

Economic Democracy vs. Parecon

A Debate with Mitchel Szczerpanczyk Open University of the Left--Chicago February 10, 2007

Let me begin by saying what Michael Albert, Robin Hahnel, Mitch Szczerpanczyk and I all agree about. We agree

- That capitalism is a deeply flawed economic system that needs to be replaced by a more humane social order. Capitalism gives rise to obscene inequalities; it is ecologically destructive; it is undemocratic.
- That the Soviet model of central planning is not the answer. Even if democratized, the system would not be desirable. The model itself, as an economic model, is fundamentally flawed.
- That we need to be able to articulate an alternative model to both capitalism and centrally-planned socialism that is economically viable and ethically desirable. Critique is not enough. Perhaps it once was, but no longer. The Left has to be able to answer the question, "What is your alternative?" We've got to be able to respond to the Churchillian claim: capitalism is the worst of all systems--except for all the alternatives.
- That participatory democracy should be a fundamental value of the new social order: people should have the right to participate in the decisions that affect them--in the workplace as well as in society at large.

We agree on a lot--and yet we disagree fundamentally on a number of key issues.

Albert is deeply critical of all forms of "market socialism," so much so that he refuses to call Parecon socialist at all, since "too many perfectly reasonable people associate the labor "socialism" with this model and with associated centrally planned models." [79-80].¹ For my part I have long been a critic of the Albert-Hahnel model, calling it recently "Nonsense of Stilts" in a web review that many Pariconistas find insulting. (Albert, to his credit, posted it on the Z-Net website. He did, of course, provide a lengthy rebuttal--and to the rebuttal of his rebuttal that he allowed me to post. The debate is still posted.)

We have other areas of disagreement, but the most fundamental is our assessment of "the market" as mechanism for allocating resources and distributing goods and services. I argue that "the market" is not in fact a unitary mechanism, but should be disaggregated into three markets: a market for goods and services, a labor market and a capital market. I argue further that it is those latter two markets--the labor and capital markets--that do the most damage under capitalism and hence need to be replaced. I argue that a competitive market for goods and services, while not wholly benign, is vastly preferable to alternative allocative mechanism, whether they be centralized planning a la the Soviet union or the decentralized, participatory planning of Albert and Hahnel.² Whereas for Albert:

Markets aren't a little bad, or even just very bad in some contexts. Instead, in all contexts, markets instill anti-social motivations in buyers and sellers, misprice items that are exchanged, misdirect aims regarding what to produce in what quantities and by what means, mis-remunerates producers, introduces class divisions and class rule, and embody an imperial logic that spreads itself throughout economic life.³

Before tackling this issue directly, let me set out the basic institutional structures of what I call Economic Democracy, a model of socialism I consider to be vastly superior to both capitalism and the Soviet model of centralized, command socialism. And to Parecon. The basic model has three fundamental features.

- Enterprises are governed democratically by their workers. Ultimate authority rests with the workforce, one person, one vote. Workplace democracy is the replacement for the capitalist labor market
- Enterprises compete for customers in a relatively free market. That is to say, the market for goods and services is carried over from capitalism.
- Capital markets are replaced by what I call "social control of investment." Funds for investment are generated from a capital-assets tax, a flat rate tax imposed on all enterprises-- not from the private savings of wealthy individuals. These funds are allocated, first to regions on a per-capita basis, and then to public investment banks in the regions, which are responsible for allocating these funds for
 - a. public capital projects,
 - b. existing enterprises wanting to expand production or upgrade their technology and
 - c. individuals wanting to start up a new enterprises.

I propose several other features in what I call the "expanded model" of Economic Democracy. I won't discuss them here, but for the sake of completeness, let me note that Economic Democracy would also include

- The government acting as employer-of-last resort
- A quasi-capitalist sector comprised of small businesses and perhaps a sector of entrepreneurial capitalist firms,
- A policy of "socialist protectionism" that blocks low-wage competition from poor countries but rebates the tariff proceeds to those countries.

I have argued at length, in various books and articles, that such an economic structure would be at least as efficient as capitalism, more rational in its growth, more egalitarian, better able to cope with the ecological challenges we face, and vastly more democratic.⁴

Let us now turn to Parecon. This model can also be characterized by three basic features:

- All job-complexes are to be equally empowering, both within enterprises and across the economy as a whole.

- Remuneration is to be based on effort only, not on one's contribution to society, for the latter includes such morally irrelevant factors as talent, training, job assignment, tools and luck.
- All elements of production and consumption—labor, resources, consumer goods—are to be allocated by participatory planning, not the market.

Critique

Although I have serious reservations about the mechanisms suggested by Albert to accomplish the first two elements of his model, I will pass over them for now, apart from noting that much of what Parecon aspires to in this regard could be accomplished under Economic Democracy, if workers find these reforms desirable.

In a democratic workplace, workers have the power to redesign jobs so as to make them more satisfying. If there is a Pareconista contingent among the workers, they might even persuade their fellow workers to try for equality here--all jobs redesigned so as to make them equally "empowering." Of course they would not be able to effect equality across enterprises--as is supposed to be the case in Parecon. (If their enterprise had fewer "empowering" jobs than the average across society (as determined by some metric suitably devised by someone), they cannot compel the other more fortunate enterprises to share the good fortune by letting some of their workers work in the better firms part-time while sending some of the better firms workers to their enterprise.) But they are certainly free to redesign the "job-complexes" in their own enterprise. Indeed, I would expect a democratic workforce to do just that--perhaps not going so far as Parecon requires, but certainly in the direction of enhancing job satisfaction for all. The ability to do this is one of the many virtues of workplace democracy.

A Parconista contingent within a democratic firm might also persuade their fellow workers to institute incomes bases solely on effort. Of course they would have to come up with some way of measuring effort and figure out who is to do the monitoring and measuring. They would also have to persuade their peers that this would not lead to a loss of efficiency--and hence a loss of income. Frankly, I doubt that could persuade their comrades to make such changes, but there is nothing in the structure of Economic Democracy to inhibit such an attempt. If some firms do attempt such a restructuring and it proves successful, this egalitarian model might spread. If the attempts to not produce the results their proponents claim, it won't.

My fundamental objection to Parecon is to its allocational mechanism--the set of procedures and institutions to replace the market. In Parecon, enterprises do not compete for customers. Decentralized, participatory planning is supposed to replace market competition in determining what gets produced in society. Critics of central planning point to two fundamental kinds of problems inherent in the system

1. There's the information problem--how are producers to know what to produce? One solution is to let a central authority play "father knows best" and tell people what they're going to get. If this solution is deemed unacceptable (as it is to almost everyone, including Albert and Hahnel) producers need to know, in detail, what items

people want and in what quantities. The market solves this problem by letting consumers choose. Producers must respond to consumer demand, producing more of what people want the most (judged by their willingness to pay), cutting back on things that are less in demand. This adjustment of supply and demand takes place automatically, without any central authority deciding the quantity and quality of what should be produced, without individuals having to specify in advance what they want, without any consumer councils weighing alternative possibilities, without voters having to vote on the aggregated production plans. People shop. Producers see what people are buying. They respond. (Of course producers often go to great lengths to persuade people to buy their products, an effort that has reached gigantic, almost laughable proportions under contemporary capitalism. This must be taken into account when assessing alternatives: can the sales effort be regulated so as to mitigate the worst abuses, or must the market be scrapped altogether?)

2. There's the incentive problem--or rather problems.
 - a. How do we motivate producers to care about what people want? How do we motivate them to produce more of the items in demand and cut back on those that aren't?
 - b. How do we motivate enterprises to upgrade their products, refining them to make them more functional or more appealing?
 - c. How do we motivate them to produce efficiently, to use the resources at their disposal in an effective manner, and not squander them?
 - d. How do we motivate the workers themselves to work conscientiously?
 - e. How do we motivate enterprises to innovate, to introduce new products or new technologies?

In a market economy, all of these questions are answered with one word: competition. Those enterprises that are concerned to find out what their customers want, to marshal their labor and non-labor resources efficiently and to innovate make more money than those that don't. If we give up market competition, what is to replace this crude--but effective--motivator?

Albert and Hahnel are fully aware of these problems. How does Parecon address them?

In my 1993 book I offered a criticism of their handing of the information problem. My critique was utterly ineffectual.⁵ The 2003 model is no different from the earlier version in this regard. So let me repeat, essentially, what I wrote before:

Suppose we agree that central planning is inherently authoritarian and that the market is inherently alienating. We will accept planning, but not centralized planning; we don't want the market at all. What we want is an economy coordinated by decentralized, non-authoritarian, democratic planning.

Democratic socialists have long dreamed this dream, but its feasibility has been repeatedly called into question, sometimes quite bluntly. Alec Nove, for example, admits to feeling increasingly ill-disposed toward those who

substitute for hard thinking the image of a post-revolutionary world in which there would be no economic problems at all (or where any problems that might arise would be handled smoothly by the 'associated producers' of a world commonwealth). . . . In a complex industrial economy the interrelation between its parts can be based in principle either on freely chosen negotiated contracts (which means autonomy and a species of commodity production) or on a system of binding instructions from planning offices. There is no third way.⁶

Michael Albert (co-editor and co-founder of *Z Magazine*) and Robin Hahnel (professor of Economics at American University) refuse to concede. Their 1978 book, *Unorthodox Marxism*, put forth a proposal for exactly that, a "third way" involving neither central planning nor the market, but it was widely criticized for its lack of feasibility. Recently (1991) they have tried again, this time incorporating computers into their model in a big way, so as to cope with this criticism.⁷

To be fair, they deserve credit for thinking through in considerable detail a model for an egalitarian, participatory non-market economy. But I have to say: the proposal still seems to me quite mad.

Perhaps I am being too harsh. You should judge. The basic idea is simple enough. Start with Robinson Crusoe, alone on an island. He must choose a "work complex," i.e., a pattern of work that involves activities of differing degrees of pleasure and discomfort, a "consumption proposal," i.e., what he would like to consume, and a "production proposal," how much time he is willing to work. From among the infinite number of possible combinations of these three choices, he must settle on a set that is consistent; that is to say, he must choose to put in a sufficient amount of time at an appropriate set of tasks to satisfy his desired consumption.

Suppose Friday appears, and that he and Robinson are committed to both participatory democracy and equality. They can doubtless benefit by cooperating, but the cooperation must be fair. Each says what he would like to consume, and how long he is willing to work. The two negotiate this matter, subject to the proviso that their job complexes, though not necessarily identical, are "balanced," (i.e., each involves roughly the same degree of "empowerment"). Robinson may want to consume a bit more than Friday, but he will work longer. They discuss these matters--talk about the good and bad effects of various forms of consumption, point out what exactly is involved in doing various kinds of work. In the end they agree on a plan. Notice: neither market nor central authority.

Now, extend this model from two persons to three hundred million, and you have the Albert-Hahnel model of a participatory economy for the United States (now called Parecon). To be sure, things get a bit more complicated, but there are computers and various "facilitation boards" to make things easier. How does it work?

At the beginning of the new year (or at some other agreed upon date) you simply type into your computer what you would like to consume for the year. (Let me repeat that: you are to list everything you would like to consume during the upcoming year--food, clothing, transportation, shelter, etc.) This isn't all that complicated, we are told, since you have on file your list from last year. Most likely you will only need to tweak that list a bit. You will be given a set of prices, most likely not too different from last year's. You must stay within your expected income for the coming year, which is determined primarily by the number of hours you are willing to work.

Everyone in the country does this. All the data is collated. If supply and demand don't match, prices are adjusted, prices raised for those for which there is excess demand, lowered for those for which there is excess supply. Your initial list is returned to you, to be recalculated and readjusted. That is to say, if you are now over-budget, due to certain price increases, you have to decide whether you are willing to work longer or consume less. If the latter, you have to decide what to cut out. If you are under-budget, you can decide to work less or consume more. If the latter, you will specify what you would like to add.

Here's how Albert explains this stage of the process:

Using last year's final prices as starting indicators of social costs and benefits, [each person] develops a proposal for the coming year, not only enumerating what [she] wants to consume or produce, but also providing qualitative information about their reasons. This proposal enters the mix with all others; feedback arrives, and revisions are made, round by round, until a final version is reached. [130]

(I quote him, because I don't want you to think I'm exaggerating.) Actually, I'm simplifying a bit. After compiling your original list, you must take it to your neighborhood council, "which approves or disapproves all requests and organizes them into a total grand council request." [130] These requests are forwarded to ward councils, which look them over, approve or disapprove, collate, then send them up to the city consumption councils "and so on."

I've left out something else. In deciding whether to approve your proposal or not, a discussion of the possibly harmful effects of certain kinds of consumption your neighbors (and you) have selected. (This is done anonymously; names are deleted from the consumption lists before they are discussed.)

When the neighborhood council agrees on everything, it must take the collated totals to the ward council (representing the various neighborhoods in the ward), the members of which must also reach an agreement. (You may be asked to reconsider some of your choices if such an agreement hits a snag.) From there the collated totals go to the city federation of consumption councils, and from there to the state federation, and from there to the regional federation and from there to the national federation. At each stage there is debate, negotiation, reconsideration--but eventually (hopefully!) acceptance. Computers facilitate matters, keeping all participants informed at each stage as to what the averages are, so

everyone knows whether her ward or city or region or state is out of line

A similar procedure, suitably modified, arranges for all job complexes to be equally balanced, and for individuals and neighborhoods and cities and states and regions to propose how much work they are willing to do, in relation to desired consumption. Again computers facilitate.

Of course in the end, supply and demand should match. The final match comes about as follows. After five or so iterations of this procedure, the "iteration facilitation board" surveys all the accumulated data, then proposes five feasible plans, i.e., those in which the amount of work offered sufficed to produce the goods requested. These are plans for the entire national economy. Let me quote Albert again:

What would distinguish the five plans is that each would entail slightly different total product, work expended, average consumption and average investment. Everyone would then vote, as units, for one of the five feasible plans. Once one of the five was chosen as the base operating plan, units could adjust their requests in subsequent iterations [beyond the five that have already taken place--DS] in conformity with the base plan until individual agreements were also reached. [138]

I have already rendered my summary judgment on all this. It strikes me as quite mad.

I've summarized how Parecon deals with the information problem--how to get the information about what people want to the producers. I haven't touched yet on what most critics of comprehensive planning take to be the more difficult manner--motivating producers to respond effectively to this information, i.e, the incentive problems.

I'll be brief, since Albert is less systematic in dealing with these. The key question is, what determines the amount of money an enterprise has to distribute among its workforce? We can't have enterprises selling their output to consumers and dividing up the proceeds. That would be a market solution. If enterprises are reimbursed according to hours worked, there is no incentive to work hard or to use resources efficiently. Hence external monitoring will be necessary, to insure that workers are working at at least average intensity, and using their resources in a reasonably efficient manner. Albert says that everyone will benefit from working harder, since overall productivity will rise, which is true, but there's a serious free-rider problem here. My extra effort affects national productivity by an infinitesimal amount--whereas slacking yields immediate, tangible benefits to me. This is true for everyone--so, unless external monitoring is pervasive, honest and effective--enterprises have little reason to encourage hard work and efficient utilization of resources, or to pay attention to the quality of their output. If we want to encourage efficient production without recourse to markets, we'll have to introduce differential rewards, which means the monitoring agency will have to make quantitative assessments as to how much above or below average each enterprise is performing, and how much they should be rewarded or docked for their comparative performance. Needless to say, this agency (which must monitor all the productive enterprises of the nation) must be above reproach with regard to both competence and integrity.

As for incentives to innovate, Albert hopes that social recognition will suffice, but if not, "extra consumption allowances could be granted to innovators for a limited amount of time." [252] Of course social recognition also motivates under capitalism and Economic Democracy. Parecon doesn't add anything on that score. But if we introduce his economic incentives, we must set up another agency, one that will determine who is worthy of the extra reward and how much. This agency too must be staffed by competent employees of impeccable integrity. A tall order, no?

I think I've said enough.

These three points do not constitute an argument for authoritarianism. They do, however, caution against over-reliance on an important yet delicate tool that can be damaged by careless use. The same is true for the market. The same is true for planning. All three of these mechanisms must be handled with care if they are not to lead to consequences quite other than those intended. If we want an economic system to be both economically viable and ethically desirable, we must use all three of these instruments judiciously, employing them in such a way that the strengths of each offset weaknesses of the others. Markets must be utilized to counteract "democratic overload." Planning must supplement markets, to offset their irrationalities. Democratic assemblies must set the rules for markets and hold the authoritarian tendencies of planners in check. An efficient, rational, humane economy must be a three-way dialectic (a "trialectic?") of plan, market and democracy.

Notes

1. Albert, Michael, *Parecon: Life After Capitalism* (Verso, 2003). All page numbers in square brackets in this article refer to this book..
2. The basic model that is now called "Parecon" was originally developed by him and economist Robin Hahnel. (More on this later.)
3. Albert interview with Barbara Ehrenreich, April 26, 2004, posted on the Parecon website.
4. For a recent, full treatment, see my *After Capitalism* (Rowman and Littlefield, 2002).
5. *Against Capitalism* (Cambridge University Press, 1993)
6. Alex Nove, *The Economics of Feasible Socialism* (Allen and Unwin, 1983).
7. Michal Albert and Robin Hahnel, *Looking Forward: Participatory Economics for the 21st Century* (South End Press, 1991) is a popular presentation of the basic model. Their *The Political Economy of Participatory Economics* (Princeton University Press, 1991) offers a more technical version.