

Lecture 28
Sociology 621
May 5, 2008

Envisioning Real Utopias: Institutional designs for moving beyond capitalism

I. Unconditional Basic Income Grants

1. The idea:

The Grant: give everyone by right of citizenship a subsistence grant sufficiently high to have a decent standard of living (Marx's historical and moral standard of living). The means of production remain completely privately owned, and profits remain privately appropriated. Taxation remains taxation on the social surplus, through various possible forms.

2. Direct Implications

i. *Implications for Labor market:* this makes work more nearly voluntary in the Marxist sense: workers are no longer forced to sell their labor power. This breaks the link between (a) ownership of the means of production and (b) access to subsistence.

ii. *Implications for unpaid labor:* This in turn means that people are free to engage in voluntary activities on the basis of free association for the production of social projects. This is one of the essential ideas of communism: the free association of people for productive purposes. Unconditional basic income is a systematic way of transferring surplus from capitalism to the social economy: from capital accumulation to social accumulation.

iii. *Implications for capitalist exchange:* But people are also free to enter capitalist relations -- to engage in capitalist practices between consenting adults -- if this corresponds to their life-project.

iv. *Communism:* Capitalism and communism -- a society governed by "to each according to needs from each according to ability" and in which individuals freely associate with each other to realize their life projects under egalitarian conditions -- thus coexist without the intermediary of socialism (defined as state ownership).

3. Ramifications if sustainably implemented

i. *technical change:* bias towards labor saving innovations, elimination of unpleasant work, workplace humanization

ii. *balance of class power:* the potential power of workers is likely to increase for two reasons: (1) labor markets would become tighter, (2) workers have an unconditional strike fund. This means that the bargaining power of workers should increase. This does not imply that this power would be used to push wages to the maximum; it just means that workers are in a position confront capital on more equal terms.

iii. *dynamic trajectory against consumerism*: In all likelihood, a generous BIG would lead to a dramatic shortening of the working day because it would become more difficult to get people to work 40 hours a week. BIG would thus encourage an orientation away from consumerism and towards "leisure".

iv. *democratization*: democracy takes time. BIG is a subsidy to political practice of ordinary people.

4. Sustainability

Whether or not this is a sustainable project depends upon its dynamic effects. The level of a sustainable BIG depends upon several factors:

- i. The proportion of the population that would abstain completely from paid labor. If this is too high, the economy cannot sustain the level of surplus product needed to fund the BIG.
- ii. The level of work effort people are likely to expend when employed given that the threat of job loss is reduced.
- iii. The effect of increases in marginal tax rates on investment decisions: this is the core problem of capital flight and disinvestment in the face of rising labor costs and tax rates.
- iv. immigration, movements of labor: to the extent that BIG is implemented in a relatively open international setting of labor migration, it will attract people -- this is the problem of national BIGs in the EU.

5. Implementability

The political feasibility of BIG is obviously a problem. Issues include:

1. The intuitive view that workers are exploited by people who opt for BIG without productive labor. This is similar to the welfare parasite problem in conventional capitalism. BIG violates norms of contribution based rewards. *Reply*: (a) few people will in fact be parasites; (b) the arrangement is freedom-enhancing for all; (c) the arrangement creates a more benevolent social environment (less crime, etc.) that is a public good. (d) a significant part of the surplus product in physical terms is not a product of current labor but the legacy of accumulated past labor and knowledge, which means it should not be viewed as a "transfer" from individuals who work but from the collectivity to itself.
2. difficult to institute incrementally: partial BIG's have different effects from generous BIGs.
3. easier to implement against a background of high social wage than low social wage.

II. Market Socialism

1. The Problem: What is the macro-structure of socialism?

Traditionally Marxists have drawn the following contrasts between capitalism and socialism:

	Capitalism	Socialism
Direct Producers: relation to means of production	Separated from means of production	collectively own means of production
Direct producers: relation to means of subsistence	separated from means of subsistence	united with means of subsistence
Property rights	private ownership	state ownership of means
Distribution of wealth	inegalitarian	egalitarian
coordination of economy	markets	Comprehensive planning
Relations among producers	competitive & individualist	cooperative & associative
class power	capitalist class= ruling class	working class= ruling class

For each term, socialism is seen basically as the negation of the corresponding term for capitalism. The crucial point is this: in traditional Marxism, while different aspects of the normative criticisms of capitalism are then seen as rooted in different elements in this list, these two sets of attributes are seen as wholistic gestalts. You can not radically change one element without transforming all of them.

Unconditional basic income is an example of a structure that changes one of these elements -- separation of workers from the means of subsistence -- without tampering much with the rest. Here we will explore another change that stops short of turning every element on its head. The idea is to change the mechanisms which distribute property rights in means of production without changing anything else and see what the economy would look like. The central question is this: can we imagine a property rights regime which has the effect of destroying the *power* of the capitalist class and eliminating capitalist *exploitation* without eliminating the market mechanisms that makes capitalism efficient.

2. Problems with Comprehensive Planning and why socialism may need markets

Why would we want to even attempt this? The main reason is this:

Historical experience and theoretical arguments have provided compelling evidence that *comprehensive planning* of complex economies is fraught with inefficiencies. By “comprehensive

planning” I mean any system which attempts to specify *ex ante* – that is, before the process begins – in fairly precise ways how much of all of the things that need to be produced should be produced. Another way of saying this is that detailed allocations of investments are made comprehensively through a deliberate planning process. I call this “comprehensive planning” rather than “central planning” since the process need not be fully centralized in some peak bureaucracy, although historically attempts at comprehensive planning have been fairly centralized. Many of us used to believe that this was due to the authoritarian quality of the bureaucracies and state that did the planning, but this is only part of the story. There are a number of problems with comprehensive planning that have been identified by pro-socialist analysis. First:

a. *Information.* The most crucial problem is that any centralized planning process is overwhelmed by the amount of information required to make planning decisions and is too slow to react to changes in production. The result is that it creates all sorts of rigidities and inefficiencies in the allocation of resources. Decentralized "planning" does not solve this unless the decentralized entities are as small as firms and they have power to actually make allocations. If this is the case, however, what we have looks a lot like markets. None of this would be a grave problem of technologies were constant and unchanging. The problem is that there is constant innovation -- which we want -- in both process and product, and this constantly requires producers to make adjustments which are blocked in a command allocation system.

b. *risk taking.* Coordinated Planning of production has a deep problem of managing risk-taking. It is very hard to make risk-takers accountable for their gambles if they are gambling with other people’s resources. Markets have the virtue of creating a specific incentive structure for gambles with innovation.

c. *incentives.* I think the incentive problem is over-rated. Incentives for *effort* are quite compatible with planning and the absence of real markets. Incentives for accountable risk taking are more difficult.

This does not mean that planning is impossible. One can enhance the capacity of the state (communities) to set priorities -- to plan the market as some people say -- but this is not the same as directly planning the details of production. If this argument is correct, then we need to take serious the problem of combining socialist values with market mechanisms.

To many people the expression "market socialism" is an oxymoron: either the markets have to be massively curtailed for socialist principles to mean anything, or the socialism has to be deeply corrupted to enable markets to work properly. Roemer, challenges this view by elaborating a relatively simple device which, he believes, will enable an economy both to have well-functioning markets and to remain faithful to the egalitarian ideals of socialism. This is what John Roemer’s proposal attempts to do.

3. Roemer’s Proposal: The Basic Idea

How does Roemer propose to accomplish this? In a nutshell, his proposal involves creating two kinds of money in an economy: commodity-money (referred to simply as "money"), used to purchase commodities for consumption, and *share-money* (referred to as "coupons"), used to

purchase ownership rights (stocks) in firms. These two kinds of money are nonconvertible: you cannot legally trade coupons for dollars. Coupons are distributed to the population in an egalitarian manner. Citizens, upon reaching the age of majority, are given their per capita share of the total coupon value of the productive property in the economy. With these coupons they can then buy shares from which they derive certain ownership rights, including rights to dividends from the profits of firms and the right to vote for at least some of the people on the boards of directors of firms. There is thus a stock market, but the stocks can only be purchased with coupons, not dollars. Shares and coupons are nontransferable. You cannot give your shares away, but must sell them at the market coupon rate, and you cannot give your coupons away. At death, all shares and unspent coupons revert to the state for redistribution. The nontransferability and nonconvertibility of coupons prevents ownership from becoming concentrated: the rich (in dollars) cannot buy out the poor.

In order to reduce risks, most people in such a system would probably invest their coupons in stocks via various kinds of mutual funds rather than through direct purchases of stocks on the market. The mutual funds would create diversified portfolios and would monitor firm performance in order to attract investors. Some people, however, would prefer to invest their coupons directly, and inevitably some would do well and others poorly. As a result, over time some inequality in stock ownership would emerge. Because of the prohibition of intergenerational transfers, however, this inequality would remain quite small.

How do firms raise capital to buy machines and raw materials in this system? In the book, Roemer argues that since stocks are sold for coupons, not dollars, firms cannot directly raise capital by selling stocks. Financial capital is raised primarily through credit markets organized by state banks. In subsequent discussions of his proposals he has modified this mechanism. In the revised formulation, firms are allowed to turn the coupons they receive from the sale of stocks into cash in the state banks. The rate of conversion of coupons-into-money is determined through the planning process in which investment priorities would be established through democratic deliberation and implementation would take place through a state planning agency. Different conversion rates of coupons into money could therefore be established for different sectors as a way of encouraging investments for specific social objectives. This involvement of the state in capital markets allows for a significant degree of flexible "planning the market". The result of this scheme, Roemer argues, is relatively freely functioning market mechanisms along with a sustainable egalitarian distribution of property rights, a roughly equal distribution of profits, and a significant planning capacity of the state over broad investment priorities. Thus: market socialism.

This, of course, is just a rough sketch of how such an economy would work. Many other details would need to be worked out. For example, there is the question of whether or not small private firms would be allowed, firms whose property rights would not be organized through the coupon stock market. Roemer believes that there is no reason to prohibit small, private capitalist firms in this model -- small restaurants and shops, but also small manufacturing firms. This, of course, raises the problem of what rules of the game will govern the conversion to such businesses into the publicly traded market socialist firms when they cross some threshold of size. The model, therefore, is not a comprehensive blueprint for how a market socialist economy should be designed, but rather a specification of its core organizing mechanism.

4. Consequences

a. Class structure & exploitation

This economic mechanism has massive consequences for class structure. Above all, the class of rich capitalists is destroyed. The ownership of the means of production is roughly equally distributed throughout the population. Because intergenerational transfers of coupons and stocks is prohibited, there is very limited scope for accumulation of wealth in means of production. Roemer's market socialism, then, might be thought of as a kind of "people's capitalism", a capitalism without capitalists. The question, then, is whether or not this way of organizing property rights would positively serve the values involved in the traditional socialist indictment of capitalism.

The most obvious effect of coupon socialism is on inequality, since the profits of firms will now be distributed relatively equally in the population. However, this probably would not have as big an impact on overall inequality as one might expect, since labor market earnings, the major source of income inequality in developed capitalist societies, and interest payments on savings, would not be equalized. In Roemer's estimates, an equal distribution of profits would only amount to a few thousand dollars per capita per year. Nevertheless, the equalization of profit income would have an impact on inequality, and would certainly make a meaningful difference in the standards of living of the poor.

To more radically approach the egalitarian values of socialism, therefore, the coupon mechanism would have to be supplemented by other institutional devices. For example, universal basic income grants could be adopted as a redistributive mechanism

b. Democracy

Coupon-socialism would enhance democratic capacity of different levels of government for several reasons. First of all, the threat of disinvestment and capital flight in response to state policies would be considerably reduced since firms are now owned by the population at large. In particular, this would mean that the capacity of the democratic state to raise taxes in a coupon-socialist economy would be greater than in a capitalist economy. The sustainable level of taxation that a state can raise is an indicator of the state's capacity to democratically control the social surplus. This is not to argue that a maximally unconstrained democratic state would necessarily opt for the highest sustainable level of taxation, but it does mean that the scope of democracy is enhanced if the democratic state has the capacity to raise taxes to higher sustainable levels. In these terms, it seems likely that the democratic state in a coupon-socialism would have considerably enhanced capacities for taxation since it would not face the threat of disinvestment and capital flight in the face of rising tax rates. Among other things, this means that the level of egalitarian programs such as basic income that the state could sustain are also likely to be higher. By enhancing democratic political capacity, therefore, coupon socialism also potentially enhances economic equality.

There are other, more subtle democracy enhancing effects of coupon socialism. Roemer argues in some detail that coupon-socialism will reduce the production of "public bads", such as pollution, in the economy. The argument is that where there is massively unequal distribution of income from

property holdings there will be a group of property-rich people who have a positive interest in the production of public bads like industrial pollution, since for them such pollution represents a significant source of income (by enhancing their profits). What is more, because they are property-rich, they are in a position to have a disproportionate effect on the political process through which state policies of regulation of pollution is produced. Equalizing property-wealth thus has the double effect of first, partially equalizing political power, and second, changing the incentive structure for pollution regulation.

c. autonomy

The internal organization of production within coupon-socialist firms could in principle be just as hierarchical and alienating as in conventional capitalist firms. Indeed, John Roemer himself is rather unsympathetic to issues of workers control within production. He feels that the choice of institutional arrangements within firms should be mainly thought of as a pragmatic issue: which kind of organization will be the most efficient in the standard neoclassical economics sense. If it turns out that Tayloristic, despotic organization of the labor process is the most efficient, then Roemer believes workers would prefer this to more democratic organization since they will prefer the higher levels of productivity.

In spite of Roemer's own skepticism on this matter, I think that there are reasons why worker autonomy and democracy within firms is likely to be facilitated by coupon-socialism. In a coupon-socialist economy the issue of the internal organization of firms can become a matter of public deliberation and democratic choice. Since threats of disinvestment are weaker, and the specific interests of employers in maintaining dominance within production have been reduced, a less constrained public debate over the trade-offs between alternative forms of organizing the labor process can take place.

d. Efficiency & rationality

The core critique of capitalism as wasteful and irrational centers on the anarchy of the market and the way this generates various forms of irrational allocations: business cycles, hyper consumerism, pollution, unemployment, etc. Market socialism might appear to give up on this problem since it tries to preserve well functioning markets. In fact, coupon socialism does offer the prospect of taming the market if not transcending it. By destroying the power of a class of people whose power is rooted in their private control over market resources, coupon socialism makes planning the market much more feasible and thus greatly expands the scope for democratic debate over priorities of economic development. BIG would be easier in coupon socialism than capitalism, for example. And more generally, a green economy with a trajectory towards reduced consumerism becomes an available objective.

e. Community.

Community is the value least well-served by coupon socialism. Coupon socialism, like capitalism, places competition at the center of economic interaction. Individuals compete on labor markets every bit as much as in capitalism and firms compete in commodity markets. While democratic planning might moderate some of the undesirable by-products of such market competition, the

central mechanism of economic rationality remains organized around greed and fear rather than solidarity. This, in turn, means that the kind of individualistic, greed-centered culture of capitalism is likely to continue in coupon-socialism. Such a culture reduces the potential that the enhanced democratic capacity would lead to more egalitarian social outcomes.

This is a serious challenge to coupon socialism from the vantage point of classical socialist values. There are two principle lines of response. First, unless a more community-enhancing alternative to markets is institutionally feasible, then it may be a sad fact about coupon socialism that it does not provide a context for realizing this important value, but nevertheless this would not be a reason for rejecting coupon-socialism. Second, even though markets remain important in coupon socialism, it is possible that the social space for nonmarket principles of social organization would be enhanced. If coupon-socialism enhances the democratic capacity of the state to appropriate surplus, then in principle the democratically controlled portion of the surplus could be used for community-enhancing purposes. Instead of seeing economies as falling on a continuum from pure market mechanisms to pure communitarian mechanisms, it may be more useful to see economies as combining in complex ways both principles in different social contexts. It is thus possible that in spite of the continued presence of market competition in coupon socialism, a culture of solidarity and generosity could still be nurtured. Still, the anti-communitarian features of coupon socialism are real and undermine its attractiveness as an institutional design for furthering socialist values.

4. Conclusion

To many people coupon socialism is a socialism without passion. It is a socialism that tries to mimic capitalism as much as possible by juggling property rights and institutional design in the stock market just enough to get a more or less egalitarian distribution of dividends. Yet, ironically, even though the result may be more like a “people’s capitalism”, it still would require the massive redistribution of the wealth of the capitalist class and thus may be politically as infeasible as more traditional images of socialism as democratically controlled state ownership. One might argue that since this proposal is no more achievable in practice than more radical socialisms, why not advocate the more radical alternative. At least the more radical alternatives embody a utopian vision which may inspire and mobilize people. It is hard to see workers on the barricade under the banner of “Smash capitalism; build coupon-stock market socialism!”

Such objections, I think, miss the critical value of constructing models of what might be termed a sustainable egalitarian economy. Especially at this point in history, it is important to have a clear and rigorous understanding of the normative implications of various alternatives to capitalism that attempt to accomplish socialist values. As a proposal, coupon-socialism is thus like the proposals for guaranteed universal basic income -- proposals that attempt to further socialist values by transforming specific features of capitalism. Basic income does this by breaking the tight link for most people between income and labor market participation characteristic of capitalism. In capitalism workers are separated from both the means of production and the means of subsistence, and it is this double separation which shapes their class relation to the capitalist class. By restoring workers’ access to the means of subsistence, basic income grants can be seen as a partial deproletarianization of labor. In this way it transforms one crucial aspect of capitalism in an egalitarian direction. Coupon-socialism does the same thing with respect to separation from the means of production. By creating a mechanism for an egalitarian distribution of property rights in

means of production independently of anyone's contribution to the economy, coupon socialism would transform another of the central features of capitalism which block socialist values.

Coupon-socialism is thus not meant to be a blueprint of some final destination of social struggles for human emancipation. Rather, it is a model designed to counter the claim that the only efficient and sustainable way of organizing property relations in a developed economy is through capitalist private ownership. Re-establishing the belief in viable alternatives to capitalism is a critical task for leftwing intellectuals, and Roemer's models are a provocative and innovative contribution to this effort.