

## A CONVERSATION BETWEEN ERIK OLIN WRIGHT AND ROBIN HAHNEL ABOUT ALTERNATIVES TO CAPITALISM

*Curious Jane:* “So, if you don’t like capitalism, what do you want instead?”

*Modern anti-capitalist:* “Certainly not Communism!”

*Curious Jane:* “Fine.... But then what DO you want?”

*Modern anti-capitalist:* “I want an economic system that promotes economic democracy, economic justice, and human solidarity, without sacrificing economic efficiency.”

*Curious Jane:* “Who wouldn’t! ... But people sometimes mean different things when they use these words. Can you be more specific?”

*Supporter of participatory economics:* “Yes I can -- and you are quite correct to demand clarification, because often disagreements over how best to organize the economic system stem from different conceptions of what these words mean. By **economic democracy**, I mean having decision making power in proportion to the degree one is affected by a decision. By **economic justice** I mean economic reward commensurate with sacrifice, or effort. By *human solidarity* I mean having concern for the wellbeing of others. And by **economic efficiency** I mean using scarce productive resources where they are most socially beneficial and not wasting people’s hard work.”

*Curious Jane:* “That is all well and good.... I’m not sure I agree entirely with your definitions, but let’s suppose for now that I did. Exactly how would you organize the economy to achieve these goals?”

The model of a participatory economy – which I briefly summarize below -- is an answer to Jane’s last question. It is *not* an answer to other important questions, such as: In the short-run what can we do in the here and now to best promote the above goals? Or, in the long-run what strategy might maximize our chances of making a successful transition from the economics of competition and greed to an economics of equitable cooperation? These are important, but quite different questions. Participatory economics is simply a coherent description of how a fully developed system of equitable cooperation could function. It is not a transition strategy or political program.

## A Participatory Economy<sup>1</sup>

The major institutions “we”<sup>2</sup> propose to achieve economic democracy, economic justice, and human solidarity while protecting the environment and ensuring efficiency are: (1) self-governing **democratic councils** of workers and consumers where each member has one vote, (2) **jobs balanced** for empowerment and desirability by the members of worker councils themselves, (3) **compensation according to effort** as judged by one’s workmates, and (4) a **participatory planning** procedure in which councils and federations of workers and consumers propose and revise their own interrelated activities without central planners or markets, under rules designed to generate outcomes that are efficient, equitable, and environmentally sustainable.

Over the past twenty years some critics have disagreed with our goals while others have objected to one or another of our recommendations for how to achieve them. Erik has offered his own evaluation of participatory economics on pages 252-265 of *Envisioning Real Utopias*.<sup>3</sup> In my reading Erik seems to agree with our goals -- although, as one would expect his formulation and argument differ in some regards. Most importantly, and unlike many who have criticized participatory economics, Erik seems to share our views about what economic justice and economic democracy mean and require.

Unless I am mistaken, Erik is also supportive of compensation based on effort and trying to balance jobs for desirability and empowerment. To be specific, we propose that each worker council come up with its own procedures for assigning what we call “effort ratings” to one another, which become the basis for their members’ consumption rights in neighborhood consumption councils. We call this

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<sup>1</sup> The “model” of a participatory economy briefly presented here was initially developed jointly by myself and Michael Albert in the 1990s, and is now often referred to as PARECON. I do not use this acronym because I believe it conveys an otherworldly impression and fosters a cultish phenomenon I find detrimental to advancing discussions like this one among people thinking seriously about economic system change.

<sup>2</sup> When I say “we” I mean not only myself and Michael Albert, but also a growing network of people around the world who, without necessarily agreeing on every detail, nonetheless refer to the participatory economic “model” as the kind of alternative to capitalism they favor. In short, “we” includes all of us who answer Jane’s question by explaining how a participatory economy could work. As should be expected, “we” do *not* always agree about short-run programs or long-run transition strategies for getting there!

<sup>3</sup> Erik Olin Wright, *Envisioning Real Utopias*. Verso, 2010. Hereafter ERU.

an effort rating committee, but its composition and procedures are left up to each council, and we fully expect different worker councils to come up with very different ways to go about this. In particular, compensation is not something that can be negotiated when new members are hired by worker councils in a participatory economy. Everyone is free to apply for membership in any worker council of her choice, and worker councils are free to hire whomever they wish from their applicant pools – subject to strict rules outlawing discrimination of course. However, since remuneration is determined only after someone has worked, and is to be based only on differences in efforts, or sacrifices, as judged by co-workers, the hiring decision is completely separate from decisions about compensation levels in a participatory economy.

While some market socialists do not favor self-management with one worker one vote, Erik agrees with most advocates for market socialism who see worker self-management as its major virtue.<sup>4</sup> However, to ensure that formally equal rights to participate in decision making in one's workplace translate into truly equal opportunities to participate, supporters of participatory economics propose that in addition to one member one vote jobs within workplaces be balanced for empowerment. We argue that as long as some workers sweep floors all day, every day, while others attend meetings of various kinds all day, every day, formally equal rights to participate at worker council meetings will not translate into truly equal opportunities to influence firm decisions. Again, we refer to a job balancing committee and discuss how it might function, but leave particulars up to individual worker councils, and expect wide variations in how they would try to combine tasks in job descriptions so that everyone's work experience contains some empowering tasks, and pleasant and unpleasant tasks are shared by all. Unlike many other market socialists who object to job balancing as inefficient and infringements on individual economic freedoms, Erik seems to agree with us that these objections are not compelling, and that achieving meaningful economic democracy requires job balancing.

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<sup>4</sup> The first model of market socialism developed by Oscar Lange and Abba Lerner in the 1930s proposed that enterprise managers be appointed by the state, not chosen by a self-governing worker council where every member has one vote. In the 1990s John Roemer proposed a different variant of "managerial market socialism" in which workers also were not "sovereign" over their own workplace. However, the majority of market socialists have historically supported worker self-management. Jaroslav Vanek and Brank Horvat proposed models of "worker self-managed market socialism" in the 1960s. David Schweitzer and Michael Howard have proposed slightly different versions of worker self-managed market socialism in the past twenty years. Erik strongly supports a "worker self-managed" rather than a "managerial" version of market socialism.

Which means that while many other market socialists object to our proposals for how to reward work and organize the production process, the major area of disagreement between Erik and supporters of participatory economics has to do with the best way to coordinate the interrelated activities of different worker councils and consumers – or what economists call the economy’s “allocative mechanism.”

### **What is Participatory Planning?**

Erik’s principal objection to the “model” of a participatory economy is the proposal to replace markets with a procedure we call “participatory planning.” Here the distinction between a long-run goal and a transition strategy is crucial. I have never been under the illusion that we can replace markets with participatory planning immediately. The market system has been growing and deepening for hundreds of years, and regrettably still has the allegiance of an overwhelming majority of the population. Since the “system change” we seek is highly democratic it can only happen when we have convinced a significant majority to support replacing the market system with participatory planning. Therefore, I personally have long argued that while the market system persists much of our transition strategy necessarily consists of various ways to “socialize” markets -- as Erik and other proponents of market socialism put it -- in order to ameliorate their detrimental effects. This is why I believe supporters of participatory economics can work together with market socialists on many campaigns to “tame” markets in the here and now. In other words, in my view the difference is not that market socialists fight to tame markets while proponents of participatory economics do not. The difference is that advocates of participatory economics fight to tame markets *until a majority supports replacing them altogether with something far better*, while market socialists fight to tame markets *to keep them*.

To keep things simple I will confine myself to the annual participatory planning procedure. I also emphasize certain points because in my reading of Erik’s criticisms in ERU I believe he has misinterpreted the planning procedure in some respects. However, I wish to acknowledge that Erik is not to blame for misconstruing the proposal since some presentations of the planning procedure have admittedly been confusing and even misleading.

### **The Planning Procedure**

The annual participatory planning procedure takes place in the context of an investment plan that has already decided what investment goods will be produced this year and how they will be distributed to increase capacities of different industries, and the capacities of different worker councils within industries, at

year's end. It also takes place when the stocks of all kinds of natural capital (e.g. acres of fertile land), produced capital (e.g. lathes), and human capital (e.g. people-hours of welding labor) available for use during the year are known.<sup>5</sup> What the annual planning procedure "decides" is which worker councils will use which productive resources, what those worker councils will use their primary and intermediate inputs to produce, how intermediate goods produced will be distributed among worker councils, and how consumption goods produced will be distributed among consumer councils and federations. In other words, the procedure yields what economists call a comprehensive, annual production-consumption plan.

Only worker councils and consumer councils and federations participate in the annual planning procedure. Each worker and consumer council, and each federation of consumer councils participates by submitting a proposal for what that council or federation wants to do, i.e. councils and federations make what we call "self-activity proposals." There is a single "iteration facilitation board" (IFB) that performs one, very simple function. The IFB announces current estimates of the opportunity costs of using each kind of "capital" -- natural, produced, and human -- the social cost of producing every produced good and service, and the damage caused by every pollutant. The IFB raises its estimate of the "indicative price" for anything in excess demand in the previous round of the planning procedure, and lowers its price for anything in excess supply, after which councils and federations revise and resubmit new "self-activity" proposals until a feasible plan is reached, i.e. until there is no longer excess demand for any natural resource, any kind of physical capital, any category of labor, any intermediate or final good or service, or any pollutant.<sup>6</sup>

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<sup>5</sup> In other words, the "demand" for each investment good to be produced this year, and the "supply" of every input that cannot be produced this year are "givens" when annual planning begins -- as are the year-end destinations for all the investment goods that will be produced this year.

<sup>6</sup> Note: A great deal of what has been written about the need for supercomputers and modern information technologies for a participatory economy to work is simply wrong. For example, the IFB does not need a powerful computer at all. It merely adds up and compares the demand and supply for each natural resource, each category of labor, each final, intermediate, and capital good or service, and each pollutant. In terms of "technology" the IFB might want an abacus but has no need for a supercomputer! Nor do actors in the planning procedure need to do anything other than multiply quantities by "indicative prices" and add them up to calculate the estimated social costs of consumption requests and the social benefit to cost ratios of production proposals. Again, nothing requiring fancy computer capabilities. In order to be efficient central planning *does* require supercomputers capable of solving very large mathematical programming problems

Individual workers participate only within their own worker council helping formulate and revise their own worker council proposal. Individual consumers participate only within their own neighborhood consumer council (a) voting for delegates to higher level consumer federations responsible for requesting higher level public goods, (b) making their own and approving the individual consumption requests of others, and (c) deciding on requests for neighborhood public goods. The process whereby individual consumption requests are approved is internal to each neighborhood consumption council, and not part of the participatory planning procedure itself. The process whereby federations of consumer councils decide what higher level public goods to ask for is also up to them, and not part of the planning procedure.

Each round in this social, iterative procedure begins with new, more accurate estimates of opportunity and social costs, followed by revised proposals from all councils and federations in light of new information about how their desires affect others. Each council and federation must revise and resubmit its own proposal until it meets with approval from the other councils. Consumption council and federation proposals are evaluated by multiplying the quantity of every good or service requested by the estimated social cost of producing a unit of the good or service, to be compared to the average effort rating of the members of the consumption council or federation requesting the goods and services. If, for example, the average effort rating for a neighborhood consumption council is equal to the social average, this should entitle them to consume goods and services whose production costs society an amount equal to the average cost of providing a neighborhood consumption request. A neighborhood council with higher than average effort ratings (indicating that they had made greater than average sacrifices as workers) is presumably entitled to a consumption bundle which costs society more than the average; a neighborhood council with lower than average effort ratings should presumably only be entitled to a consumption bundle which costs less than the average.

The estimates of opportunity and social costs generated during the planning procedure make it easy to calculate the social cost of consumption requests. This is important information for councils and federations making consumption requests

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– which, incidentally, have been available for decades now -- but participatory planning does *not* require supercomputers. Where relatively new modern technology would be helpful in running a participatory economy is in adjusting for changes during the year from what was planned and approved. Computerized inventory management systems and “real time” supply chains -- which are now fixtures in the global economy -- make adjustments during the year much smoother than they would have been a few decades ago.

since otherwise they have no way of knowing the extent to which they are asking others to bear burdens on their behalf. It is also important for councils and federations which must vote to approve or disapprove consumption requests of others, since otherwise they have no way of knowing if a request is fair (consistent with sacrifices those making the request have made) or unfair (in excess of sacrifices made).

Production proposals are evaluated by comparing the estimated social benefits of outputs to the estimated social cost of inputs. In any round of the planning procedure the social benefits of a production proposal are calculated simply by multiplying quantities of proposed outputs by their “indicative” prices—including negative prices for proposed emissions of pollutants -- and summing, and social costs of a production proposal are calculated by multiplying inputs requested by their “indicative” prices and summing. If the social benefits exceed the social costs—that is, if the *social benefit to cost ratio* of a production proposal exceeds one—everyone else is presumably made better off by allowing the worker council to do what they have proposed. On the other hand, if the social benefit to cost ratio is less than one, the rest of society would presumably be worse off if the workers go ahead and do what they have proposed, unless there is something “the numbers” fail to capture. Again, the “indicative” prices make it easy to calculate the social benefit to cost ratio for any production proposal, allowing worker councils making proposals to determine if their own proposals are socially responsible, and giving all councils who must vote to approve or disapprove production proposals of others an easy way to assess whether or not those proposals are socially responsible.

This procedure “whittles” overly ambitious proposals submitted by worker and consumer councils about what they would like to do down to a “feasible” plan where everything someone is expecting to be able to use will actually be available. Consumers requesting more than their effort ratings and allowances warrant are forced to either reduce the amounts they request, or shift their requests to less socially costly items if they expect to win the approval of other councils who have no reason to approve consumption requests whose social costs are not justified by the sacrifices of those making them. Similarly, worker councils are forced to either increase their efforts, shift toward producing a more desirable mix of outputs, or shift to a less costly mix of inputs to win approval for their proposals from other councils who have no reason to approve production proposals whose social costs exceed their social benefits. Efficiency is promoted as consumers and workers attempt to shift their proposals in response to updated information about opportunity and social costs in order to avoid reductions in consumption or increases in work effort. Equity is promoted when further shifting is insufficient to win approval from fellow consumers and workers which can eventually only be achieved through consumption reduction

or greater work effort. As iterations proceed, consumption and production proposals move closer to mutual feasibility, and estimates more closely approximate true opportunity and social costs as the procedure generates equity and efficiency simultaneously.

Because estimates of opportunity and social costs are available to all it is easy for anyone to calculate whether or not a consumption or production proposal is socially responsible. This means there is no need for a central planner to be the final arbiter, approving or disapproving proposals. Councils can vote “yea” or “nay” on other councils’ proposals without time consuming evaluations or contentious meetings, except in occasional cases requiring special review.

There are important technical issues of concern to economists. In this regard it has been demonstrated that the participatory procedure outlined above will eventually reach a feasible plan that is a Pareto optimum under less restrictive assumptions about technologies and preferences than those necessary to prove that the general equilibrium of a private enterprise, market economy will do so. In particular, participatory planning accommodates externalities and public goods efficiently, and generates reasonably accurate estimates of damages from pollution whereas market economies do not.<sup>7</sup> But this is what it boils down to:

When worker councils make proposals they are asking permission to use particular parts of the productive resources that belong to everyone. In effect their proposals say: “If the rest of you, with whom we are engaged in a cooperative division of labor, agree to allow us to use productive resources belonging to all of us as inputs, then we promise to deliver the following goods and services as outputs for others to use.” When consumer councils make proposals they are asking permission to consume goods and services whose production entails social costs. In effect their proposals say: “We believe the effort ratings we received from our co-workers indicate that we deserve the right to consume goods and services whose production entails an equivalent level of social costs.”

The planning procedure is designed to make it clear when a worker council production proposal is inefficient and when a consumption council proposal is unfair, and allows other worker and consumer councils to deny approval for proposals when

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<sup>7</sup> Readers interested in these technical issues should see chapter 5 in Albert and Hahnel, *The Political Economy of Participatory Economics* (Princeton University Press, 1991), “Socialism As It Was Always Meant to Be,” *Review of Radical Political Economics* (24, 3&4), Fall and Winter 1992: 46-66, “Participatory Planning,” *Science & Society* (56, 1), Spring 1992: 39-59, and Hahnel, “Wanted: A Pollution Damage Revealing Mechanism,” forthcoming in the *Eastern Economic Journal*.



they seem to be inefficient or unfair. But initial self-activity proposals, and all revisions of proposals, are entirely up to each worker and consumer council itself. In other words, if a worker council production proposal or neighborhood council consumption proposal is not approved, the council that made the proposal -- nobody else -- can revise its proposal for resubmission in the next round of the planning procedure. This aspect of the participatory planning procedure distinguishes it from all other planning models, which advocates believe is crucial if workers and consumers are to enjoy meaningful self-management.