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Social Dividend Versus Basic Income Guarantee in Market Socialism

The collapse of "socialism" in Eastern Europe and the Soviet Union, though hardly irrelevant for the socialist cause, does not prove what so many think it does (Schweickart 1993: iv). According to the market socialists, the collapse of centrally administered socialism should not have been interpreted as the exhaustion of all egalitarian prospects or a failure of untried forms of socialism, especially market socialism; socialism is not Stalinism. The failure of centrally administered socialism could have been avoided if the most important principles of market socialism had been adopted by way of introducing markets and allowing the people to participate in the formation of the plans through a democratic political process. The market socialist proposal avoided any elements associated with the Stalinist inefficiencies and inequalities. Nevertheless, "efficiency is not normatively innocent" (ibid., 78).

In actual fact, the collapse of Stalinism has assisted the cause of market socialism. It has cleared the way for consideration of potentially efficient and democratic forms of socialism by initiating a new purpose for public ownership. This is "a moment of opportunity, not defeat" (Thompson 1991: 107). The collapse of Stalinism caused a reexamination of fundamentals of socialist construction. This did not imply the inevitability of socialism but, rather, its historical possibility as a desirable goal to strive for: a radical egalitarian ideal worth pursuing (Roemer 1994a: 1; Wright 1996a: 1).

The theory of market socialism is still being developed (Roemer 1994c: 3, 290). Today, Oscar Lange's contribution to the theory of market socialism is considered archaic because it ignored incentive issues (Roemer and Silvestre

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1993: 108). What I am advocating is market socialism with worker self-management. It is argued that market socialism is the only rational form of socialism, and that market socialism with labor-managed firms is by far the best form of market socialism (Jossa and Cuomo 1997: xiv). This is something quite different from the theoretical models of market socialism debated and quite different from command economies (Schweickart 1993: 90). The market socialist model proposed in this paper differs from the preceding models in that it does away with the J. E. Roemer–P. K. Bardhan–J. A. Yunker social dividend-coupon economy and substitutes it with a basic income guarantee. As such, the model is structured around the central concern of providing a basic income guarantee to all members of the society. In the tradition of Horvat, as he stipulated that "unlike the engineer, whose task is to design new machines, the social scientist is not expected to design new social systems; his job is to analyze them critically and to explain them. Yet, logically, there is no difference between the two tasks-except that the latter is much more difficult" (Horvat 1982: xv). It is hoped that the paper contributes to the current debate on market socialism by stirring the debate away from the social dividend-coupon economy to the establishment of a basic income guarantee as the main feature of market socialism.

The Yugoslav and Mondragon (Spain) experience will be referred to as a means of revealing any relevant empirical evidence. With respect to the Yugoslav experience, Jossa and Cuomo argued that when labor management was put into practice, it failed to appreciably change worker motivation in the direction anticipated by market socialists (1997: 152). "None the less those inclined to emphasize the relevance of the Yugoslav experience in this field (in spite of the strong grounds for thinking otherwise) hold that this argument, far from refuting the validity of our line of reasoning, should only discourage too rosy predictions about the advantages of labor management" (ibid.).

Social Dividend as a Feature of Market Socialism

Under market socialism, Roemer proposed that a political democratic process would have determined the distribution of profits of state enterprises in the form of a nontransferable and nonconvertible "social dividend" (1991: 563). Oscar Lange proposed the "social dividend" system in the late 1930s. Initially he based it on work performance but later made it independent of effort (Van Parijs 1991: 110). Roemer, however, opposed a proposal based on work performance (1994b: 292). Under social ownership, citizens would have been given their per capita share of the total coupon value of the productive property in the economy upon reaching the age of maturity (Wright

1996a: 2). Citizens would have been entitled to trade these stocks at prices quoted on a competitive stock market, but they could not have cashed in their portfolios. These trades would have been carried out with a "coupon currency" as the only acceptable legal tender on the stock market. In turn, firms could have traded coupons received from issuing stock at the State Treasury for investment. The net revenues of the publicly owned business enterprise sector would not have been added to general government tax revenue. Rather, the net revenues would have been distributed directly to the public in the form of a social dividend proportionate to individual labor income (Yunker 1986: 683; 1988: 74; 1994: 10; 1997: 179). At death, the citizen's vouchers would have been sold and the coupon revenues returned to the treasury. The treasury, in turn, would have issued coupon endowments to citizens reaching the age of maturity. Various financial institutions, not shareholders, would have monitored firms (Roemer 1999: 67). This would have ensured that dividends were paid in a more egalitarian way than they would have been in a capitalist society. Under market socialism, corporate profits would have been distributed to all citizens, whereas under capitalism, these funds would have financed the consumption of capitalists.

One of the major criticisms of the coupon capital market system is that it could have generated a "lottery culture" that would have reduced the capacity of citizens' political participation (Simon 1996: 52). To avoid this, Roemer suggested the establishment of mutual funds (1992: 270). A share in a firm would have entitled the owner of a mutual fund to a share of the firm's profits, and a share in a mutual fund would have entitled the holder to a share of the mutual fund's profits.

Under market socialism, capitalist shares and stock exchanges would have been removed, and the production sector would have been financed entirely through a competitive credit market, that is, by a variety of socially owned financial institutions, state and regional banks, pension funds, and philanthropic trusts. However, those financial institutions with monopoly power would have been state owned. For Roemer, firms in a coupon economy would have been organized around a small number of main banks (1994a: 76–77). These banks would have been primarily responsible for organizing loan consortia to finance the operations of the firms within their groups and for monitoring these firms. By monitoring the firms and ensuring sound management and profitability, the firms would have been able to pay back their loans (Yunker 1997: 196). With profitable firms as clients, the banks would earn a good reputation, thereby making it easier for them to raise money to finance the operations within their respective groups. The role of banks would have been similar to that of those in the German and Japanese economies (Block 1994: 378).

Roemer (1992: 272; 1994a: 76–77, 84; 1996: 31) and Miller (1994: 259) were in favor of banks operating independently of the state and of not using political criteria when making decisions about firms. The banks' independence from political control would have been enforced by a series of legal and economic measures (Roemer 1994c: 299). Even so, the independence of the state banks contradicts the proposition of the accountability of financial institutions to society through the planning process. Roemer (1994a: 78; 1996: 31) and Bardhan (1993: 149) noted that there were arguments favoring the monitoring system over a takeover process, because investors were more likely to have inaccurate information about firms and their management. Investors are myopic: stock prices fall when firms take actions that are optimal in the long run but risk short-run profits. In a bank-centric monitoring system, dividends and institutional owners of firms would not have fired management if it pursued a long-run investment policy that resulted in low short-run coupon prices (Roemer 1994a: 81). In these new banks, money managers would have been rewarded for nurturing new enterprises to achieve an efficient long-run performance. The only serious restriction would have been that capital speculation by individuals over high-risk productive assets would no longer have been possible.

The coupon mechanism had to be supported by sophisticated financial institutions and regulation to prevent speculation, swindling, and cheating (Roemer 1994a: 83; 1996: 32). Actually, Bardhan (1993: 154) and Bardhan and Roemer (1992: 115) argued that the bank-centric monitoring system might have been less difficult to introduce in some developing countries where there was a preexisting set of public investment banks and financial institutions. However, the same argument could have been used not only for a Romer–Bardhan–Yunker bank-centric monitoring system but also for the democratic-plan-centric monitoring system of state banks that I propose.

In addition to the criticisms of the social dividend structure, the lottery culture, and the disincentive for political participation, Barkan and Belkin argued that the bank-centric monitoring system would have reintroduced a form of ownership with bank-and-firm clusters, creating a quasi-privatized system (1991: 570). In response to this, Roemer (1992: 270) altered the model by introducing mutual funds. Each mutual fund would initially have held the same portfolio as all the large firms in the country. The coupons distributed to adult citizens would have entitled each to a per capita share of the income of each mutual fund. However, a mutual fund structure has its own problems. These financial intermediaries would have been able to extract rents, because potential borrowers would have had nowhere to go. They might have engaged in openly predatory activity, forcing firms to accept the bank's direction and control. Financial markets were not balanced through the interest rate mechanism. On the contrary, financial intermediaries always ration credit by withholding credit from borrowers who are not considered creditworthy. Because lenders tend to share the same criteria, such “strategic nonlending” has been a major mechanism through which class power has been exercised. For example, Yang argued that while collective ownership was a feasible option in a market capitalist system, it must be less efficient than private ownership because it was not prevalent (1993: 8). This argument does not take into account the difficulties that worker cooperatives have faced in borrowing capital, which has been a major obstacle to their development under capitalism. Effectively, the proposal of independent profit-maximizing state banks monitoring firms in the economy replicated the widely emphasized Marxist literature on the domination of the economy by “financial capital.”

A complex socialist economy would have required new types of financial intermediaries, which would have been owned by the state if they had market power, to promote greater workplace democracy and to negotiate coordination through planning. The market socialist model proposed in the following, in contrast to that of Roemer and Yunker, did not require a social dividend but, rather, a basic income guarantee, and not a bank-centric-monitoring system but, rather, a democratic-plan-centric monitoring system for firms.

Basic Income Guarantee as a Feature of Market Socialism

It could be asked, “Why not forget about social dividend and coupons and instead directly use government revenue drawn from taxes on income, profit and capital?” Such revenue would have been designed to provide income to the government for public expenditures and to maintain a basic income guarantee for all citizens. I would favor a market socialist model that, instead of universalizing participation in a conventional stock market with coupons, universalized basic income guarantee. A basic income guarantee would eliminate the need for a coupon market and the associated socially undesirable speculative behavior. It would eliminate the need for a Department of Social Security in the current form and would increase individual security and, thus, productivity. In contrast to Yunker (1986: 683; 1988: 74; 1994: 10; 1997: 179), the basic income guarantee would have been provided without a work performance condition or means test. Hence, the basic income guarantee will take the form of a minimum income by paying everyone regardless of their private income. Basic income guarantee is not the same as a negative income tax. The negative income tax is a minimum income paid to anyone whose private income drops below a certain level (Widerquist 2005: 50).

The goal associated with market socialism was greater equality at the beginning, so that people entered the market on an equal footing, to achieve the equalization of positive freedoms in production. Raising the income of the poor would have been the most important single step toward improving their opportunities for self-realization and greater welfare. To achieve this, households would have required access to a basic income guarantee without being forced to sell labor power to enterprises, even though they were socially owned. The survival of the members of the society, at a basic but decent standard, should have been independently guaranteed: "No questions asked, no strings attached" to a sufficient income (Van Parijs 1991: 130). Under these circumstances, individuals would have been able to exercise genuine choice about selling their labor power to enterprises, rather than been compelled to sell by necessity. A transfer system based on the basic income guarantee is not targeted at those shown to be "inadequate." It involves less administrative control over its beneficiaries and is far less likely to stigmatize, humiliate, or shame them or undermine their self-respect. Van Parijs (1991: 130; 1997: 327) dismissed the argument that the introduction of a basic income guarantee was unfair and resulted in exploitation: those who choose to live off their basic income do not unfairly free ride and exploit those citizens who make the required contribution.

A basic income guarantee for all citizens has been linked with the classic market socialist concept of the social dividend as outlined by Oscar Lange and recently refined by Roemer and Yunker. It was that part of the national income that was not distributed as wages or interest but that belonged to the people as owners of the means of production. For Roemer, the social dividend would have been a form of guaranteed income (1994b: 292). However, the social dividend, as proposed by Roemer, would have fluctuated in line with market conditions and not necessarily have provided an adequate income. For Yunker, it would have fluctuated, in addition to market conditions, on the basis of labor effort: the social dividend would be a fixed percentage of labor income. In fact, under Roemer's calculations, the actual profit dividend each person would have received would not have been enormous (Roemer 1996: 18; Wright 1996b: 131). On Yunker's proposal, people unable to work would not have received a social dividend. I prefer the provision of a basic income guarantee instead of the social dividend concepts suggested by Roemer and Yunker. Profits of state enterprises would become a part of government revenue, which would have funded the basic income guarantee, not the social dividend. An unconditional basic income would have been a grant paid to every citizen, irrespective of his or her occupational situation and marital status, and without regard to his or her work performance or availability for work. There would have been a framework of objective minimum standards, which would have been determined with the help of social scientists and approved after public debate, facilitating social solidarity and the promotion of social justice. The implementation of the basic income guarantee would have freed the resources of the Department of Social Security, given that the taxation office would have administered the system. The Department of Social Security would be transformed and would concentrate on the provision of services. The highly progressive tax system would have ensured that those who did not require the basic income guarantee returned the gain through normal taxation.

The basic income guarantee scheme has been criticized extensively for its negative impact on work incentives; if everyone was guaranteed a basic income, why would anyone want to work? Hence, the scheme would damage the economy and even poor people. The supposedly negative impact to incentives to work as a result of basic income quarantee invite for either no schemes at all to assist the poor or for alternative proposals. The most common alternative offered has been the "employer of last resort" espoused by the Centre of Full Employment and Equity (CofFEE) at the University of Newcastle in Australia and the Center for Full Employment and Price Stability (CFEPS) at the University of Missouri–Kansas City. L. Randall Wray, the research director at CFEPS, was quoted in Glenn as saying, "But a basic income does nothing to resolve the unemployment problem. Handouts will never be viewed that same way as jobs. I don't believe that handouts lead to the same sense of responsibility and control over one's live that a job can offer" (2004: A14).

A number of experiments were conducted in the United States and Canada with a negative income tax between 1968 and 1980, which can be used to refute the work disincentive argument. Although the proposal in this paper is for a basic income rather than the negative income tax tested in the experiments, the two policies are both forms of the basic income guarantee and are similar enough that any conclusive findings from the experiments are of great value for the debate. With regard to the work-effort response, some researchers revealed that there was no evidence of a large number of people responding to the negative income tax by withdrawing entirely from the labor force. Some of the researchers revealed that they were unable to find even a single instance of labor-market withdrawal. Nevertheless, in all of the experiments, it was found that there was a nonnegligible work-effort response. The experiments also revealed that the work-effort response was not large enough to threaten the financial viability of a negative income tax. In sum, in the experiments, no evidence was found that a negative income tax would cause some segment of the population to withdraw from the labor force, and no evidence was found that the supply response would increase the cost of the program to the point that it would be unaffordable, even by ignoring the mitigating demand response. Also, it was predicted that the full labor market response in the work hours of primary income earners would fall into a range of about 0–5 percent or 0–7 percent, depending on the elasticity of demand for labor. However, the reduction in work hours would have the side benefit of increasing wages, further reducing poverty and inequality (Wilderquist 2005). Nevertheless, if these mechanisms prove insufficient, the government should become the employer of last resort, guaranteeing public-service jobs to all who are able to work. Full employment is a part of the socialist heritage that should not be relinquished. The effects of unemployment—financial, psychological, and social—are so devastating and the promise of full employment so central to the socialist project that market socialism should guarantee every citizen a genuine "right to work" (Schweickart 1993: 110–11). As such, an employer of last resort program is viewed in this model as a complementary scheme to the basic income guarantee and not a substitute.

The Institutional Structure in Market Socialism

Under market socialism, there would indeed have been markets, but there would also have been a wide range of other social, political, and legal institutions that constrained them. Institutional norms would have fostered participation in self-management and the establishment of information disclosure laws and the implementation of periodic "social audits" to monitor infringements of ecological and egalitarian standards (Blackburn 1991b: 223). Roemer stated that "I remain agnostic on the question of the birth of the so-called socialist person, and prefer to put my faith in the design of institutions that will engender good result with ordinary people" (1996: 35). For market socialism based on basic income guarantee to be effective, a set of complementary institutions are required with respect to stabilization and investment and property relations, as presented in the following.

Stabilization and Investment

In the market, decisions about whether to invest are extremely complicated. Capital accumulation relies on complex judgments about the likely demand and cost conditions for many years into the future. Decisions had to be based on a balance of expertise, technical knowledge, and guesswork. However, the market fails to provide sufficient information to the investor about the future. A set of futures markets, necessary for agents to make suitable contingency plans in times of uncertainty, does not exist in reality. This is because it was natural for people to be rather cautious. Also, due to the uncertainties in investment being so great, there was a systematic tendency to underinvest in a market system. Moreover, there was a bias toward projects with fewer uncertainties and risks. Playing it safe was, of course, a characteristic of the banking system, which had the role of funding investment projects. Yet it is often the riskiest projects that drive the motor of economic development. In short, "while markets may be excellent for fine-tuning responses to changing demand and technology, they may not be good at stimulating large, non-marginal changes in the structure of the economy" (Estrin and Winter 1990: 112).

The market socialist state must, therefore, counteract these tendencies by intervening to provide firms with information about the economic environment—prices and market trends. This can be achieved through an indicative plan to foster the general rate of accumulation and investment in relatively risky projects and a plan to innovate for the future. The central authority was qualified to forecast the rate of technological progress and guarantee that most investment projects would have reflected the interests of the society and not shortsighted individual self-interest. Hence, in order to make markets work appropriately, the imperfections of the market should be corrected by planning interventions. As a result, we need planning as a precondition for an efficient market (Horvat 1982: 332). Planning means the perfection of market choices in order to increase the economic welfare of society. Far from being incompatible or contradictory, market and planning appear complementary, but neither is a goal in itself. Both are means for the appropriate organization of a socialist economy (ibid.).

The social plan has three basic functions: a forecasting instrument; an instrument for the coordination of economic decisions; an instrument for guiding economic development. It represents an obligation for the body that has adopted it and a directive for its organs (ibid., 333–34). The nature of government intervention in market socialism is qualitative rather than quantitative, as in Stalinism. While the capitalist system is criticized by Marxists on the basis of "commodity fetishism," that is, the obsession of economic actors with commodities instead of social relations, in the Stalinist system this is transformed to "plan fetishism," the obsession of planners to include the greatest possible quantity of commodities in the plan instead of achieving optimality. Government intervention in market socialism would influence economic behavior indirectly, for example, the desired investment levels and pattern of society would have been implemented not through a command system but by manipulating the interest rates at which different industrial sectors borrowed funds from state banks (Roemer 1991: 563; 1994b: 271; 1994c: 291, 294). Central planning under Stalinism was expected to give way to a variety of forms of market planning. Long-term investment decisions, by their very nature of uncertainty, are not based on considerations of infinite time horizons or on the ability to calculate precisely projected income. Technical arguments about finite versus infinite time horizons give us no real reason to think that the assessment in the two systems (capitalism and self-managed market socialism) will significantly and systematically differ. Not surprisingly, the empirical evidence indicates no systematic bias, as Yugoslavia and Mondragon have been high-investment economies (Schweickart 1993: 93–94). Therefore, only under strong state regulation through planning could the transition to market socialism have taken place.

The plan had to determine priorities. It should reflect the priorities of society as a whole and those of the separate social groups whose interests were recognized as being especially important. Prioritizing was a complex process and had to be based on social compromise within an open and pluralistic-democratic system. Social and investment priorities were inevitably political decisions for instrumental and desirable reasons. Indicative planning was a decentralized and democratic process of consultation and discussion, concerned exclusively with plan construction and elaboration. The process provided a forum in which information could have been pooled. Also, diverse interest groups could have confronted one another about spillover effects, giving citizens an equal voice in determining the plan's objectives. Hence, planning ought to be participatory. Plans are formulated at all levels and then are gradually integrated into an overall plan by an interactive process of consultation and negotiation. The remaining disagreements are eventually ironed out through political process (Horvat 1982: 333). Social planning not only improves macroeconomic efficiency but also adds a new quality to the economic process. Competition is not eliminated, but it is directed toward improving the quality of commodities and reducing production costs, not toward driving competitive firms out of the market (ibid., 335). In itself, the plan did not contain an implementation procedure. As every actor "bargains" through successive "iterations," the process of negotiated coordination, rather than price taking, would have occurred. "Such a procedure contains rather more teeth than might at first sight appear" (Estrin and Winter 1990: 116), because one of the major actors in a market socialist economy is the state (Roemer 1991: 563). However, the use of the political process to decide investment planning "opens up the Pandora's box of rent seeking, the wasteful use of resources by interest groups who aim to influence the outcome of the process" (Roemer 1994a: 106). Yet, under socialism, the tension between sectional and social interest would have been explicit, with the possibility of partial reconciliation and also some transformation of the perceptions and levels of social awareness of those involved.

Property Relations

The ultimate goal is the establishment of property relations so as "in a classless socialist society, property implies the absence of control over and exploitation of the labor of others" (Horvat 1982: 237). Property relations in an economic system are production relations, and vice versa (ibid., 235). It is essential to describe property relations and social organization of enterprises under market socialism, as advanced technology requires advanced social organization. While there are a variety of property relations in market socialism, the social organization of enterprises in the nonprivate sector is based on self-management. Self-management is compatible with the developmental trends in technology, and meaningful participation is indispensable for the normal functioning of a postindustrial society (ibid., 250). A firm can be defined as self-managed if the responsibilities and duties of management are carried out by its own workers. In it, therefore, the entrepreneurial function, consisting in the aggregation and organization of productive factors as well as productive activity, is performed by workers. In this way, the entrepreneur is not tied to the ownership of capital. The workers employ capital, remunerating it at a fixed rate, and organize and guide production while keeping the residual as their reward. The discriminating element between the capitalists and self-managed firm is the presence or absence of wage labor (Jossa and Cuomo 1997: 161).

It is clear that worker management is no panacea. It creates its own problems, which are by no means insignificant. If they are not handled with care, the society runs a great risk of ending up in a Stalinist economic structure (Horvat 1982: 261). In every human group, conflicts are bound to occur, and some individuals may abuse their power or fail to live up to self-management. But self-management, unlike centrally administered socialism, offers strong positive incentives for good work. Incomes are linked directly to enterprise profits. There may be shirkers, but such workers run the risk of social disapproval and the threat of being fired. A self-managed firm can dismiss members for cause and probably would not hesitate to do so, knowing that the person in question will not suffer as much (Schweickart 1993: 111). Nonetheless, socialism with labor-managed firms is a form of social organization that could be introduced into more advanced capitalist countries and that deserves the attention of mainstream theorists in economic theory (Jossa and Cuomo 1997: xxii).

Practically every dictionary defines socialism as public ownership of land and capital. The market socialists argued that state ownership per se did not guarantee efficiency. If the structure of state ownership conflicted with the changing economic realities, state ownership would have been a negative rather than a positive element in economic development. State property was no longer seen as sufficient or even necessary for socialism (Roemer 1996: 12). Within the market socialist economic system, and based on state property, a variety of property forms could have existed. Thus, all forms of property—individual, cooperative, and state—were important and were consistent with socialism.

This argument did not dismiss the role of state property in the socialist economy. State-owned enterprises would have been large enterprises characterized by monopoly power. State ownership would have ensured that the behavior of large enterprises was in line with the social good. State enterprises would have been instructed and motivated to maximize the long-term rate of profit, thereby maximizing efficiency. Managers of state-owned firms would have been induced to pursue profits, not only by making their salaries and bonuses subject to achieved profits but also by threatening job security (Yunker 1997: 14). Decision making in state firms would have been based not on the conventional hierarchical structure of firms but rather on a democratic process in which all workers participated.

Market socialists argued that cooperatives were consistent with socialist principles. Enterprises in market socialism would normally have taken the form of workers' cooperatives, with capital supplied externally. Under this structure, ownership and control would have been exercised by all members of the cooperative in the form of group property. All members of the cooperative would have been equal, with no distinction between employers and employees and no exploitation of labor. While a hierarchy is necessary for the coordination of production processes, even in cooperatives, authoritarian hierarchies were not a natural result. There was a positive relationship between participation in decision making and productivity, as well as between profit sharing and productivity. In firms that allowed the workers to make the decisions, the workers could have drawn from their shop-floor experience to make the correct decisions and respond rapidly. Where work yielded utility, and because cooperatives eliminated the exploitation of labor by capital, cooperatives could have performed better than hierarchical firms. In a democratically self-managed enterprise, workers, as a group, had a strong interest in assuring good job performance by monitoring the labor process of individual workers (Bowles and Gintis 1996: 319; Weisskopf 1993: 132). Empirically, the claim that hierarchical firms necessarily outperform labor-managed firms was yet to be proven.

The new perception of property relations under market socialism went further than the cooperative form. Private property should have been legalized, thereby recognizing that it had a role in a socialist system (Yunker 1994: 8). Peasants, artisans, and small-scale family businesses are just as much "socialist elements" as those working in nonprivate sectors (Horvat 1982: 238). Market socialists would have encouraged privately owned firms; however, they would have been restricted to small-scale enterprises, with large-scale privately owned capitalist firms being abolished. "Capitalist firms that are sufficiently small do not pose a serious threat to the well-being of others" (Winter 1990: 157). Capital should have been socialized and rented to firms. There would be a size limit, for example, ten employees, and if the company grew larger than that, the workers would have the right to run the firm democratically (Schweickart 1993: 132). These petty capitalists would be allowed to seek funds from private individuals and from the community banks.

Once privately owned enterprises reached a predetermined size and gained regional market power, the sole ownership rights of the private owners should have been abolished, appropriate compensation paid, and the firms transformed into cooperatives (Winter 1990: 156). This was analogous to the capitalist entrepreneur, who sells the firm when the owner is prepared to expand the business beyond its small size. But there is one important difference, a capitalist entrepreneur sells out voluntarily to the other self-interested firm wanting to purchase the investment. Under market socialism, it would have been compulsory, with compensation determined by the state (Roemer 1994c: 297). Did the proper compensation for the original entrepreneur result in illegitimate enrichment? No, as long as the socialist market and the price mechanism were functioning correctly. From a societal point of view, there would have been no unearned income arising simply from the capitalization of small ownership of capital and land.

Once cooperatives reached a predetermined size and gained economy-wide monopoly power, the cooperatives' rights should have been relinquished after appropriate compensation and their assets transferred to state ownership through legislation. Market socialists view the property structure of the enterprise as directly linked with monopoly power and the principal-agent problem (Bardhan 1993: 147–48). While small private ownership of the enterprise would not have given rise to power, as the firm grows, its power increases, requiring a change in ownership. As the power of the firm increases with its size, ownership would also have been altered from private to cooperative to state. Nevertheless, worker-managed firms, as compared with their capitalist counterparts, do not have the same self-generated tendency to expand. Both labor-managed and capitalist firms will expand in response to an evident increase in demand. Both will expand if there are significantly increasing returns to scale. Specifically, under conditions of more or less constant returns to scale and declining costs, labor-managed firms are not so inclined to grow, and when they do grow, they are not inclined to grow by qualitative leaps. But a capitalist firm, much more so than a labor-managed firm, is motivated to expand when returns to scale are constant or costs decline. Capitalist firms are also more inclined to expand in large increments (Schweickart 1993: 97). Because self-managed firms are less expansionary than capitalist firms, they will tend to be smaller. They will tend to expand only so as to capture economies of scale. The experience of Mondragon, although not Yugoslavia, is consistent with this argument. In 1974, following an internal dispute at its largest cooperative, employing 3,200 workers, a decision was made to keep the member firms relatively small. When firms begin to get large, divisions become independent entities. The fact that relative smallness has not impeded efficiency tends to confirm the frequently asserted, though not unchallenged, view that capitalist firms often grow much larger than technical efficiency requires. As for Yugoslavia, the very large sizes of many firms, 30,000 workers and more, would seem to be best explained by government investment policies, not by technical efficiency (Schweickart 1993: 98).

In addition to efficiency, socialist enterprises have the goal to maximize democracy in decision making. Traditional economic theory considers this double goal—efficiency and democracy—to be inherently contradictory, as is market with planning. Yet socialist organizational theory will treat the two goals as complementary (Horvat 1982: 239). For industrial democracy and self-management to be meaningful, the members of each enterprise would need to have a substantial degree of control over their work environments. This would have been reflected in areas such as decisions about the products to be made and the methods of production. Small cooperatives might have wanted to decide most issues by general meetings. Larger ones would have probably adopted a more formal system of management, with top executives chosen by, and answerable to, the membership but given a large degree of discretion in their day-to-day decision making (Miller 1993: 305). Such an arrangement would have avoided the problem that "if everyone wanted to speak in general meetings, there would be no time available for anything else!" (Nove 1994: 211). However, it would have been a mistake to regard time spent in decision making as inherently unproductive. Workers' self-management at the enterprise level would have been a democratic process of decision making and would have fostered and reinforced democracy at the political level. Workers would still have required unions to protect them from overzealous managers, even if they had the power to remove management (Roemer 1991: 567). Under market socialism, the national government would have had no authority to hire and dismiss managers of corporations. Managers would have been accountable to the rank-and-file employees through elections. "The evidence is strong that both worker participation in management and profit sharing tend to enhance productivity and that worker-run enterprises often are more productive than their capitalist counterparts" (Schweickart 1993: 100).

Under market socialism, the banks will use employment creation as an explicit criterion in giving investment grants. Employment creation is a goal for market socialism, but it is unlikely that firms will become excessively capital-intensive at the expense of employment (ibid., 94). Self-managed firms will not respond perversely to fluctuations in demand and will not be seriously biased toward nonoptimal labor intensiveness or capital intensiveness. The empirical evidence supports the argument that there has been no tendency to lay off workers when times are good or even in bad times, neither in Mondragon nor in Yugoslavia. Major efforts are made during recessionary times to avoid discharging workers in Mondragon and Yugoslavia (ibid., 92).

Under market socialism, expenditure for basic research would be funded by the state, and the results of this research would be freely available to all enterprises (ibid., 133). Mondragon firms tend to be small, which is not at odds with innovativeness, as technical innovations tend to originate in small companies. As firms are small, each firm does not have research facilities, but the Mondragon structure has one to serve the collective needs. Many new firms in market socialism would begin, as they do in Mondragon, as units within a larger firm, from which they would separate. The associated bank's entrepreneurial division could provide advice and perhaps adjustment finance, as does the Empresarial Division in Mondragon.

In Mondragon, the process of the creation of new firms from scratch is usually initiated by a group of people interested in starting up a new enterprise by approaching the Empresarial Division. The founding of new firms and the creation of a cooperative structure requires, by definition, the unanimous agreement of those who create it. This agreement is a multilateral agreement. In contrast, the creation of a capitalist firm requires only a series of bilateral agreements and is, therefore, much easier to accomplish (Jossa and Cuomo 1997: 317). The entrepreneurs may have a product in mind, or they may ask for assistance from the section of the Empresarial Division that maintains a "product bank" of feasibility studies. The project is carefully advised and monitored from the earliest stages until it reaches a break-even point, often six to seven years later. By then, if the initiators proved to be ineffective, or the venture is unviable, the project is terminated. It is important to note that in planning, labor is treated not as variable capital but fixed: it is assumed that additional workers, once bought into the enterprise, will not be laid off or fired. Unlike a capitalistic enterprise, the new worker-managed enterprise cannot plan on varying its labor force as demand fluctuates. Planning and expert assistance count for the success rate of new Mondragon cooperatives; by 1993, only three had ever failed (Schweickart 1993: 135).

Initially, the financing of the Yugoslavian firm was exclusively internal. Subsequently, external financing from the state banks grew to the point where it assumed a predominant role (Jossa and Cuomo 1997: 163). But Yugoslavia was never able to solve the problem associated with the establishment of firms above the small level.

If the reliance on spontaneous entrepreneurial drive is proven to be inadequate, various combinations of monetary incentives and nonmonetary mechanisms could be instituted. Substantial financial prizes could be given to individuals or groups who succeeded in launching successful enterprises. One could even go so far as to allow firms to be run as capitalist enterprises, with all profits going to the initiators, until a certain size is reached or a certain time period has elapsed, at which point they would be nationalized with compensation and then transformed into a labor-managed firm (Schweickart 1993: 135).

Under a system of self-management, ownership of the firm cannot be attributable to either workers or capitalists. Thus, it can only be attributed to the state (Jossa and Cuomo 1997: 258). As to ensure that the firms are not dismantled, a law should be written, as in Yugoslavia, that firms may invest but not disinvest; firms may not sell their capital goods, or they may do so only if they replace them with others of equal value. The prohibition on disinvestment provides an additional rationale for state ownership of the means of production (ibid., 259). In sum, "I do not see how there can be honest doubt on the part of anyone who reviews the literature with an open mind that, all else equal worker-managed firms are likely to be more X-efficient than their capitalist counterparts" (Schweickart 1993: 103).

With respect to agriculture, the Chinese experience is quite relevant. The Chinese reformers chose to assign autonomy to the individual plots that farmers were working on. China initiated agricultural reform by breaking up the large collective farms into smaller, more efficient, units by introducing the household responsibility system. Under the household responsibility system, peasant households were the basic units of farm production. The village collective, on the other hand, takes charge of managing land contracts, maintaining irrigation systems, and providing peasants with equitable access to farm inputs, technology, information, credit and the services of farm machinery, product processing, marketing, primary education, and health care. This new form of village collective organization overcomes the main drawbacks of the commune system, while preserving the principal merits of economic organization characterized by public ownership of the means of production. Initially, household contracts for the use of the land lasted for fifteen years, then were extended to thirty years, and now have, for all practical purposes, been made indefinite (Perkins 1994: 26).

The obstacles to the development of genuine workers' management are truly formidable, but Horvat (1982: 262) assures us that this is no reason for despair. Workers in the plywood cooperatives in the Pacific Northwest of the United States have been electing their managers since the 1940s, and workers in Mondragon have been doing so since the 1990s. As of 1981, there were some 20,000 producer cooperatives in Italy, constituting one of the most vibrant sectors of the economy.

> Needless to say, not all self-management ventures have been successful, but I know of no empirical study that even purports to demonstrate that worker-elected managers are less competent than their capitalist counterparts. Most comparisons have suggested the opposite. Most have found worker-managed firms more productive than similarly situated capitalist firms. (Schweickart 1993: 101)

The experience in Yugoslavia during the years from 1965 to 1974 seems to suggest that the reversal of the capital–labor relation will not always result in a greater role for workers in the management of their firms. Institutions capable of guaranteeing maximum worker participation in the management of firms without encroaching upon the efficiency objective are essential (Jossa and Cuomo 1997: 146). The social crisis in Yugoslavia does not appear to have been the result of an excess of workplace democracy but rather a reduction of the self-management rights of workers (Schweickart 1993: 102).

Conclusion

In what way can the market socialist model proposed be called socialist? What was distinctive about the model that tried to establish a "socialist" system? Ideologically, the model borrowed concepts and analyses from the liberal view, particularly the interventionist variant. It may even be argued that the model was contradictory. It tried to achieve a consistent socialist system through "capitalist" means such as markets, prices, profits, market planning, "bourgeois democracy," and self-interest. Strangely enough, the norms and institutions of capitalism appeared to be essential to socialism (Blackburn 1991a: ix; Howard and King 1994: 145). Actually, the efficiency theorem is, at best, irrelevant to the capitalism–socialism debate, as it obscures comprehension of the real issues. The assumptions necessary to prove Pareto optimality do not represent reality (Schweickart 1993: 82). Supporters of market socialism accept that capitalism has been able to sustain a high level of economic growth. Centrally administered socialism was not able to match those levels.

For socialism to have a chance, the economy would have had to adopt mechanisms that were not peculiarly "capitalist." According to Radzikhovsky, "an economy cannot be ideological correct or incorrect, it can only be efficient and inefficient" (1990: 12). Deng Xiaoping, the architect of economic reform in China, proclaimed that it did not matter whether the cat was red or white as long as it caught mice. If market socialism did not discriminate against "capitalist" mechanisms, what was left to distinguish a capitalist from a socialist economic system? Socialism stands, by definition, for humane rule and the subordination of economics to humanity. However, was market socialism simply "capitalism with a human face"?

Socialism as envisaged in this model is able to provide economic growth and, equally importantly, to provide higher forms of accountability than capitalism (Bowles and Gintis 1990: 41). This was what was so special about socialism. It was no longer a central administration replacing the market, or state property replacing private property, or even a single-party system replacing "bourgeois democracy." These were not characteristics of socialism but, rather, of Stalinism, which did not have any relevance to socialism. For market socialists, socialism as described is a system superior to capitalism, because it was able to eliminate some forms of power and, where power still existed, to control it more effectively than under capitalism. Although capitalism had achieved both high efficiency and accountability, socialism could have gone even further. The fact that nonpluralistic socialism failed to achieve these goals was an argument against Stalinism, not against socialism.

Although the market socialist model aimed to reproduce the accountability of capitalism, it also envisaged new forms of accountability. In particular, it incorporated national allocative planning and workers' election of management that had been inhibited under capitalism due to the power of domestic and international capital. One of the problems with a high concentration of private ownership in capitalist societies was its consequent influence on the political process. In the market socialist model, this was less likely to happen. Also less likely would be for the media to be influenced by particular interests. Therefore, it was argued that with the elimination of some centers of power and the effective control of the remaining centers of power, market socialism can achieve equality of opportunity for self-realization, welfare, political influence, and social status.

Hence, the market socialist reforms would have provided the basis for the development of a socialist ideology, which did not bear much resemblance to socialism as previously practiced. Like all ideologies, it advocated the establishment of a superior form of society. It borrowed methods and analyses from competing ideologies, particularly classical liberal and liberal interventionist concepts. The outcome would have been different from all liberal as well as nonpluralistic forms. The model proposed a pluralistic society in which the forms of ownership and the establishment of a basic income guarantee would have facilitated a level of accountability beyond the grasp of a capitalist society. Such ideology is termed "socialist interventionist," while the economic system is market socialism. While it bears a close resemblance to the liberal interventionist model, it attempted to transcend the levels of individualism and accountability achieved so far in capitalist societies. As Rider stated, market socialism is a "model that uses mainstream tools to accomplish non-mainstream goals" (1998: 166–67). The maker socialist model offered in this paper might be criticized as utopian, nonetheless, "every new vision of improving institutions has seemed utopian to those who took the established order for granted" (Horvat 1982: xviii).

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