defining opportunities is essentially arbitrary and a matter of rhetorical power, then made it one of its central concerns to channel the most diverse political energies set in motion into the field of equalizing, above all, educational opportunities.

In particular, they “equalized” the opportunities for a high school and university education, by offering the respective services not only free of charge but by literally *paying* large groups of students to take advantage of them. This not only increased the demand for educators, teachers, and social scientists, whose payment naturally had to come from taxes. It also amounted, somewhat ironically for a socialist party which argued that equalizing educational opportunities would imply an income transfer from the rich to the poor, in effect to a subsidy paid to the more intelligent at the expense of a complementary income reduction for the less intelligent, and, to the extent that there are higher numbers of intelligent people among the middle and upper social classes than among the lower, a subsidy to the haves paid by the have-nots.<sup>20</sup>

As a result of this process of politicalization led by increased numbers of tax-paid educators gaining influence

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<sup>20</sup>Cf. on this A. Alchian, “The Economic and Social Impact of Free Tuition” in A. Alchian, *Economic Forces at Work* (Indianapolis, 1977).

over increased numbers of students, there emerged (as could be predicted) a change in the mentality of the people. It was increasingly considered completely normal to satisfy all sorts of demands through political means, and to claim all sorts of alleged rights against other supposedly better-situated people and their property; and for a whole generation of people raised during this period, it became less and less natural to think of improving one's lot by productive effort or by contracting. Thus, when the actual economic crisis, necessitated by the redistributionist policy, arose, the people were less equipped than ever to overcome it, because over time the same policy had weakened precisely those skills and talents which were now most urgently required.

Revealingly enough, when the socialist-liberal government was ousted in 1982, mainly because of its obviously miserable economic performance, it was still the prevalent opinion that the crisis should be resolved not by eliminating the causes, i.e., the swollen minimum provisions for non-producers or noncontractors, but rather by another redistributive measure: by forcibly equalizing the available work — time for employed and unemployed people.

And in line with this spirit the new conservative-liberal government in fact did no more than slow down the rate of growth of taxation.

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