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In Defense of Participatory Economics

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WE PRESENTED OUR MODEL OF PARTICIPATORY planning in the Spring of 1992 in the special issue of *Science & Society* on "Socialism: Alternative Visions and Models." Our main objective was to refute the claim by many proponents of market socialism that we must choose between markets and authoritarian planning because there was no third alternative. In the aftermath of the collapse of Communism we wanted to demonstrate that democratic planning was, indeed, theoretically possible, by defining a participatory planning procedure and demonstrating that this procedure allocates scarce productive resources efficiently under *less* restrictive assumptions than required for market systems to do so. We wanted to disprove the claim that all who reject authoritarian planning as well as capitalism have no choice but to embrace market socialism.

There have been no challenges to our planning procedure on theoretical grounds in the ten years since it was published. Instead critics have argued that a participatory economy is impractical and/ or undesirable — implicitly conceding that it is, indeed, theoretically possible. In this article, after reviewing the major features of a participatory economy, we answer criticisms voiced by advocates of market socialism that a participatory economy has insufficient incentives, is humanly infeasible, or is too "unfree."

Participatory Economics

Our model of a participatory economy was designed to promote: a) economic justice, or *equity*, defined as economic reward commensurate with sacrifice, or effort; b) economic democracy, or *self-management*, defined as decision-making power in proportion to the degree one is affected by a decision; and c) *solidarity*, defined as concern for the well-being of others — all to be achieved without sacrificing economic *efficiency* while promoting a *diversity* of economic life styles as well. The major institutions used to achieve these goals are: 1) democratic councils of workers and consumers; 2) jobs balanced for empowerment and desirability; 3) remuneration according to effort as judged by one's work mates; and 4) a participatory planning procedure in which councils and federations of workers and consumers propose and revise their own activities under rules designed to guarantee outcomes that are both efficient and equitable.

Production is carried out by *workers' councils* where each member has one vote, individual work assignments are balanced for desirability and empowerment, and workers' efforts are rated by a committee of their peers. There is an ample literature discussing the rationale and advantages of employee self-management. But *balanced job complexes* and *effort ratings* by work mates are novel features of a participatory economy.

Every economy organizes work tasks into jobs. In hierarchical economies most jobs contain a number of similar, relatively undesirable, and relatively unempowering tasks, while a few jobs consist of relatively desirable and empowering tasks. But why should some people's work lives be less desirable than others'? Does not taking equity seriously require balancing jobs for desirability? And if we want everyone to have equal opportunity to participate in economic decision making, if we want to ensure that the formal right to participate translates into an effective right to participate, does this not require balancing jobs for empowerment? If some people sweep floors year in and year out, while others review new technological options and attend planning meetings year in and year out, is it realistic to believe they have equal opportunity to participate in firm decisions simply because they each have one vote in the workers' council? Proponents of participatory economics believe that taking participation seriously requires balancing jobs for empowerment, just as taking equity seriously requires balancing jobs for desirability. This does not mean everyone must do everything, nor an end to specialization. Each individual will still do a very small number of tasks, but some of them will be more enjoyable and some less, and some will be more empowering and some less.

In capitalism people are rewarded according to the value of the contribution of the productive capital they own as well as the value of the contribution of their labor. At least that is how people would be rewarded in an ideal model of capitalism. In real capitalism discrimination, market power, asymmetrical information, and luck distribute income and wealth much more unfairly. But even under ideal circumstances, in capitalism a Rockefeller heir who never worked a day in his life can enjoy an income hundreds of times greater than that of a skilled brain surgeon. In market socialism while "capitalist injustice" may be eliminated, people are rewarded according to the market value of the contribution of their labor. Since the market value of the services of a skilled brain surgeon will be many times greater than the market value of the services of a garbage collector, no matter how hard and well the garbage collector works, remuneration will be inequitable in market socialism as well. Since people will always have different abilities to benefit others, those with lesser abilities will always be disadvantaged in market socialism, regardless of how hard they try and how much they sacrifice. Unlike capitalism or market socialism, a participatory economy rewards people according to the effort, or sacrifice, they make in work. And while measurement will never be perfect, there is no better way to judge efforts than by a jury of fellow workers who serve on an effort rating committee on a rotating basis.

Every family will belong to a neighborhood *consumers' council*, which, in turn, will belong to a *federation* of neighborhood councils the size of a city ward or rural county, which will belong to a city, or regional consumption council, which will belong to a state council, which will belong to the national federation of consumption councils. The major purpose of "nesting" consumer councils into a system of federations is to allow for the fact that different kinds of consumption affect different numbers of people. Failure to arrange for all those affected by consumption activities to participate in choosing them not only implies a loss of self-management, but — if the preferences of some are disregarded or misrepresented — a loss of efficiency as well. One of the serious liabilities of market systems is their failure to permit expression of desires for social consumption on an equal footing with the expression of desires for private consumption. Having the different levels of consumer federations participate on an equal footing in the planning procedure described below prevents this bias from occurring in a participatory economy.

Members of neighborhood councils present consumption requests along with the effort ratings their workmates awarded them. Using estimates of the social costs of producing different goods and services generated by the participatory planning procedure described below, the burden a consumption proposal imposes on others is calculated. While no consumption request justified by an effort rating can be denied by a neighborhood consumption council, neighbors can express their opinion that a request is unwise, and neighborhood councils can also approve requests on the basis of need in addition to merit. Individuals can borrow or save by consuming more or less than warranted by their effort level for the year, and anyone wishing to submit an anonymous request can do so.

The participants in the planning procedure are workers' councils and federations, consumers' councils and federations, and the Iteration Facilitation Board (IFB). Conceptually *participatory planning* is quite simple: The IFB announces current estimates of the opportunity costs for all goods, resources, categories of labor, and capital stocks. Consumer councils and federations respond with their own consumption requests while workers' councils and federations respond with production proposals — listing the outputs they would provide and the inputs they would need to make them. The IFB calculates the excess demand or supply for each good and adjusts the estimate of the opportunity cost of the good up, or down, in light of the excess demand or supply. Using these new estimates of social opportunity costs, consumer and worker councils and federations revise and resubmit their proposals until the proposal from each council and federation has been approved by all the other councils and federations.

Essentially this procedure "whittles" overly optimistic, infeasible proposals down to a feasible plan in two different ways: Consumers requesting more than their effort ratings warrant are forced to reduce their requests, or shift their requests to less socially costly items, to achieve the approval of other consumer councils who reasonably regard their requests as greedy. Just as the social burden implied by a consumption proposal can be calculated by multiplying items requested by their opportunity costs, the benefits of the outputs a workers' council proposes can be compared to the social costs of the inputs it requests using the same indicative prices from the planning procedure. Workers' councils whose proposals have lower-than-average social benefit to social cost ratios are forced to increase either their efforts or efficiency to win the approval of other workers. As iterations proceed, consumption and production proposals move closer to mutual feasibility and estimates more closely approximate true social opportunity costs as the procedure generates equity and efficiency simultaneously.[1]

Criticisms of Participatory Economics

Critics have argued that participatory economics is impractical and/or undesirable. Weak incentives and incompatibility with human nature are the major practical concerns that have been voiced. Lost freedoms is the chief reason critics have claimed participatory economics is undesirable — even if it is theoretically and practically feasible.

Insufficient Incentives. Economies can suffer from motivational inefficiencies, allocative inefficiencies, or dynamic inefficiencies. Workers might be insufficiently motivated to work. Scarce productive resources might not be used where they are most productive. People might not be motivated to search for innovations, or enterprises might fail to implement productive innovations even after they are discovered. We address these concerns about a participatory economy in turn.

Incentives to work: Critics worry that effort is impossible to measure and that rewarding effort rather than contribution is inefficient:

> Albert & Hahnel propose that the consumption opportunities available to individuals be linked to an individual's input into the production process — in the form of personal effort made or personal sacrifice endured. Albert & Hahnel's proposal would surely lead to greater equity in the reward for labor than the market-based alternative, but their claim of greater efficiency is misguided. First of all, it is very difficult to observe and measure an individual's sacrifice or work effort. Moreover, people would have an interest in

1 For a proof that participatory planning provides more accurate estimates of social opportunity costs than market prices, and allocates resources more efficiently than markets as well, see chapter 5 in Albert and Hahnel, 1991. In particular, participatory planning provides accurate estimates of the social opportunity costs of different kinds of labor, and enterprises are charged the opportunity cost, for example, of any engineers, machinists, and welders who work there — guaranteeing that scarce labor resources will be used efficiently. But this is *not* what the engineers, machinists and welders are paid. All workers are paid according to their effort ratings which will generally differ from their opportunity cost, or value to the economy.

understating their natural talents and abilities. Second, while it would presumably elicit greater work effort and sacrifice on the part of individuals, it would do nothing to assure that such effort and sacrifice were expended in a desirable way. In order to motivate people to expend their efforts in a desirable way, it is necessary to reward activities according to the value of work output rather than according to the quantity of work input. (Weisskopf, 1992, 16–17.)

A participatory economy is designed to maximize the motivating potential of non-material incentives. But this is not to say there are no material incentives in participatory economies. People's efforts will be rated by their peers who have every interest in seeing that their workmates work up to their potentials. And people's effort ratings in work directly affect their consumption rights. Once we clarify that "effort" includes personal sacrifices incurred in training as well as in work, the only factor influencing performance over which an individual has any discretion is effort. So if we include an effort component of training in our definition of effort, the only discretionary factor influencing performance is effort, and therefore the only factor we should reward to enhance performance is effort. Suppose we wanted to induce maximum effort from runners in a 10-kilometer race. Should prize money be awarded according to place of finish, or according to improvements in personal best times? Rewarding outcome provides no incentive for poor runners with no chance of finishing "in the money" and no incentive for a clearly superior runner to run faster than necessary to finish first. So why do so many believe that rewarding people equitably conflicts with motivational efficiency?

It is commonly held that effort is difficult to measure while outcome is not, so rewarding performance is the best system in practice. But neither half of this proposition is as compelling as usually assumed. Assigning responsibility for outcome in group endeavors is frequently ambiguous. Sports teams are more suited to such calibration than production teams. And it is more difficult to calibrate individual contribution in football, soccer, and basketball than in baseball. But even in baseball, arguably the easiest team sport to assign individual responsibility for group achievements, debates over different measures of offensive contribution (batting average, on-base percentage, runs batted in, slugging percentage, etc.) — together with debates over the relative importance of pitching versus hitting versus fielding, and acknowledgment of the importance of "intangibles" and "team chemistry" — attest to the difficulty of assigning individual responsibility for group outcomes. Nor is measuring effort always so difficult. Anyone who has taught and graded students for long knows there are two different ways to proceed. Teachers can compare students' performances to each other, or to how well they expected a student to do. Admitting the possibility of grading according to "improvement" is tantamount to recognizing that teachers can, if they choose, judge effort. Given a student's level of preparation when s/he entered the class, given a student's natural ability, "is this an A, B, or C effort" is not a question teachers find impossible to answer.[2]

And remember who is judging worker effort in a participatory economy — a committee of workmates. Is there any incentive for one's workmates to reward clumsy effort rather than proficient effort? Why would fellow workers have any less incentive to discourage ineffective effort and encourage effective effort on the part of coworkers than capitalist employers do? Who is in a better position to know if someone is only giving the appearance of trying than the people working beside her? While teachers don't watch their students study, workers do see their workmates work. It is not as easy to disguise ability and fake effort by pulling the wool over the eyes of workmates as it is of supervisors (or teachers).

Allocative efficiency: Allocative efficiency requires assigning scarce productive resources and goods to where they are most socially useful. No critic has challenged our claim that participatory planning allocates resources and goods efficiently to different workers' and consumers' councils by charging users according to the social opportunity cost of goods and resources used. But critics have complained that balanced job complexes introduce allocative inefficiencies by failing to economize on scarce talents and costly training:

> Personal endowments as well as preferences differ greatly. Up to a point, specialization provides important efficiency gains. A certain level of specialization and hierarchy seems necessary and functional to me. (Folbre, 1991, 69.)

Balanced job complexes (BJCs) do not curtail specialization as usually understood. Each person will still perform a very small number

2 Over the past seven years one of us prepared both a performance grade and an effort grade for each student in our university classes, and then asked students to indicate whether they agree or disagree with each grade. Students have agreed no more often with their performance grades than with their effort grades.

of tasks in her BJC. Some will still specialize in brain surgery, others in electrical engineering, others in high voltage welding, etc. But those who perform some tasks that are more empowering than tasks on average will also perform some tasks that are less empowering. And those who perform some tasks that are more desirable than tasks on average will also perform some less desirable tasks — unless they wish to work more hours or accept a lower effort rating.

However, the "scarce talent" argument raises a valid concern about BJCs. It is true not everyone has the talent to become a brain surgeon, and there are social costs to training brain surgeons. Therefore, there is an efficiency loss whenever a skilled brain surgeon does something other than perform brain surgery. Roughly speaking, if brain surgeons spend X% of their time doing something other than brain surgery, there is an additional social cost of training X% more brain surgeons. But virtually every study confirms that participation increases worker productivity. If BJCs enhance effective participation as they are intended to, any efficiency losses because they do not fully economize on scarce talent should be weighed against the productivity gain they bring by increasing worker participation.

Dynamic Efficiency: Strong incentives to work and allocative efficiency do not guarantee dynamic efficiency. Do individuals have an incentive to search for innovations, and do workers' councils have an incentive to implement productive ones once they are found? These are important questions since even after people come to recognize that environmentally and socially destructive growth is no longer in our interest, raising living standards, reducing work time, improving the quality of the working environment, and restoring the natural environment will require a great deal of innovation.

We do not support rewarding those who succeed in discovering productive innovations with vastly greater consumption rights than others who make equivalent personal sacrifices in work. Instead we recommend emphasizing social recognition of outstanding achievements, for a variety of reasons. Successful innovation is often the outcome of cumulative human creativity for which a single individual is rarely responsible. Furthermore, an individual's contribution is often the product of genius and luck as much as effort, which implies that recognizing innovation through social esteem rather than material reward is superior on ethical grounds. Finally, we are not convinced that social incentives will prove less powerful than material ones. It should be recognized that no economy ever has paid, or could pay, innovators the full social value of their innovations. If it did, there would be little left to pay those who apply them over long periods of time. Moreover, often material reward is merely an imperfect substitute for what is truly desired: social esteem. In any case, these are merely our opinions. Actual policy regarding material rewards for innovation in a participatory economy would be settled democratically in light of results.

In a participatory economy all innovations will immediately be made available to all enterprises, so there will never be any loss of static efficiency. And while non-material incentives for innovative firms are emphasized, material incentives are available if necessary without sacrificing static efficiency. Innovations that increase the social benefits of the outputs, or reduce the social costs of the inputs, of a workers' council increase their social benefit to social cost ratio. This makes it easier for the council to get its proposals accepted in the participatory planning process, can allow workers to reduce their efforts, can permit them to improve the quality of their work lives, or can raise the average effort rating the council can award its members. But the rapid spread of the innovation in a participatory economy will render these advantages temporary as estimates of social opportunity costs change, work complexes are re-balanced across enterprises and industries, and the social benefits of their innovation are realized and spread to all workers and consumers. So what will curb the incentive to "free ride" on the innovations of others if material benefits to innovators disappear so quickly?

First, recognition of "social serviceability" is a more powerful incentive to innovation in a participatory economy where acquisition of personal wealth is less necessary and receives no social esteem. Second, a participatory economy is better suited to allocating sufficient resources to research and development because R&D is a public good which is predictably undersupplied in market economies but not discriminated against by participatory planning. Third, while the only effective mechanism for providing material incentives for innovating enterprises in capitalism is to slow their spread through patents at the expense of static efficiency, it is easy to grant extra consumption allowances for a time to workers in innovative enterprises in a participatory economy. In other words, while we recommend material reward for innovation only if necessary, it can easily be done in a participatory economy without loss of static efficiency.

Humanly Unfeasible.

> Wouldn't a participatory economic system be viable only if there were a prior transformation of people's basic consciousness from one that is individually oriented to one that is socially oriented? There would surely have to be a wholesale conversion of human behavior patterns from homo economicus to what might best be characterized as homo socialis — *i.e.*, a person whose very consciousness was socially rather than individually oriented. (Weisskopf, 1992, 17–18.)

Concerns that a participatory economy assumes people are altruists stem from unwarranted preconceptions about our model. We rigorously defined an institutional context called a Formal Model of a Participatory Economy and asked what individually rational behavior in that context would be. Having deduced what individually rational behavior would be, we analyzed that behavior to see if it coincided or deviated from socially efficient behavior, using the economics profession's standard definition of social efficiency, Pareto optimality (see Albert and Hahnel, 1991, chapter 5). We certainly did not engage in the exercise of assuming that individuals were altruists who act to promote the social interest, and then tautologically proclaim that the social interest would, indeed, be served!

In brief, the principal mechanism that compels worker councils pursuing their own self interest to behave in a socially responsible way is that these councils must demonstrate to other worker and consumer councils that their proposals generate an acceptable excess of social benefits over social costs. For their part, consumer councils must demonstrate that the social cost of the goods they request is consistent with the average work effort ratings of their members. The principal mechanism that compels individually responsible behavior are effort ratings by one's workmates and consumption allocations based on effort ratings. We did not eliminate individual material incentives. Instead we established procedures to reward socially responsible behavior and discourage socially irresponsible behavior. But even if a participatory economy is not impractical, critics worry that it may not be what we want. In particular critics have voiced concerns that we might lose freedoms we would miss.

Too Unfree.

The issue is how much value we should attach to libertarian rights such as freedom of choice, privacy, and the development of one's own specialized talents and abilities — as compared to the more traditional socialist goals of equity, democracy and solidarity. Replacement of markets with a participatory economic system would arguably contribute to a more egalitarian, democratic and solidaristic society, but would appear to do so at a cost in terms of libertarian objectives. (Weisskopf, 1992, 21–22.)

Participatory economics was designed to allow people to control their own economic lives in a context of equitable cooperation with others. Consequently, if we were convinced that our model failed to serve libertarian goals, we would be the first to disavow it no matter how well it served equity and solidarity. But criticisms that participatory economics is "unfree" stem either from a misreading of our proposal, or from a shallow conception of libertarianism. Besides putting economic decisions in the hands of the citizenry rather than in the hands of an elite, freedom of choice of consumption, employment, career, and residence, as well as personal privacy are protected in a participatory economy.

People are free to apply to live and work wherever they wish. People can ask for whatever consumption goods and services they desire and distribute their consumption over their lives however they wish. The difference is that in a participatory economy consumer borrowing is monitored by consumer councils and federations rather than bank loan officers and credit card company policies. People can apply to whatever educational and training programs they want. And while only those deemed most qualified will be admitted, the difference is that in a participatory economy admission or rejection does not affect people's expected lifetime earnings which depend on effort alone. And any person or group can start a new living unit, consumer council, or worker council, with fewer "barriers" to overcome than in traditional models. The difference is that in a participatory economy workers' federations rather than venture capitalists monitor the credibility of new entrants.

The only restrictions on individual freedoms in a participatory economy are that the burdens and benefits of the division of labor be equitable, and that power over decisions be proportionate to the degree one is affected. That is why people are not free to consume more than their sacrifice warrants. And that is why people are not free to work at jobs that are more desirable or empowering than others enjoy. It may be that some chafe under these restrictions, or find them intrusive or excessive. We never suggested they be forced on a citizenry against their will, but that they be democratically chosen. These restrictions would only obtain if agreed to and supported by a large majority of the population. But we do believe the logic of economic justice and democracy requires these restrictions on "individual freedom," just as socialists have long believed that economic justice restricts individual's freedom to profit by employing others.

What is a libertarian economy? If people are not free, for example, to buy another human being, is the economy not libertarian? If people are not free to hire the services of another human being in return for a wage is the economy not libertarian? Does this mean that market socialism is not libertarian because the employer/employee relation is outlawed? Equating libertarianism with the freedom of individuals to do whatever they please is a shallow interpretation that robs libertarianism of the merit it richly deserves. Similarly, equating economic freedom with the freedom to buy or sell anything and everything is a distortion of the idea of economic freedom.

It is, of course, a good thing for people to be free to do what they please — but only if what they choose to do does not infringe on more important freedoms or rights of others. I should not be free to kill you because that would be robbing you of a more fundamental right to life. I should not be free to own you because that robs you of a more fundamental right to decide how to live your own life. Many liberals believe I should not be free to bequeath substantial inheritance to my children because that robs the children of less wealthy parents of their more fundamental right to an equal economic opportunity in life. And most socialists believe that I should not be free to employ you because my freedom of enterprise, or property right, robs you of a more fundamental human right to manage your own laboring capacities. We can formulate a general principle: *Restrictions on the freedoms or rights of some individuals are justified when they are necessary to protect more fundamental rights of others.* Since such restrictions do not reduce, but increase individual freedom *en toto*, they are fully consistent with libertarian values. But besides the right to life, the right to equal economic opportunity, and the right to manage our own labor, are there additional rights that others should not be free to violate when choosing to do what they please?

Let's go straight to the heart of the matter. Suppose I'm intellectually gifted, score high on standardized tests, do well in my undergraduate studies, attend medical school, followed by a specialty in brain surgery — all paid for at public expense. Should I be free to sell my talents and skills to whomever I wish? In a free market economy there would be others willing to pay me a great deal for my services. But the high value of my contribution is not based on my effort alone. It is the joint product of genetic talent and education at public expense, in conjunction with my effort. So if remuneration is according to the value of contribution I will receive more than my efforts warrant, and other, less talented and educated people, will receive less than their personal sacrifice warrants. Apparently we must decide if people who participate in economic cooperation with others have a right to a fair outcome, a right to an equitable distribution of the burdens and benefits of social cooperation, a right to be free from exploitation. And we must decide if this right is more fundamental than the right of individuals to charge what the market will bear for the exercise of their human capital. Freedom of choice over the roles people play in the division of labor is not the issue here. The issue is how people free to choose their economic roles should be compensated. We think people have a right to equitable compensation when they enter into economic cooperation with others. But we see no reason why people should have a "right" to the compensation the market would award them. What would be the basis of such a "right?"[3] In sum, we believe people should be free to do what they want. But this does not mean they should be free to exploit others. That is why the freedom to pursue education and employment according to one's preferences is protected in a participatory economy, but the freedom to exploit morally arbitrary advantages in human capital by consuming more than others who made equal sacrifices is not.

3 We are aware that free market libertarians, such as Robert Nozick, have attempted to answer this question. But most socialists have never found such rationales for why people deserve whatever the market awards them any more compelling than we do.

Or, suppose I'm particularly competent and energetic, and more than willing to spend all my work time analyzing and evaluating different options for my workers' council. Should I be free to work in a job complex where I am engaged full time in analytical and decision-making activities? As Weisskopf puts it: "Many people are likely to prefer doing more specialized work activities than would be permitted under a balanced job-complex requirement which means that enforcement of the requirement might well involve implicit or explicit coercion" (Weisskopf, 1992, 20). Job complexes balanced for empowerment do not prevent me from specializing in a small number of particular tasks. But they do prevent me from working at a job that is significantly more empowering than other people's jobs. Without this restriction, before long I would exert more influence over economic decisions than the degree to which I am affected because my work life was particularly empowering, while others would exert less influence because their work life disempowered them relative to me. Without balanced job complexes, we might still have *formally* equal rights to participate in economic decision making — since we would have the same voting rights in the workers' council. But eventually we would not have *effectively* equal rights to participate. Advocates of participatory economics think everyone should have opportunity to participate in making economic decisions in proportion to the degree they are affected by those decisions. We think self-management, in this sense, is a fundamental right of people who engage in economic cooperation with others. So when people are free to do what they want, this does not mean they should be free to infringe on the self-management rights of others.

Conclusion

We have taken this opportunity afforded by the editors of *Science & Society* to answer the most important criticisms voiced about our model of a participatory economy. However, we have not addressed the concern most often expressed by those who agree with the values that motivate participatory economics and who are engaged in active struggles against the inequities and inefficiencies of capitalism: Is there any way to get from the economics of competition and greed to the economics of equitable cooperation? We consider this the most difficult issue and believe it must be answered collectively by those who work toward this goal. We invite all interested to visit the Institute for Economic Democracy at www.svied.org and the Parecon Project at www.parecon.org, where you will find a number of essays that address economic program and strategy as well as discussion forums where these questions are discussed daily.

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COMMENT

Albert and Hahnel deserve credit for creating one of the handful of contemporary full-scale models of a democratic planned form of socialism, or, in their words, a participatory economy. You can't beat something with nothing, and Albert and Hahnel offer a well-thought-out model of an alternative to capitalism, as well as to Soviet-style state socialism. Their version of socialism has been spelled out quite clearly in a formal model (*The Political Economy of Participatory Economics,* Princeton University Press, 1991). While a formal model provides a kind of clarity, it does so by sacrificing institutional detail, sometimes leaving the reader wondering what such a society would actually look like and feel like.

Albert and Hahnel's contribution to this volume centers on a defense of their model against three criticisms. The first is that basing workers' rewards on effort and sacrifice rather than on contribution would create inefficiencies and irrationalities. On an abstract level their defense is often persuasive, but questions arise when one thinks about how it would work in practice. Effort and sacrifice are supposed to include that which is incurred in prior training and education as well as at work. Yet individuals differ greatly in their attitudes toward training/education. Some enjoy it, and would stay in school indefinitely if they were permitted, while others have an opposite preference. How one's co-workers would calculate the effort and sacrifice to be rewarded for training is unclear.

Anyone who has participated in a workplace with more than two or three workers knows the problem of cliques and rivalries that tends to arise. It is difficult to believe that this results solely from capitalist work relations, given its presence in non-profit and public institutions, and even in large families, as well as in capitalist enterprises. It is not clear how one would prevent cliques and rivalries from intruding into the effort evaluation process — or to prevent a suspicion that such factors had influenced effort evaluations. Actual intrusion would preclude fairness. Suspected intrusion would cause bitterness and undermine the effectiveness of the work collective.

Albert and Hahnel have difficulty entirely expunging a judgment of a worker's contribution from the evaluation process. They doubt that workmates would reward "clumsy effort" rather than "proficient effort." Proficient effort appears to mean effort that is skillful and/or produces a good result, features that are supposed to be ruled out of the individual evaluation process on fairness grounds. The problem is not limited to clumsiness. Sometimes workers carry effort and sacrifice well beyond what is required for the production process. This is often the case in academia, which has more than its share of obsessive personalities. A socialist enterprise would have to be able to enforce priorities about what kind of work is needed, and if workers are judged just on the effort and sacrifice that emerge from their individual work styles, it is difficult to see how the enterprise's priorities could be implemented.

The second criticism is that their model relies on an unrealistic assumption of other-directed behavior. They correctly point out that their formal model rests upon self-interested agents, not altruists. However, a participatory economy structured in that manner seems implausible. If individuals actually think and behave in that manner, why would they bother to organize an economy dedicated to radical fairness and equality? If individuals do not act as the rational actor model assumes, then what is learned from a formal model based upon such behavior?

The last criticism is that their version of socialism is contrary to individual freedom. Their defense makes some excellent points, yet is, in the end, problematic. It is not difficult to accept their argument that banning wage labor and the sale of personal talents to the highest bidder are every bit as legitimate as outlawing slavery. But their concept of individual freedom, explicitly identified by them with the "libertarian" tradition, is, in my view, unrealistic and unattainable in light of the inevitable situation of the individual in society. They write that people in their participatory economy would be "free to do what they please" as long as this "does not infringe on more important freedoms or rights of others."

A participatory economy would inevitably limit individuals more radically than the above wording suggests. Albert and Hahnel point out that, under participatory socialism, consumer borrowing is monitored, not by bank loan officers, but by consumer councils and federations — but it is still monitored. Only "those deemed most qualified" are admitted to educational and training programs. Anyone can start a new living unit without getting funding from a profit-seeking land developer but approval and funding still must be obtained from some council or body. Not everyone can work at their first choice work place, and to hold a job you would have to go along with the views of the majority of your workmates concerning the conduct of the work process.

Albert and Hahnel's concept of individual freedom appears to rest on the idea of individuals as atomized entities that exist prior to society. Yet human beings are, even under capitalism, primarily social animals who engage in a production and distribution process that is inherently social. This aspect of the human condition is hidden by the market, with its ideology of individual independence. In a future democratic, participatory socialism, people's lives will be even more social than under capitalism. Individuals will function as parts of groups, not only in the family as in contemporary capitalist society, but at work and in the community. This necessarily means that the individual condition will include obligations and loyalties to others, a willingness to take account of the needs — not just the rights — of others, and a readiness to accede to the views of the majority. This is a different condition from the ideal of being "free to do whatever you please." The latter can be realized only by successful exploiters or mythical self-provisioning individuals, not participants in a socialist society.

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COMMENT

Before engaging critically with the paper of Michael Albert and Robin Hahnel I want to start with a fundamental point of agreement. I share their assumption that the idea that there is no alternative between markets and centralized state planning was one of the major theoretical myopias of 20th-century political and economic thought (O'Neill, 1998, ch. 1). If there is a future for socialism it lies in the direction of decentralized non-market socialism, and it is a major project for socialists to show that this is both feasible and desirable. My critical comments should in this sense be understood as articulating problems for a common project, not as reasons for its rejection. Most of my criticisms indeed will concern assumptions the model inherits from standard economic analysis about information and monetary commensurability, as well as particular problems with the principle of distribution it calls upon.

1. *Knowledge*: The major intellectual challenge to the socialist project over the last century was that from Austrian economics, and in particular the epistemological arguments articulated by Hayek. Central to those arguments is the distribution throughout society of knowledge that cannot in principle be articulated in a form available for a single planning agency — knowledge particular to time and place and tacit knowledge embodied in practice. The argument was aimed not just against central planning, but also against the assumptions of mainstream economic analysis — in particular those concerning the information available to economic actors — and to

models of market socialism that employed those assumptions. Hayek rightly criticizes Lange for building into his account of market socialism the assumption that complete information is given about preference scales, "terms on which the alternatives are offered," and resource constraints (Hayek, 1984; O'Neill, 1996). While a theoretical solution might be available given that assumption, the assumption itself begs the difficult questions. Similar points could be leveled against the model of Albert and Hahnel. While Hayek's criticisms of centralized planning can in principle be assimilated by decentralized models of socialism, what is problematic about the decentralized model offered by Albert and Hahnel is the degree to which it does still appear to rely upon indefensible claims about the availability of knowledge. Consider, for example, the idea that an Iteration Facilitation Board could announce "current estimates of the opportunity costs for all goods, resources, categories of labor and capital stocks." While it might be possible to prove the efficiency of the model of socialism using standard economic theory, given the premise of that information, the premise itself looks implausible.

2. *Prices*: While Albert and Hahnel reject models of market socialism, in their model indicative monetary prices are still employed to capture social costs (Albert and Hahnel, 1991, 59ff and passim). Again my worry here is with how far the model shares with standard economic theory the assumption that there is a cost–benefit calculation in terms of shadow prices that could even in principle capture different dimensions of social choice, even after requisite social dialog. The values that go to social choices are plural and incommensurable and there is no single measure, monetary or nonmonetary, through which all the different dimensions of social choices can be captured. While it is clearly the case that order needs to be brought to the different dimensions of social choice for the purpose of decisions, there is a need for wider uses of multidimensional decision procedures that recognize the plurality of different values in social choice and do not attempt to capture benefits and costs in monetary prices.

3. *Pluralism*: The significance of value-pluralism also has distributive and institutional dimensions. On the distribution of economic goods, we need to be wary of the view that there is a single particular principle that determines the just distribution of goods. Principles of distribution need not be constant over different goods and social contexts (Walzer, 1983). In this respect I find the generalized use of distribution according to effort the least convincing feature of Albert and Hahnel's model. I do so for three reasons. First, to the extent that individuals are self-interested maximizers, as Albert and Hahnel assume, it would be undermined by strategic action. For example, maximizers would have incentives to perform at less than their best in early stages in order to maximize later effort scores. Albert and Hahnel's appeal to the analogy of rewarding racers according to effort ill-illustrates

their point in this respect. A standard strategic move to maximize winnings over a series of handicap races is to intentionally perform badly in early races in order to get a better handicap in later ones. Second, and I think more important, individuals are not self-interested maximizers in the economic sense. They are driven by a concern for social recognition, and material goods are often sought for this end. In this regard, distribution according to effort fails as a general principle because it is potentially humiliating, in particular for a low-output worker who is given a "high effort" score. It reflects badly on the evaluation of the worth of her capacities by fellow workers. The problem here is that the effort scores necessarily involve judging not just the performance of workers but their person. Third, it is for this reason not just potentially humiliating, but also socially intrusive. It involves a form of vertical management in which mutual judgements of the worth of fellow workers become generalized. To say this is not to deny that there are specific contexts in which "effort" gradings may not have a place. They have a place for example in education. However, they do not form the basis for a general principle for the distribution of goods. Some goods, such as those required for health and basic flourishing, ought to be distributed according to need. Others, such as qualifications, follow merit. For others, such as job satisfaction, as Albert and Hahnel suggest, a rough equality in distribution is appropriate. There is no good general principle of distribution that applies to all goods.

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REPLY

We fail to understand why O'Neill does not appreciate how nicely participatory planning handles tacit knowledge. We understand that knowledge is distributed unequally throughout society. That is one reason we propose a planning process in which each group of workers and consumers proposes and revises its own activities in a social process, and not one where a planning agency attempts to accumulate local knowledge and use it to calculate an "optimal" plan. We understand that no process can estimate social opportunity costs perfectly. That is why we call the prices generated by the social interaction between self-managing groups of workers and consumers "indicative prices" — to convey that unlike neoclassical economists, we know they can only be roughly "indicative" of social opportunity costs. We understand that informed decision making requires more complicated information than mere prices because there are "different dimensions" of social choice. That is why we propose that workers and consumers councils accompany their quantitative requests for inputs and outputs with qualitative information about the anticipated human and social consequences of their proposals. But if workers and consumers are to make informed decisions about what they want to do, they need to estimate the consequences of each group's proposal for others. One useful piece of information for doing this are the best available estimates of social costs of inputs and social benefits of outputs. We think an important virtue of participatory planning compared to market exchange is that the estimates of social costs and benefits that emerge from the former will be less imperfect than the estimates that emerge from the later, and fail to understand why O'Neill would want to keep this information from workers and consumers.

We do understand that Kotz is critical of libertarianism and believes we are less libertarian than we advertise. But Kotz agrees with us in substance, which implies much of the disagreement is over semantics. He approves of our view that while it is good for people to be free to do as they please, this does not mean consumer borrowing should go unmonitored, or that less qualified people should be admitted to educational programs, or that people should always work at the workplace of their first choice, or that people should be free to ignore the views of the majority of their workmates concerning their mutual work process. Unlike some libertarians, we *do* recognize the "jointness" of economic life, and we do *not* adopt a view of "individuals as atomized entities that exist prior to society," as Kotz charges. But while we see a participatory economy as how interdependent people can cooperate equitably, we also see it as how people can best achieve economic self-management — decision-making power in proportion to the degree one is affected by a decision. Kotz is right that our concept of self-management is different from the concept of individual freedom — the freedom to do whatever you want with your person and property. But individual freedom is the basis of right-wing libertarianism, while self-management is the basis of left-wing libertarianism. It is the long and honorable tradition of left-wing libertarianism we identify with, which includes a critique of *some* conceptions of socialism that confuse self-management with something else it is not, namely, majority rule in situations where some people and groups are more affected by a decision than others.

We are critical of distribution according to contribution because some are less able to contribute than others through no fault of their own, and we do not think it fair to penalize the less able. We strongly support distribution according to effort or sacrifice, because we believe greater sacrifice deserves greater reward, and because it is something people have control over. For some goods such as medicines and medical services, we support distribution according to need because it would be inhumane to do otherwise, and we support expanding distribution according to need as solidarity grows in a participatory economy. O'Neill says distribution according to effort is socially intrusive and potentially humiliating for a low-output worker who is given a high effort score because it implies her fellow workers think her unable. But is O'Neill willing to systematically punish the less able to avoid their humiliation? Isn't a better solution to replace the unwarranted social norm that lower ability is humiliating with the valid norm that only failing to live up to one's abilities is shameful?

Kotz worries that individual preferences for training/education differ, making it impossible for co-workers to calculate the effort and sacrifice to be rewarded for training as we propose. But we only need to determine whether a training program is considered less desirable by people *on average*, which can be deduced by comparing numbers of applicants. If training as an accountant is considered dull compared to other educational programs by people *on average*, then failure to compensate accountants appropriately will lead to fewer applicants for accounting programs than for other educational programs *most people* find more desirable.

O'Neill points out that workers might try to shirk at first to increase their effort scores later. Kotz points out that cliques and rivalries are not unique to capitalist workplaces and could cause unfairness and resentment, and worries that if reward is divorced from contribution enterprises might find it difficult to get workers to do what is needed. We consider these to be *legitimate concerns* and offer only this response: 1) While we *recommend* rewarding effort as an equitable social norm that is compatible with efficiency, in the end we *propose* that individual workers' councils rate themselves as they see fit, and expect they will choose to do so in different ways. 2) Our critics are right: remuneration according to effort, or sacrifice, is the worst possible system of compensation — except for all the alternatives.

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