

Sociology 292. Envisioning Real Utopias. Reading Interrogations
Week 4: Market Socialism

1. Adam Jacobs

How socialist is Roemer's market socialism? Each of the chapters work Roemer over from various angles. A common objection that I found compelling was that Roemer leaves the rational actor wholly entrenched. A reduction of alienation, atomization and self-centeredness might require a shift away from an economic system predicated on rational actors. Meurs points out that 'recent literature suggests that institutional forms, particularly those based on regular, participatory interaction among relative equals, may promote cultures of cooperation ... the allocational institutions which Roemer has proposed to promote efficiency in the economy are likely to undermine the development of such cultures, however.' (111) Folbre's critique is also quite trenchant on this point: to what degree can society really transform itself as long as the rational actor is relied upon and even reified for efficiency purposes? **[Is the real culprit here the rational actor, or is it the selfish actor? That is: rational action is about the cognitive processes through which choices and actions are shaped: people adopt strategies that are effective in accomplishing their goals. Pure rationality implies that they pick the best strategies. Bounded rationality implies that they pick good-enough strategies. But the issue is the choice of actions given the goals. Selfish action, on the other hand, is a specification of the goals themselves. So, in the present context: is the problem an assumption of rational choice or selfish choice?]**

Perhaps the strength of Roemer's proposal is not in its limited but clever egalitarianism, but in the way it attempts to sharpen the lines between numerous public spheres. I was reminded of Rudolf Steiner's attempt to create a system that separated the realms of political, cultural and economic influence - strength in one would not connote strength in any of the other fields. I'm not familiar with the work of Walzer but Arneson alludes to a similar construction: 'the society of equality of status might be divided into Walzerian separate spheres, with a rigid pecking order ... but with different persons attaining the top status positions in the various spheres.' (214) If a central problem of the existing capitalist state is that economic influence translates all too directly to cultural (media) and political clout, has Roemer, in the short term, neatly removed this relationship? It seems to me that maybe he has. **[I think you are right here: rather than propose an institutional device through which economic power was institutionally insulated from political power and thus would not be able to translate into political power, Roemer proposes to dissolve significant differentials in economic power altogether.]**

Roemer has even offered a proposal that would seem to attenuate the capitalist motivations of imperialist foreign policy (p. 34). However,

several chapters speculated about a reconfiguration in the long run, that would look quite a bit like our existing system. Also, I think Folbre's critique would suggest that the sphere of the family should also be included in this enterprise, along with economy, culture and society.

Regarding our earlier arguments about capital flight, Wright points out that Roemer's ownership structure can swiftly remove the problem of capital flight. As discussed in this book and 'Recasting Egalitarianism,' the threat of capital flight constrains the more ambitious actions of the state in the fiscal arena - Keynesianism, and the increased provision of costly public goods. Will Roemer's formulation free up the state? Is it a wedge, which could lead to social democracy by allowing the state to implement projects that are unpopular with capitalists but would benefit many people? **[Of course, while in a Roemerian socialist world capital flight might not be a problem, in a world on the brink of becoming Roemerian it would be a severe problem]**

But a related bothersome question surrounds the capitalization of the worker. Occasionally, Roemer's scheme reminds me of the short-lived enthusiasm for privatizing social security. By making every worker into a miniscule owner, privatized social security created the perverse situation where a worker would stand to benefit when a company exploited workers for increased profits. Clearly, Roemer cuts a more radical swath with his proposal, one that (if we ignore implementation and regulation difficulties) would reduce firms' incentives to pollute. But how does market socialism affect the worker's day-to-day situation? Without 'the capitalist' to exploit the worker, isn't there still an incentive (or even a necessity) for firms to exploit workers, some of whom may be owners of that firm? More generally, what about the basic Marxist concerns - the ravenousness of capital, the existence of an ideological hegemony, the alienation of the worker from product? **[There would certainly still be an imperative for firms to appropriate surplus products, and those products embody labor, and thus the firms will appropriate surplus labor. But does this mean that they exploit workers if the workers own their per capita share of the total capital used in such appropriation and thus receive in return their per capita share of that part of the surplus which is not reinvested?]**

2. Richard Thomson

[Preliminary note: I have responded to most of the items you raise, but it would be better, I think, for you to try to focus your interrogations on a smaller set of questions. The questions you raise are all interesting and relevant, but they constitute too wide an agenda. Or, perhaps more accurately: it is hard for me to write comments on the interrogations if they get this long].

- Should any utopia proposal be explicitly linked to a school of thought? - Last week it was Egalitarianism, this week it was Socialism. Does the linking of the utopian proposal to a school of thought help or hinder its realization. This is important because the criticisms we saw last week were of a completely different nature than this week – we didn't see many class, gender, race, etc. critiques last week, nor many “economic-information critiques” this week. The merits of the utopian proposal usually get obscured by critic's references to a certain school of thought and how the proposal fails to adhere to the tenets of the school of thought. Would utopian proposals be better off getting judged merely on the merits/demerits of the proposal itself, and not in relation to some other school of thought? **[I am not entirely sure what is in play here in your question. I think it is inherent that a proposal be linked to a “school of thought” in two senses – first, in terms of the normative foundations of the proposal, and second, in terms of the social theories used to justify the design in the proposal. But I don't think it follows from this that a proposal should only be evaluated internally to the school of thought to which it is linked. It is perfectly reasonable to talk about the problems of information failure in market socialism even if it were the case that the model was developed without attention to this issue. And of course, one of the basic ways of criticizing a real-utopian model is to show that it violates some basic values one cares about, even if it was not designed to meet those values. Roemer's model is not designed to strengthen community, but it is still reasonable to criticize it on communitarian grounds if one believes that it will corrode community.]**
- Is the level of funds available in the state treasury for firm financing determined politically? - If so, taxpayers and firms have different incentives for financing the state treasury level. Taxpayers will have an incentive to fund the treasury at a low level (except for the firms in their mutual fund), and firms will have an incentive to fund the treasury at a high level (for otherwise, firms will have to make up the difference in funding from banks). Could this asymmetry in the incentives of the economic participants be problematic? **[I am not sure that taxpayers would have a generic incentive to fund the treasury at a low level since they would have an interest in maintaining the general social infrastructure needed for economic growth and productivity. Given that mutual funds would have highly diversified portfolios, I don't think the macro-economic preferences of taxpayers would be highly selective.]**

- Would Roemer's proposal prompt taxpayers to increase labor exploitation which they reap the benefit of? **[It could. There could certainly be possible strategies of using the coupons to invest in specific kinds of firms and then support policies to exploit workers in those firms. But given that everyone has the same choices, and that information is public, it isn't clear how this could generate an equilibrium form of exploitation.]**
- Could Roemer's proposal turn Socialists into neo-liberal capitalists who desire a minimalist state to increase their profit-sharing returns? **[Probably not because, I think, the mechanism requires a pretty strong state for regulation. Also, since the incentives for public bads are reduced, there should be more effective political demands for public good provisions.]**
- Do markets also have some problems in innovating? - I took away from the article that markets were better at innovating than other institutional forms, but don't markets also have some trouble innovating? For example, using the example of the major US auto manufacturers we discussed last week in class, if the US auto firms are making their money currently on car financing, won't the level of money put into R&D research and innovation be stymied since it is not the firms' current cash cow? **[I agree with you that market advocates overstate the virtues of markets in generating innovation, since this is contingent on other institutional features of the environment in which investments take place. I don't think, however, that there would necessarily be pressures towards a Financialization-of-profits away from production in the way that occurs in ordinary capitalism. But this would need some careful thinking to see how the system might work with respect to such choices.]**
- Wouldn't there be a lack of firm accountability to individuals? – Mutual funds are mandatory intermediaries between citizens and firms in Roemer's proposal. **[Of course, one option would be for mutual funds to not be strictly mandatory, although most citizens would probably choose mutual funds given the limited scope of their investments?]** This intermediary places a barrier from firms being accountable to citizens for their performance (similar to 401ks). Would this barrier between firms and citizens reduce the profit-maximizing incentives for firms? **[Of course, one solution would be also to increase the internal democratic character of the control over the mutual funds, so that they could represent the collective power of their investors more effectively.]**
- What affect would the pooling of risk in a mutual fund have on the profit-maximization of firms? – Industry, index and other funds pool risk which could reduce the profit-maximizing incentives for firms, since the profits are distributed widely (across industry, index or other aggregation), and any gain for each individual shareholder in the mutual fund is negligible (or offset by competitor

- losses). **[The more general issue you raise here is: what are the incentives for efficiency within firms given that the residual claimants are so dispersed. Wouldn't coupon-share socialism just lead to inefficient firm decisions? I think, again, that the answer to this requires more specification of governance structure issues. Existing firms also can have weak boards of directors with diffuse share ownership and still respond to competitive pressures, since those pressures threaten the survival of the firm and thus the organizational careers of its managers and workers.]**
- How good are mutual funds at monitoring firms? Isn't there a danger of mutual funds getting too close to the firms they monitor and too far away from the shareholders who provided their mutual fund seed capital (similar to the recent US accounting scandals)?
 - Is there a risk of oligopoly and concentration through the repeated exchanges between the Banks and the firms competing for bank loans? **[Why would this be any more of a tendency than in the current form of property relations?]**
 - Why do the working class and poor sometimes oppose estate tax provisions? – Why don't the working class and poor support more progressive reforms currently? Sometimes the working class and poor still have the aspiration to be wealthy someday, and if they make it, they want to pass it to their children. Many working class people view their life's work as an incentive to pass on to their children, to make their children's lives better than theirs.
 - “Why should the “left” be in support of asset redistribution?” - Bowles & Gintis and Roemer both failed to adequately demonstrate to the progressive left why it should be in support of asset redistribution (as demonstrated by the critiques they received), as opposed to other alternative proposals, and why material interests should come before social interests. **[You have to remember that Roemer is responding to a problem faced by socialists: if you believe that capitalism should be radically transformed because it imposes harms in the world, then you need some sort of model for how the alternative can function effectively. One model is state ownership, but it produces various pathologies. Market socialism is therefore a proposal to contend with the institutional impasse generated by the rejection of state socialism. Of course, if you are a leftist who feels capitalism is just fine as a way of organizing economic relations, then there is no need to pose an institutional alternative.]**
 - Chicken & egg problem? – Does it take culture change to occur before economic change can happen, or is economic change needed before cultural change can take place? Human behavior can be reinforcing, complementary, and simultaneous.

Are their limits to “culture” as a solution to the economic problems facing the poor and working classes?

- How does Roemer’s economic change affect social change? Had Roemer discussed this, he would have gone a long way to alleviate the concerns of many of his critics. Is economic change easier than social change? Can money change hands faster than cultural values?

3. Linda M. Zech

Competition With Non-Public Firms

One concern with Roemer’s plan is that it is designed to affect only the ownership of what is currently the corporate sector. While shares in such firms cannot be purchased by anyone other than mutual funds, which must use coupons from the citizenry, there at least two other sectors that will pose some threats.

First, if private ownership of privately held companies (vs publicly trade companies) is allowed to continue a large competitive threat without the safeguards of Roemer’s plans will be allowed to continue. These firms will have no disincentives against public bids. The wealthy, who will presumably be compensated for their shares in publicly held firms if stripped of their interests when the plan takes places, will have an incentive to invest even more dollars in privately held firms which can compete with the publicly held firms without similar restrictions. **[Very good issue. One strategy would be to impose cilings on the allowable size of privately held firms – i.e. privately held firms have to go public when they reach a certain size. There are a variety of devices for this – it could be gradual, in the sense that the % of equity that had to be held in coupons goes up with the value of the assets, so that there is no discontinuity threshold which would create all sorts of pathologies. One could even imagine a strict prohibition on all privately held firms that were larger than very small enterprises, and just take the inefficiencies generated by the barrier as a cost of reproducing wealth equality.]**

If private firms of unlimited size are permitted to compete with publicly traded ones, they may have an unfair advantage – unfettered by a more egalitarian ownership insisting on strategies that may result in fewer public bids but at a higher marginal cost. Even if there is regulation forbidding private ownership of firms beyond a certain size (whether measured in value of assets or number of employees or some other gauge) – the possibly that the break up of such firms into smaller units may nonetheless be the subject of coordinated efforts among owners could result in oligopoly style dominance of certain sectors. Combinations could result in unfair competition – price setting, kickbacks, etc, could drive public firms out of business. Thus a rigid enforcement of monopoly type laws in the private sector would be an important compliment to Roemer’s scheme.

On the other hand if the size of prohibited private business is set too low, citizens wishing to start their own business, even sole proprietorships may be inhibited. While they may have the prospect of being bought out by the state – some of the incentive to invest their talents in new ideas may be lost. As Roemer noted much of the R&D activity is found in the smaller start up firms which have the flexibility to behave creatively and push innovation beyond what a large firm can achieve. **[This is another very important point, but I wonder how much of a disincentive this would be once the system were really in place. Against relatively egalitarian background conditions, is there really much of a difference in incentive for risk-taking with expected pay-offs of \$1million or \$100million? Partially the super high-returns become normatively needed because there is so much inequality to begin with.]**

In addition to private firms, public firms will necessarily have to compete with foreign firms. The nature of regulation will again be important in limiting the effect of foreign competition. For example, those who have retained wealth may be likely to use their cash to invest in firms which may already compete with domestic firms. Or they may form firms which are technically incorporated in non domestic locations – but which operate in the state either. Foreign firms can compete in several ways: by sale of goods or services in competition with the state's domestic markets, by seeking control of necessary natural resources or other inputs, and by renting or building the means of production within the state. The later could be restricted completely or limited to certain regions (as in the case of China). **[The whole model is really framed as a national model. The whole thing could quickly unravel in a globalized open-system context. This has always been one of the Achilles heels of socialisms of any variety: can they effectively compete with rampant capitalism in head-to-head fights? This is why "socialism in one country" vs "worldwide socialism" has always been an issue in these discussions.]**

The possibility of partnerships between foreign corporations and domestic public firms – which could increase profits for both -- could be complicated by Roemer's plan. The limitation of public bads may be tempered by such partnerships – or may permit the spread of such positive results beyond the borders of the state depending on the dynamics of the partnerships or joint ventures. Again regulation would be key to prevent public firms from losing the characteristics which Roemer envisions for them through such collaborations.

Profit Distribution- Possible Problems

The amount of profits distributed to a citizen will be largely variable. It will not have the character of a guaranteed minimum income. It can slide up and down as the profits in firms in which a citizen has invested fluxuates, the mutual fund reallocates investments in different firms, and the citizen moves shares to other mutual funds.

Citizens will require important basic education in order to make good decisions on investments to maximize profits. They will necessarily start out with unequal endowments of knowledge and experience on how to maximize these opportunities. Thus education will be a key compliment to Roemer's plan. **[Unless, of course, the mutual funds are fairly closely regulated. I am not sure that this will be such a big task. It would be if citizens were expected to invest directly in firms, but not if mutual funds are intermediaries.]**

Those citizens without such knowledge, and little interest in acquiring it, may be likely targets for black market activities or other schemes orchestrated to use their shares in the interests of others. They could be forced to give proxies in exchange for needed cash, or may even be responsive to direction on how and where to invest their shares. Corruption on the part of bank and mutual fund officials, the managerial class and state officials is not likely to disappear. As we have seen with recent corporate scandals ineffective regulation of the stock market and corporate managers can have devastating effects even if creative plans to take advantage of shareholders is discovered.

Even without problems of arising from black markets and other corruption, citizens may not receive much in the way of profits from highly competitive firms. While firms may borrow funds in exchange for shares for capital improvements, and raise operating expenses from banks by way of loans, there is another technique that competitive firms often use – the reinvestment of profits. If profits are reinvested (retained earnings) the firm can expand its capital assets, which is likely to be necessary to compete (new equipment, machinery, technology, etc.). If their position is strengthened, in the long run profits will be maximized and shares will rise in value – but owners will have to wait for their distribution of profits. **[And, of course, the rise in share values as such is less valuable to citizens than in ordinary capitalism since they cannot convert coupons into cash, only into other shares. A rise in share values, however, should lead to a movement of coupon-capital from firms with high reinvestment and low dividends to firms with high dividends. This might provide a mechanism to insure that firms balance dividends with reinvested retained earnings.]**

If there is no profit distribution for lengthy periods of time, and it is needed by the poorer shareholders to supplement lower wages, citizens who are prohibited from using their ownership shares in any other way are likely to move to other firms that will give them a stream of income. This will lower investment in competitive/productive firm – in an undesirable manner. Those who can stay with highly competitive/productive firms are likely to be the wealthier individuals. Thus the wealthy will be likely to become even wealthier in the long run. **[Another good point, but this still might constitute a more egalitarian compromise than other institutional forms. To be sure, people who are high earners – wealthy in their human capital assets and thus able to get a stream of income from earnings – are better positioned to take a longer-term view of their coupon-share assets than would be poor wage earners. But this still might result in weaker capital asset inequality over time than in the current situation where the poor have zero-assets.]**

4. Matias Scaglione

The new government of Country X –a semi-peripheral country with a highly developed financial sector– is seriously considering the feasibility of the model of ‘market socialism’ proposed by John Roemer in his essay “A future for socialism”. In a secret meeting, the President with the whole cabinet and few members of the Congress, discuss, among others, the following issues:

1. *Initial distribution of coupons.* After *expropriating* selected private firms and banks, the state treasury provides each adult citizen a coupon with which she can only purchase shares of mutual funds, which, in turn, can purchase shares in the new public firms. It is not clear, however, (i) how *generous* the share has to be (i.e. the total equity of the expropriated firms and banks plus the equity of state-owned firms, relative to the total adult citizens), nor (ii) which firms to expropriate (national/multinational, small/medium/big, innovative/non-innovative, export-oriented / domestic-market-oriented, etc.).

2. *Intertemporal distribution of shares.* In so far as every adult citizen receive a share, it is not clear how the state treasury should deal with the more than likely situation of a mismatch between net new adult citizens (stock of adult citizens + new citizens – dead citizens) and total equity growth of the public firms, without jeopardizing the value of the coupons. **[I think the idea here is that once the system is in place there will be coupon-denominated total value of all shares in the economy. The state treasury then distributes coupons to new people from two sources: a) from the redistribution of the coupons of people who die, and b) from the issuance of new coupons. Since, on average, when people die the coupon value of their assets will be above the median value – since they will have held the shares bought with their coupons for a long time – this means that in general redistributing those coupons will give new entrants their per capita share without topping up.]** In this sense, what would happen with the generations that turn 21 years old in the middle of an economic depression (understanding economic depression as a decrease of the total equity of the public firms)? **[I suppose there could be smoothing procedures here, new coupon issues to people periodically, etc.]** It is correct to interpret that in Roemer’s model the emission of 1 nominal value of coupons corresponds to 1 additional coupon value of equity in the public sector? Is it the other way around? **[I don’t quite get this point – perhaps you can explain it in class.]**

3. *Public banks (and private).* Some members in the meeting are skeptical about two aspects regarding the nature and role of the public banks. First, Roemer intends that firms in a coupon economy be «organized around a fairly small number of main banks, as in

the Japanese *keiretsu*» (p. 30), and that these banks are the primary monitors of the firms. The nineties show us, argues one of the skeptical members, that in Japan this kind of model allowed the emergence of high levels of corruption and complicity between the banks and the monitored firms. **[You're right, of course – it is no accident that Roemer's model was formulated in the late 1980s!]** Furthermore, and following the same line of argument, there is no certainty about the efficacy of the monitor of the monitor: the mutual funds. Second, given that the bank is a very special kind of firm, it is not clear why the citizens would deposit their savings in a public bank, with its equity denominated in coupons? Would not they feel more secure in a private bank, knowing that it has an equity denominated in the same currency that is operating and is subject to one price (interest rate) instead of two (interest rate and price of coupons)? **[In either case the deposits could be publicly guaranteed through despoti insurance, so I am not sure it would matter to the citizen depositor of savings].**

4. This duality public-private is also applicable to the firms. It is not clear how the public firms would innovate and invest much or as much as private firms in same branches of industry, that, for example, have access to international financial markets. **[public firms could also sell bonds on an international financial market, just not equity.]**

5. *Market and socialism.* When the meeting seemed endless and increasingly technical, the oldest person in the meeting, a former teacher and socialist militant, warned: -I think that this 'coupon economy' would give more real and formal power to the market, an uncontrolled social mechanism that certainly never had and will not have the virtues that most of you and Roemer assign it through some institutional arrangements. You have in mind an artificially 'improved' market that, nevertheless, would not deny its very accidental and anarchical nature. **[Yes, Roemer would reply, but the only alternative to the market for all its flaws is an apparatus of planning which also has pathologies, pathologies of perverse incentives and concentrations of power. What we have learned is that these pathologies cannot be tamed by democracy. So since we have to choose our dilemmas, we are better off with markets tamed by egalitarian asset distributions than by central planning without markets.]**

5. Patrizia Aurich

In general I find the approach Roemer's on redistribution of ownership quite plausible. It seems such a simple way to balance ownership in a society. In terms of egalitarianist values I am not sure though, if the design is fully developed.

At first I want to review these values as Roemer himself sets them out. He believes that the following three are the substantial values socialists want: equality of opportunity for self-realization and welfare, equality of the opportunity for political influence and equality of social status. He sees the equality of self-realization and

welfare, which in his opinion is obviously the highest goal, because it can induce the other equalities as well (Roemer 1996: 12), as the organization of a society which equalizes the opportunity of self-realization which is a process of transformation and requires struggle. He points out that this level of possible self-realization should be achieved as an equal level for all taking in account individual handicaps (Roemer 1996: 11).

According to Roemer no one is able to exchange their shares in money and this will prevent the sort of accumulation, which would make the rich richer and the poor even more poor. It seems plausible that this way the ownership of properties will be more equalized, but even though this inequality caused by inheritance and accumulation can be inhibited by the equal distribution of shares and the personalization of these properties in terms of transferability, it does not take into account more diverse matters of inequality caused by different mechanisms. Roemer does not address the problem of investing the shares for example. Even though there are mutual funds, whose function it is to reduce the risk for investors, there will be bankruptcies and other events which will make some people the losers of this competitive market. **[The mutual funds themselves can be regulated in ways that mean that they cannot go bankrupt even though the firms in which they invest might. This means that while some mutual funds will do better than others, the differences in the asset holdings of people who invest their coupons in the mutual funds should not get too great.]** Also people might have difficulties investing their shares, but this is a matter of education rather than ownership, which I will discuss later. My point is that Roemer does not address the question of how to reduce inequalities that might arise from individual circumstances. Would he reduce the matter to the “equality of opportunity” which the individuals made no use of? But even then he would have to consider social inequalities which are no individual fault, such as age, gender and race as well as differences in social and cultural capital. On page 11 Roemer himself mentions that it is one of the socialist values to compensate people for handicaps induced by factors they had no control of, but he doesn’t recur to this issue later in his proposal. I cannot see an equalization of this kind be achieved through this proposal. **[You are right that Roemer doesn’t discuss this – but I think it is because the coupon-socialism model is not meant to be a comprehensive model of all institutional devices needed to accomplish socialist values. For example, Roemer might agree that Basic Income should be added to market socialism to deal with the bad luck problem; and he certainly would support a wide range of socialized services, like education and health care, for egalitarian purposes.]**

Secondly I would like to have clarified the meaning of education in Roemer’s proposal. He does realize that in order to shape a sense of community and for understanding the welfare of the public, as for example through the reduction of public bads, education plays a key role, as he puts it (Roemer 1996: 33). But he doesn’t work out the details of this matter. In what way would education be able to reduce inequalities? Only by narrowing wage differentials? **[I think he believes that true equality of educational opportunity means equality of opportunity to acquire human capital. This would mean, for example, much higher educational spending on people who were in other**

ways disadvantaged in the acquisition of human capital. The result of deep equality of opportunity for human capital, then, would be a reduction in wage differentials, at least if we assume that with true equal opportunity we would have more egalitarian outcomes.]

At last I find his conclusion that the “structural power of capital over society” will be broken (p.35) difficult. Of course there won’t be an “important class” anymore, whose interests would rule over society. But the example he uses to show this, the Persian Gulf War, doesn’t convince me. Within a coupon society even more people would have had shares in the oil industry, and even more people would have had an interest in making war on Iraq. **[More people would have shares in oil, but none of them would gain very much from their specific oil-interests. The result is that their interest in the public bad would be weak compared to their interest in the public good, and even more crucially, they would not individually have the power to act on their public bad interests.]** One could argue that at least in this case the majority would have made the decision which makes it seem more democratic. But that alone does not enable the power of capital, for the profit is still the crucial element responsible for the decision to make war. In order to change that it would indeed need an education which makes the people differentiate public bads from individual goods.

6. Elizabeth Holzer

I have two questions:

1. Can you have equality of income within a systematically fragmented society?
2. Does redistributing profits to all adult citizens equalize income more than redistributing wages?

On whether systematic fragmentation is irreconcilable to equality—

Income is unequally distributed not just by class, several commentators make this point, see especially the Folbre and Salz. Without institutional mechanisms for alleviating income inequalities that are rooted in gender relations, race relations, etc. won’t the society remain fragmented along these lines? **[The expression “rooted in” of course needs elaboration. One way, for example, that income inequality is rooted in race relations is via the way credit markets are racially oppressive, or via the way inheritance rules have made it difficult for historically disadvantaged groups to accumulate wealth. Creating a mechanism for giving everyone an equal share of capital assets via the coupon mechanism and preventing inheritance of productive wealth is an “institutional mechanism for alleviating income inequalities rooted in race relations” where the form of the “rooting” is inheritance and access to capital.]**

Of course, this would leave untouched mechanisms rooted in labor markets, educational institutions, housing markets, etc.

On whether the neglect of wages undermines the goal of equalizing income—

Roemer's limited goal is equalizing income. Income comes not just from profits but also from wages, of course. First, an empirical question—will the income that comes from wages be minimal compared to the income that comes from one's take of the profits? **[No: I think even the most generous estimates of the % of income that will come from redistributed profits – dividends from share holding – is only around 10-15% on average, but of course this will be a much higher percentage for the poor]** If so, that's a good justification for concentrating exclusively on profits, and we needn't discuss this in class, but I got the impression from one of the commentators that this wasn't the case.

Why not strive for equality of wages? By *equality*, I don't mean *sameness*—I'm not suggesting that everyone get paid \$10 an hour. I mean alleviating the inequality of wages that derives exploitation, in other words, reforming production relations like we discussed last week. **[Important issue to discuss. Do we really want equality of wages in any real sense, or equality of income/living standards, so that, for example, basic income would supplement wages, and taxes would reduce wages? It might be better to leave the wage differentials generated by market forces, but unhitch living standards from wages as much as possible.]**

7. César Rodríguez

I would like to raise two brief points for discussion on Roemer's proposal for a market socialism:

1. One of the most illuminating arguments in Roemer's critique of capitalism is the one concerning what he calls the "public bads" that capitalist markets tend to produce. In elaborating this criticism and examining how market socialism would reduce the level of such "public bads," Roemer focuses exclusively on the example of pollution (pp. 22-29). However, in his initial discussion of "public bads" he includes many other undesirable social arrangements induced by capitalist markets, such as "noxious advertising...by cigarette companies; investment in firms doing business in a South Africa under apartheid; and fast assembly line speeds, or, more generally, the lack of enforcement of labor legislation..." (p. 19).

I wholeheartedly agree with Roemer that these are indeed "public bads" in a broad sense of the term –i.e., undesirable social effects that are associated with market capitalism. However, to my mind, it is far from clear how exactly those public bads would be reduced under market socialism. In the case of pollution, the mechanism is straightforward. Since clean air is a public good –and pollution a public bad—in the strict

(economic) sense of the term, it is in the interest of the large majority of the population to have the costs of pollution internalized by firms and improve the quality of air. However, it is not clear what exactly is the mechanism whereby citizens-investors (i.e., citizens endowed with equal shares of coupons) would make investment decisions more “socially responsible” –i.e., how a market socialist society would be more likely not to invest in a South Africa under apartheid or put pressure on firms to enforce and raise labor standards. **[I think the argument has to work through politics rather than directly at the economic level: the reason why we get less pollution under market socialism is that there is less organized powerful political opposition to strong pollution regulation. It is not that individual firms have any less incentive to pollute, it is just that no one will come to their defense politically. This is the same mechanism that would work in the South Africa case or labor standards case. People mobilize to raise standards through state rules/regulations, and no powerful lobby organizes against this since there is no group which both (a) has an interest in the public bad and (b) has concentrated power to act on those interests politically.]**

At a smaller scale, these debates exist today around proposals for socially responsible investment, that is, for stakeholders to wield their power in corporations to force the latter to behave in a more socially responsible way –for instance, by paying a living wage at home and abroad. However, stakeholders rarely care as much about social outcomes as they care about the profits of the firms and their stocks’ value. Thus, a problem of “split personality” arises: individuals as investors, acting in a profit-maximizing way, may undermine the conditions that would improve their well-being as workers or inhabitants of a city or country. **[This is precisely why the process must be a politically mediated one].**

It is not clear to me how market socialism solves this “split personality” problem. Since, unlike in Bowles and Gintis’s proposal, Roemer’s model does not call for workers owning shares of the firms they work in, their behavior and preferences as investors in mutual funds may be at odds with what they would prefer as workers, consumers, etc. Thus, the level of public bads in market socialism is not necessarily lower than in market capitalism. **[Again: it is precisely because of their split personalities that they will act as citizens in a way different from their action as shareholders.]**

Perhaps one way of dealing with this problem is by coupling the program of equal distribution of coupons with a radical program of direct, empowered participation by shareholders in firms under market socialism. Roemer does not delve into the issue of participatory governance of firms, which, it seems to me, would be the only way to ensure that redistribution would translate into the mitigation of public bads.

2. Roemer’s list of the goals that “socialist want” include three types of equality. However, as many socialist authors have argued, at least the most compelling versions of socialism are also committed to enhancing “real freedom”. Thus, freedom is not the exclusive to liberalism and conservatism, but is a crucial value of socialism. I wonder to what extent Roemer’s proposal would entail a vast monitoring and intrusive government

apparatus. Since there are a number of forbidden transactions –notably selling coupons for cash—, it seems like the surveillance/repressive state apparatus –for instance, to control black-market transactions in which wealthy citizens purchased coupons from poor citizens with cash—would have to be strengthened. While it is obviously true that market capitalist societies usually have large repressive state apparatuses and that market socialism would probably do away with social phenomena (like massive poverty) that fuel the growth of the penal system, it may still be the case that market socialism may entail levels of monitoring and surveillance that would go against the type of individual autonomy and freedom that a socialist agenda may want to promote. **[I do not really see how this regulation of a particular kind of transaction would be all that intrusive. It isn't that different from regulating insider trading in current corporations.]**

8. Chang

Roemer's historical explanation is very persuasive. His analysis on why the centrally planned economies failed is very interesting. Three principal-agent problems is not the primary problem. The real problem is efficiency, competition and innovation.

1. Is competition a good thing?

Roemer suggests that political competition is required to empower the public (p.15) and the economic competition is necessary for the innovation the lack of which is the main cause of the failure of the Soviet-type economies. Might the competition, however, destroy the feeling of community (or solidarity)? Although Roemer emphasizes education as the means of achieving more equal income distribution, under the globalization, most governments are under pressure to reduce the growth of public spending on education. So, the privatization of education focusing on competition will tend to worsen the income distribution. (I think the competition had better be limited within specific economic boundary.) **[The character of Roemer's argument is that education is the best way of equalizing human capital, and this is the best longterm, stable way of equalizing income distribution. That claim can be true even if it is also true that globalization reduces education. The latter observation, then, demonstrates that there is no possibility of equalizing earnings under existing conditions, but it does not impune the education-human capital-equality connection.]**

2. Inefficiency of the currencies?: Coupons & commodity-money?

Roemer's market socialism includes creating two kinds of money in a society: commodity-money, used to purchase commodities for consumption, and coupons, used to purchase ownership rights in firms. I think using two kinds of money is inefficient in terms of transaction costs. Although he explains the case of the black market, I don't know how two currencies work. In China, the two currencies were used before. One is for foreigners and the other is for China people. But, the black market was the problem. **[The**

black market would be a much smaller problem in Roemer's model than in a two currency context where both currencies are used to purchase commodities. Coupons can only be used to buy shares. The coupons can be identified and numbered in ways that require certifications in transactions, but making black markets less likely. Of course there are efficiency losses in the specific transactions blocked by the rules, but the argument is that this is more than made up by increased efficiencies with respect to other values: avoiding public bads, maintaining equality, etc.]

3. Reality...

I think that Roemer criticizes the basic income plan and generalized egalitarian asset redistribution. He thinks these plans are unrealistic (p.35). Then, is Roemer's market socialism more realistic than these plans? What makes market socialism more realistic? **[You are right here! Realism in the sense of implementability is not the strong suit of Roemer's proposals.]**

9. Stuart Meland

Coupons and Mutual Funds

Roemer envisions a coupon system as a means of distributing and diversifying corporate ownership. Mutual funds will act as paternalistic intermediaries between corporations and coupon holders, preventing individuals from "squandering their coupon endowments on poor investments" (21). Corporations will no longer be accountable to their individual shareholders but to the mutual fund managers that oversee coupon investments. The system does not account for the fact that mutual fund managers will wield the collective wealth of the masses. While it may be true that managers will be accountable to their shareholders, their individual motives and actions may be difficult to monitor. The opportunity for rent seeking behavior by mutual fund managers cannot be overestimated. **[Is this an intractable problem or would there be ways of organizing the governance and control of mutual funds that would contain this problem? Do managers of mutual funds have to be paid in a way that enables them to appropriate rents? You may be right that there is a problem here, but it isn't so clear that it is a deep one].**

Public Bads

Roemer's theory implies that the diversification of interests may lead to a reduction or elimination of public bads. However, the theory ignores agency seeking behaviors that could corrupt the system. What will prevent a mutual fund comprised of investors in one region from investing in companies that pollute another region? Unless all people invest in all mutual funds there will be populations not represented by individual funds. These populations will then be vulnerable to exploitation by fund owners. **[There could be rules in place about the allocation of mutual fund investments which lead them to be less concentrated than you suggest here, by region or by sector or by any other**

specific interest. But equally important is the idea that there will be less concentration of political power than there is in ordinary capitalist economies since the concentration of wealth linked to the concentration of public bads will be much weaker.]

Capital Ownership

The coupon endowments prevent mass accumulation of shares across generations but not within generations. Individuals are free to amass large coupon fortunes and the resulting incomes (20). While these fortunes cannot be inherited, they can be used to serve an individual's self interest rather than the public good. We cannot assume that the non-transferability of coupons will preserve socialist ideals. The system works as a type of stakeholder grant coupon redistribution in which individuals are free to invest and free to lose their share. Equality of opportunity exists only when the endowment is first invested. The success of that initial investment then determines the level of an individual's future opportunities. **[But wouldn't the magnitude of the disparities still be very muted compared to the present, particularly since the investments are directed through mutual funds, which reduces the capacity of any individual to identify some low value stock and then make a giant capital gains? Also, I don't think one should see this institution as providing the full solution to the equality of opportunity problem, but just a solution on the capital asset side of the problem.]**

10. Eric Freedman

This is late, so I'll keep it short:

The main question I had was related to the transition problem (which I know you said not to worry about) in setting up this proposal. Roemer talks about the political barriers to enacting equal education and income redistribution legislation, but it seems like his proposal would engender the same kind of opposition. I was curious as to why he seems to think market socialism could be established more easily than could these other projects. **[I agree that he is vague about this. One can imagine a variety of schemes through which this proposal could be incrementally introduced in ways that would avoid the problem of sharp discontinuities in systems, but it is hard to imagine that the political opposition to an incremental scheme that would end up dispossessing the wealthy of their shares in corporations wouldn't be overwhelming.]**

A related issue is avoiding the same types of anti-democratic measures that other socialist parties have felt it necessary to take in "protecting the revolution" from reactionary forces. Clearly, if the reforms Roemer proposed came about democratically through a sort of constitutional convention, as opposed to violent revolution, then this issue would be less salient, but I still suspect a strong vocal minority who utterly detests the massive redistribution of assets, and tries to flee the country, or to set up a massive media campaign designed to persuade the public to vote capitalism back in. The real question is, is such a massive change in policy (from capitalism to market socialism)

possible without resorting to measures such as controlling the media (or rigging subsequent elections, for that matter)? And if not, then why has this type of thing occurred in virtually every example of socialists gaining power over the past century? **[Another way of posing the issue here would be: what might be a scenario under which this sort of proposal could be implemented, either in full or in part? One possibility would be a severe economic collapse in which a substantial proportion of large firms went bankrupt and the state had to rescue them. One transition scenario in such a case might be for the state to issue coupon-shares of the value of the money capital transfers given to the bankrupt corporations, and then distribute these coupons to everyone via publicly run mutual funds. This would create a publicly owner sector working on the market socialism mechanism. So one could imagine a transition scenario which did not involve expropriation of private owners]**

11. Zeynep Kilic

Roemer's suggestion of market socialism rises on two main ideas: 1) Sustainability of capitalist market economy with its elements of competition, efficiency and profitability; 2) Within this economy, building the possibility of equalizing income for everyone **[one should probably say here: possibility of increasing the degree of equality of income]** by giving the equality of opportunity for self-realization, welfare and political influence. He believes that coupon socialism can be the answer both efficient and egalitarian market economy, and extensions of it also can create a politically equal society. But this suggestion has some technical and ideological problems. Let's start with the technical ones.

Public Firms: Public firms are the center of the idea. Individuals with the coupons they have can be shareholders of them. Roemer says, "these are not owned directly by the state. In a thorough-going market-socialist economy, all large firms would belong to this sector." Does that mean, at the beginning of construction of system, only the firms which state have shares will be "public firms" and as long as this system settles, others firms would also be parts of it? That means, it will start as a privatization or opening to "public" operation. And if it works, if it is effective private firms will join too. What if it doesn't work and other firms don't join it? **[Roemer really does not lay out the transition strategy here, so it isn't clear whether or not he would envision private firms choosing to "join" the public-coupon sector, or – alternatively – there would be some mechanism by which they would be forced to do so.]**

The other, and for me more important problem is that. Individual firms won't join this system. And Roemer assumes that in market socialism many small private firms will form also. If we recall that in market socialism competition will go on, these firms till either be bought by large public firms, or keep on going as a small "harmless" firms. But

there is one option too. Large individual firms (we have causes to believe that they will exist) will compete roughly with public firms. This is what Roemer wants actually. But this competition could be opposed to public firms. There are some profitable and non-profitable sectors in economy. Some goods have to be produced but they don't bring any profit. My problem is that, in market-socialism, like in capitalist market, while profitable goods would be produced by private firms, public firms have to deal with the others! **[For Roemer's scheme to work in an equilibrium, large privately controlled firms would not be allowed. It isn't clear what mechanism would govern their absorption into the public sector or how perverse effects could be avoided, but he does not envision a context of competition between socialist coupon firms and private capitalist ones.]**

Banks and The Management of Public Firms: Banks will be also in the sector of the public firms. They will control public firms in terms of finance and efficiency, and government will control them. My experience over Turkey, don't give me much hope about it. By all means, this system has to build a fine balance between public/private firms, banks and government.

Separately, the management of the all public firms is a sensitive point too. We assume that, as Roemer declares, poor and middle will control the firms, as they own the majority of coupons in society. In respect to management, managers or directors will be chosen by elections. We can still believe that democracy equals to election. But if this election process doesn't support with other regulations, may not always cause democratic conclusion. We become familiar to these kinds of conclusions with the crises of parliamentary democracy! **[You are right that this is a weak point in the analysis: how is the governance of the mutual funds really organized and how can this be meaningfully democratic. But we need to also consider that weak democratic control may be good enough – it may not need to be deeply democratic for the funds to do a reasonably good job, since they will also be regulated by the state in various ways.]**

Profit Share: Coupon socialism, no doubt, present individuals to equal investment chance with the coupons. In market socialism everybody will have a rich portfolio if they act like a rational individuals. What about their pockets? If they have no chance to transfer coupons to money, how they can be as equal as the rich? They won't buy the house that they want; they can't go the university that they prefer? But they continue to be partners of some firms. Or as time passed, will coupons become the "new" money of the economy? (I may not exactly understand the dividend or profit share thing. If I'm making a stupid mistake please ignore it.) **[The way it works is that coupons give you a property right in the firm, and thus a claim on the flow of profits made by the firm. The firms divides profits between dividends and retained earnings for investments. Coupon-owners, therefore, get ordinary money in the form of dividends.]**

The ideological problems of the proposal begin with the "what Roemer wants?" question. As I said at the beginning, he just wants "distribute the profits of the firm quite equally among adult citizenry". He calls what he tries to build "socialism", but he still

thinks and suggests over the concepts of capitalist ideology. Here are some examples with his words:

“ I shall be concerned only with investigation the possibility of equalizing income *without any unacceptable loss in efficiency.*” (12)

“In principle, there must well exist institutions other than private ownership or firm which would *engender competition* and *prevent inefficient government just as well as private ownership does*, while having better distributional properties.” (14)

“Were equality of welfare the goal rather than equality of opportunity for welfare, then society would be mandate to provide huge resource endowments to those who adopt *terrible expensive and unrealistic goal.* ... *put some responsibility on (the individual)* for choosing welfare-inducing goals that are reasonable.” (221)

I can extend the examples. But the main idea is this: which is important for Roemer, the efficient capitalist market with some more participants with the condition of being rational and responsible. That's why he offers to the “adults” equality of opportunity, not equality itself. To my knowledge, a socialist defends the equality of all people. Because giving equal opportunity means accepting inequality, indeed. There is a long process between having the opportunity and reaching the result. And some of rights and chances get lost through this road by the conditions that are out of control. One may say, the one who can't use opportunity that he had or he was given, have to take the responsibility. But this can't be a socialist thinking. **[You raise, here, a fundamental philosophical problem among egalitarians: what precisely does one want to equalize when one talks about “equality”? Is it equality of condition, equality of resources, equality of internal welfare/well-being, or equality of opportunity to realize welfare? The problem with any version that tries to equalize final outcomes of one sort or another – such as equality of actual welfare – is that it creates incentives for people to engage in extremely risky behavior since they know if they screw up they will be fully compensated. Equality of welfare also rewards people with “expensive tastes”, as the philosophers call it – if you need caviar to have the same sense of wellbeing as I get from canned tuna, then equality of welfare might require funding your caviar tastebuds. This is why many egalitarians ultimately switch to an equality of opportunity idea since this imposes some responsibility on people for their risk taking behaviors and tastes. However, equality of opportunity still is modified by insurance against “bad luck”, against misfortunes that are outside of one's control, so it does not simply say “as long as everyone has starting gate equality of opportunity whatever happens to them is their responsibility and of now public concern.”]**

That's why I have some difficulties to understand why Roemer called his model as a market socialism. Even if we believe that socialism is ideology that simple defenses the nationalization of the means of production, we can't call Roemer's model as a socialistic. Because he still believes in the existence of private ownership. Besides socialism is more

than that. Socialism requires, in all level of the society, organization, solidarity and sister/brotherhood, it is a different kind of social reproduction system from capitalism. Roemer's model doesn't have any of this. **[You are right that Roemer's model is not a comprehensive socialist project. But I think it could still be thought of as "socialist" in the sense that is social-izes one crucial aspect of capitalist relations, namely the ownership of the principles means of production via coupons. One must contrast this mechanism with other possible mechanisms around the same issue to see how far it goes in accomplishing what socialists hope from the abolition of core private ownership. So, what one needs to do is compare this device to the other contending socialist possibilities: centralized state ownership of large firms + private ownership of small firms; state ownership of all firms; workers coops. The question is: which of these will work the best, which involves the biggest productivity/efficiency trade-offs, which has the most egalitarian consequences.]**

I believe that to deal with the systemic power, to change "the rules of the game", we have to think with different concepts. As N. Folbre suggests, to emphasize caring instead of competition or to take different groups instead of individuals as subjects can be a good start.

12. Jay Burlington

In this interrogation, I highlight the point that Satz raises regarding status equality, and question to what extent her specific criticisms of Roemer's model could not be alleviated within it.

In John Roemer's proposal for market socialism, he lays out three kinds of equality which he believes socialists want:

1. equality of opportunity for self-realization and welfare;
2. equality of opportunity for political influence; and
3. equality of social status (p. 10)

His proposal is devoted to achieving the first objective. Since he believes that "raising the income of the poor is the most important single step to improving their opportunities for self-realization and welfare" (p. 12), his proposal thus concentrates on "investigating the possibility of equalizing income without any unacceptable loss in efficiency" (p. 12).

Roemer acknowledges that there are trade-offs in achieving these goals, stating that it is "impossible to maximize these three objectives at once" (p. 12), but since his proposal deals only with the first objective, he brackets the issue of arguing for the relative merits of the above three objectives: "I will not offer here any particular preference order over the three equalisanda" (p. 12). **[Just one point here: the ways in which market socialism leads to a reduction in "public bads: bears on the issue of equality of**

political influence: by eliminating concentrations of vast wealth, the capital-asset egalitarianism of market socialism removes the political capacity of anyone with an interest in perpetuating a public bad like pollution from having the power to do so.]

Debra Satz's critique in Chapter 4 ("Status Inequalities and Models of Market Socialism") makes a compelling general case that Roemer's chosen method of attaining the first objective does not alleviate significant problems in achieving the third objective. She makes the case that Roemer ignores important non-material forms of inequality in his model for distributing material benefits. These non-material forms she captures with the concept of *status equality*. Relationships between those of unequal status are relationships of unequal power, "characterized by lack of reciprocity, hierarchy and a lack of accountability" (p. 72). She makes the general case that redressing status inequalities "requires more than simply giving people more money (or resources or opportunities for welfare...)" (p. 73).

Specifically with regard to what is contained in Roemer's model, Satz argues that the model (a) concentrates too much power in banks, (b) provides no mechanism for workers who need to monitor abusive managers, (c) does not allow for worker voice in firms for pursuing other priorities besides profit maximization, and (d) promotes a culture of fear and contempt between the powerful (bankers, managers) and the powerless (workers) (p. 78).

My (quite minor, and rather speculative **[these are not so minor! You are raising important issues]**) point is simply this: While Satz's general point is well-taken – that Roemer ignores the third objective in his list – and while it is true that Roemer chooses a managerial model of market socialism which does not emphasize workplace democracy, it seems that Roemer's model does not preclude other regulatory measures from being put in place which could at least alleviate the problems with status inequality in (a), (b), and (d). With regard to (a) and (b), it seems that appropriate regulatory mechanisms could be put in place. With regard to (d), there seems to be no reason why there would be more of a culture of fear and contempt than is the case in contemporary capitalism. (c) seems to be a thornier issue, since inherent in the idea of *market* socialism is the idea that firms will still try to maximize profit... **[You have, I think, identified precisely the core issue in how to think about the relationship of a given institutional design to other objectives: it is not so much a question of whether a given proposals realizes values other than those for which it is intended, but whether it obstructs them. So the question here is this: can you combine: a) universal egalitarian share ownership of firms via mutual funds, with b) democratic governance within firms, and c) a balance between profit-maximizing and other objectives?]**