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ABSTRACT: We should not think of market socialism as an oxymoron, nor as an unstable hybrid. The appropriate framework for thinking about current versions of market socialism is a model of an optimally viable, desirable, democratic socialism. This paper proposes such a model, one that incorporates workplace democracy, a modified free market and democratic control of investment. It elaborates at some length the latter feature, defends the model against criticisms deriving from the Yugoslav experience, then employs the model to elucidate the issue of productive asset ownership under socialism.

HOW NOT TO THINK ABOUT MARKET SOCIALISM

The notion of "market socialism," once thought to be a conceptual relic of twenties and thirties, has undergone a resurrection. At least three books in English on the topic have appeared since 1989, and several others (I know of three, and there are sure to be more) are underway.[1] There is great potential here for fruitful development, but also for sterile debate. To minimize the latter, we need, for starters, some negative guidelines. Let me offer two, then proceed to a more positive proposal.

First and foremost, we should not regard "market socialism" as an oxymoron. One can be pro-market without being anti-socialist. Whatever the provocation (and I grant that it is often severe, especially now with all the pro-market hot air blowing in from the east), we should resist such identifications. Consider Paul Sweezy's account, given just prior to the 1989 upheavals, of the 13th annual "Socialism in the World" conference in Cavtat, Yugoslavia:

> Statements made by delegates from the socialist countries — from Hungary and Bulgaria — indicated a marked rightward drift. At one time you weren't really a socialist country if you didn't have central planning. Now it seems that 'true' socialism is the market. ... Really, we felt that *the only real socialists* [my emphasis] were from the Third World and the GDR, along with a few from the West (Sweezy 1989).

We should resist such language. For to identify market reforms with a return to capitalism is to concede, rather than contest, fundamental ideological ground. The identification of capitalism with the market has long been, and continues to be, a ploy of capitalist apologetics to distract attention from other essential characteristics of capitalism that are far more

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problematic, notably private ownership of the means of production and, above all, wage labor.[2]

As a second negative guideline, I would urge that we resist viewing the ongoing struggle in Eastern Europe, the Soviet Union, China and elsewhere as essentially a struggle between advocates of planning and advocates of the market. We should resist thinking that the point is to get the correct mix of plan and market. All such discussions leave out, or at least drastically underplay, what is really, I think, the central question: to what extent are specific reforms moving toward an economically efficient, morally desirable *democratic* economy?

To put the matter more bluntly, such discussions leave out the question of worker self-management/workplace democracy. Yet this question is vital. Without workplace democracy there is no mix of plan and market that will produce an optimally feasible, desirable democratic economy. With workplace democracy such an economy *is* possible — and it will be a socialist economy.[3]

OPTIMAL SOCIALISM: THE BASIC MODEL

To think about market reforms and market socialism correctly, i.e., within a democratic framework, it is useful to have before us a model of this optimally feasible, optimally desirable democratic economy. There is a tendency on the Left, in general healthy, to be skeptical of grand claims and abstract models, but I think this skepticism, at this historical moment, is out of place. I think it not only possible, but imperative, that socialists articulate an abstract model and defend a grand claim. A feasible, desirable alternative to capitalism *does* exist.

A full articulation and defense of this alternative is too large a task for a single paper, but let us take a few first steps. In this section of the paper, I will present a simple sketch of what I take to be the optimal model.[4] In the next section I will defend it against an important empirical objection. In subsequent sections I will point to some important, unresolved issues (qualifying, as it were, my claim that this is *the* optimally feasible, desirable form of socialism).

A modern economy, to be viable and desirable, must deal adequately with three fundamental problems, two identified by Marx as endemic to capitalism, the third of more recent vintage, not exclusive to centrally planned socialism, but intrinsic to it. The problems are 1) alienation of labor, 2) anarchy of production, and 3) bureaucratic inefficiency. In non-Marxian language: worker dissatisfaction, inflationary-recessionary-ecological instability, and bureaucratic overload. The solution to these problems requires the appropriate synthesis of *three* elements: democracy, planning, and the market.

Not surprisingly, the sanctioned, pre-1989 debates concerning plan and market in the Soviet Union, Eastern Europe and China sorely neglected the first element.[5] It is more than a little curious, however, the extent to which this element is still beyond the pale of most mainstream discussions of the economic restructuring now proceeding in the ex-Communist world — as if democracy were a concept with no *economic* implications or consequences. A correct synthesis must give full weight to all *three* elements.

Workplace Democracy

To take first the problem of worker alienation (and consequent low labor productivity): the appropriate remedy, on both moral and economic grounds, is workplace democracy. Enterprises should be controlled by those who work there. If citizens are deemed competent enough to elect their mayors, their governors and their presidents (to use the American designations), they should have the right to elect their bosses. In larger firms workers will need to elect worker councils to appoint the management staff, but legal authority should reside, one-person/one-vote, with the members of the collective. Enterprises should have full authority (subject only to such constraints as are regularly imposed under democratic capitalism) as to what they will produce, how much, by what means and the price at which their commodities will sell. Beyond minimum wage specifications and the requirement that the value of the capital stock be kept intact (via depreciation reserves, to be reinvested as the firm sees fit), income distribution within the firm should also be left to the enterprise itself. Ultimate authority on all these matters should reside with the workers of the enterprise.[6]

The Market

To skip over the second problem for a moment and move to the third: the counterfoil to bureaucratic inefficiency is the market. An optimally viable, desirable socialism must be a market socialism. For all its drawbacks — and these are not inconsequential — a free market remains the best mechanism available for motivating efficient production. Democratic enterprises should buy and sell, from one another and to the public, at prices determined by supply and demand. Enterprises must strive to make a profit. Indeed, workers' incomes are determined by the size of that profit. That which remains when (non-labor) costs are paid constitutes the enterprise's income, to be distributed according to a democratically determined formula.

It should be noted that the interaction here of workplace democracy and the market gives each worker a powerful incentive to work hard and efficiently, and to see to it that his/her cohorts do likewise, a far more direct incentive than those confronting workers under traditional capitalism or traditional socialism.

Democratic Investment Planning

If workplace democracy is the institutional response to worker alienation and the market to bureaucratic inefficiency, what is to be done about the complaint so much emphasized by the mainstream socialist tradition: the anarchy and irrationality of capitalist production? The tradition is right that the only antidote to capitalist anarchy is planning, but wrong in thinking that the entire economy must be planned. Perhaps the most important economic lesson to be learned from the theory and practice of both capitalism and socialism, a lesson still imperfectly grasped by many, is that *new investment* is the key to an economy's developmental dynamic, and hence its stability. What must be planned (or at least directed) under socialism is investment. To plan less is to invite irrational growth and recessionary instability; to plan more is to bog down in the bureaucratic morass.

There is a useful distinction to be made here between the *synchronic* economy — i.e., the economy in its day-to-day functioning, and the *diachronic* economy, i.e., the economy as it develops over time. On the one hand, as economists from Adam Smith on have emphasized, the market is wonderfully efficient at processing and transmitting economic information, and at providing effective incentives for minimizing production costs and for seeking out and satisfying consumer desires. For the day-to-day adjustments of supply and demand that economic rationality requires, no better instrument is available.[7] On the other hand, the market is an exceedingly *imperfect* instrument for achieving rational growth and development. No invisible hand operates to insure even Pareto optimality, much less that development be in accordance with the needs and desires of the populace. So long as private accumulation is the only feasible source of investment funds and so long as planning techniques are unavailable, then market determination of investment, for all its irrationality, is perhaps defensible, but as even capitalist countries are coming to realize (the United States more slowly than its more successful competitors), neither condition any longer obtains.

So the third basic institution of an optimal socialism is social control of investment.[8] This mechanism has two parts: the generation of investment funds and their allocation. Investment funds should be generated, not from private savings, but from taxation. (The tax should be levied on the capital assets of society; that is, each enterprise should pay a use fee for the assets under its control. This tax serves the double purpose of generating funds for new investment, and at the same time encouraging the efficient use of existing capital.) The funds should be dispensed through a network of investment banks to those individuals, collectives or enterprises who request them, and who best qualify in terms of projected profitability *and* democratically determined social priorities.

This investment mechanism simultaneously eliminates the need for private accumulation (and hence the grotesque inequalities characteristic of capitalism) and for a massive planning bureaucracy. By controlling only a relatively small — though strategically central — segment of the economy, government can bring the anarchy of the market under rein without stifling the efficiencies that market decentralization makes possible. Moreover, the political authoritarianism inherent in overall central planning is absent here, since enterprises are autonomous, and the state is not the sole employer of the work force.

It must be acknowledged that this last aspect of the model, social control of investment, is the least developed theoretically and practically. There exists a vast literature on worker self-management. The empirical record is virtually conclusive that workers can manage their enterprises at least as effectively as capitalists. (See Levine and Tyson (1990) for an exhaustive survey.) It is also clear that the market mechanism must be utilized if economic micro-efficiency is to obtain. Without a market, the difficulties of insuring that prices reflect real costs and that producer motivations be appropriate to efficient production seem insurmountable.

As for investment: it is non-controversial that a society's investment fund can be generated by taxation, and it is clear, at the theoretical level, that market signals, in and of themselves, are inappropriate to the socially optimal utilization of this fund. Externalities, the private/public dichotomy, the need to coordinate investment, and severe knowledge constraints combine to render the invisible hand an exceedingly imperfect instrument for achieving rational, democratic development. (See Schweickart (1980: 106-33) for a detailed argument.)

What is not clear, however, are the exact contours of the mechanism that will allow for A) democratic will-formation as to societal priorities, and B) a rational coordination of investments that 1) reflects these priorities, 2) incorporates accurate cost-benefit analysis, 3) gives sufficient encouragement to entrepreneurial innovation, and 4) is reasonably immune from corruption. Much work remains to be done, theoretically and practically, on the issue of democratic planning. Part IV of this article will offer a sketch of what I think would be an appropriate set of institutions and procedures. For now I wish simply to emphasize that what is being planned is *not* the economy as a whole, but only the new investment. In capitalist countries today, net investment constitutes something like 5-15% of the GNP.[9] A democratic socialist country would likely fall within the same range.

Summary: The Basic Institutions and Democracy

We have before us the basic institutions of an optimal socialist economy: workplace democracy, free market regulation of the day-to-day economy, democratic planning of new investment. These institutions may be thought of, from a slightly different perspective, as instantiations of three forms of democracy. The market mechanism is, in a real if limited sense, a democratic institution. Individuals vote their preferences with their purchases. The productive apparatus responds to consumer demand. Granted, such "consumer votes" are not equally distributed, but the market does give people (as consumers) real influence over the (production) decisions that affect them.

Workplace democracy is another form of democracy, an approximation of the direct democracy associated in the West with ancient Greece or the early town meetings in this country. The arena is small enough that individuals so inclined have the opportunity to voice their views and to persuade others. The issues under consideration are near at hand, and the results often swiftly perceived.

Social control of investment must, of necessity, be a mediated, representative democracy. The need for coherence and consistency in investment planning, and for balancing costs, benefits, entrepreneurials incentives, regional versus national interests and the like preclude the direct, popular *formulation* of the plan, although not, of course, popular input.

Taken together, the proposed structures constitute a truly *democratic* economy, a truly democratic socialism that is at once feasible and desirable.

COUNTEREXAMPLE YUGOSLAVIA?

There is a common and important objection, quite fashionable these days in Eastern European circles, to the above proposal. Simply put: Yugoslavia tried self-managed socialism, and it didn't work. Yugoslavia is in chaos. The model has been tested and found wanting.

Typically, defenders of worker-self-management point, not unfairly, to socio-political considerations in explaining Yugoslavia's dire straits, above all to the League of Communists's long monopoly on political power and/or to the ethnic rivalries and hostilities that have long plagued the country. But as Lydall (1989) and Vanek (1990) point out, there have been structural-economic factors at work as well. The Yugoslav model is indeed flawed. If we look closely, however, we see that the Yugoslav economy deviates quite far from the model I have proposed.

Vanek lists seven conditions which will, in his words, "guarantee an optimal democratic and self-managed economy" (1990: 182-83). Yugoslavia has violated all seven. Let me focus on the four that seem most crucial.[10]

1. *Full democratic self-management of independent, accountable and viable firms*. In Yugoslavia "in practice most directors, especially those of large and medium-sized enterprises, are chosen by local politicians" (Lydall 1989: 112). Moreover, firms losing money are regularly bailed out.
2. *Selling and buying of all goods in competitive markets*. The Yugoslav market has been badly distorted by monopolistic price fixing, arbitrary governmental price controls and an unrealistic foreign exchange rate.

3. *Free exit and entry of firms*. In Yugoslavia such freedom is virtually nonexistent. Failing firms are not allowed to go under. No structures exist to promote the formation of new self-managed firms. Indeed, groups of individuals who wish to form such firms cannot legally do so. (This was the case until very recently.)
4. *Hiring of capital by firms at scarcity-reflecting and equal real interest rates*. In Vanek's judgment, this has been Yugoslav economy's greatest error. For a long time firms paid negative real interest rates, so they borrowed excessively. In addition, much investment was financed through retained earnings, making rich firms richer and poor firms poorer.

In terms of the three features of the model I have proposed, we see that 1) firms have not been truly self-managed, 2) the market has not been free, and 3) the investment mechanism bears little resemblance to what I have suggested.

At the same time it should not be denied that Yugoslavia has come closer than any other country to date at approximating what I have claimed to be the optimal model. But the appropriate lesson to be drawn from the Yugoslav experience is *not* that democratic socialism does not work. The appropriate conclusion is the one Vanek draws:

> Yugoslavia, which entered so courageously and alone under the most difficult conditions upon the path of economic democracy, in reality performed so well (at times the best in the world) despite fundamental design imperfections ... that any country, socialist or other, which will try that path and avoid these imperfections ... should do exceedingly well and has the best chance to move forward out of the universal crisis of the late twentieth century (1990: 182).

DEMOCRATIC INVESTMENT PLANNING

Let us return to the question of democratic investment. In this section I will sketch a set of institutions that I think satisfy the basic criteria for an optimal mechanism. In the final section we will take up an important complication.

Investment Fund Generation

The investment fund should be generated by taxing the capital assets of society. The tax should be considered a use-tax, a return to society for access to capital. The tax rate should be flat, and adjusted annually by the national legislature, so as to bring the supply of investment funds into line with demand. This tax rate is in effect the national interest rate, since any firm that receives new capital from the investment fund must pay the use-tax, at that rate, on the new capital. Altering this tax rate has the same impact on investment as altering (under capitalism) the interest rate. Increasing the tax rate simultaneously increases the supply of investment funds and decreases demand. Decreasing the tax rate does the opposite. (It is worth noting that this tax gives the government far more direct and immediate control over the size of the investment pool than is available to a capitalist government operating through investment tax credits and interest rate manipulations.)

Investment Mechanism (One)

Now that funds have been collected, how will they be dispersed? Here is one scenario, in many ways the simplest. Let us designate it IM(1) — Investment Mechanism (One). Each community in the country will have one or more investment banks. The collective investment fund will be distributed on a per-capita basis to each community (that is to say, if community A represents X% of the population, its banks will receive X% of the investment fund).[11] How this share is to be apportioned among the community banks shall be decided by the community.

Consider now a specific bank. Existing firms from the community, as well as groups wishing to form new firms in the community, apply for investment grants. Since the use-tax must be paid on the grants, applicants must expect to make at least that rate of return on their investment. Grant officers examine the applications. If there is an excess of applicants, awards are made to those that appear most promising. If there is a shortage of applicants, the excess funds are returned to the central fund, to be rechanneled to where demand is greater. Grant officers shall have their personal incomes tied to the outcomes of the grants they issue, so that they have a stake in making responsible decisions.[12]

This simplest of investment mechanisms mimics precisely investment under capitalism, and hence should be as allocationally efficient. It differs from capitalism most significantly in its *generation* of investment funds. Interest and prospective dividends are not used to entice investment funds from wealthy individuals. Instead, the productive capital of society is assessed directly. The use-tax on capital substitutes for the interest and dividends paid out to private individuals under capitalism, who must then be cajoled, via more interest and dividends, into parting with those sums and reinvesting. In our model the capitalist "middleman" is eliminated. This effects a major gain in overall equality, and also in macroeconomic stability, since the economy is no longer hostage to the collective "animal spirits" of investors.

What IM(1) does not do, however, is give society at large any *positive* control over investment. Though capitalist inequality and anarchy are significantly mitigated, overall economic development remains the unplanned, uncoordinated outcome of the investment decisions of individual enterprises. Political control of investment is purely formal. The decision as to the tax rate is made by elected officials, but the sole criterion is the *post-*

factum equality of investment supply and demand. Grant officers (the only other public officials involved) evaluate proposals solely in terms of the bottom line.

Investment Mechanism (Two)

Some positive control can be effected by the addition of another agency to each local investment bank. Recall that if there is insufficient demand for the locally allocated funds, they are returned to the center. It would thus seem reasonable that a community would endeavor to encourage the formation of new firms, so as to keep the allocated funds at home. Let IM(2) be IM(1) with an entrepreneurial division added to each bank. (It should be noted that such a division is a key feature of exceptionally successful cooperative network in Mondragon, Spain — cf. Whyte and Whyte (1988: 71-75) and Morrison (1991: 111-34) for details.) This division would be charged with keeping track of new business opportunities and with providing technical expertise to existing firms seeking new ventures and to new groups wishing to start up an enterprise, helping them with market surveys, with their grant applications and the like. It might even go so far as to recruit prospective managers and members for new enterprises. Since new firm creation will be stronger in a democratic socialist economy with IM(2) than in one with IM(1), such an economy should be better situated than an IM(1)-economy regarding such potential problems as unemployment, monopolistic tendencies and income inequalities among workers of equal skill, problems to which IM(1)-socialism (like real-world capitalism) is prone. With IM(2) a democratic socialist economy would be more likely than an IM(1)-economy *or* a capitalist economy to be a full-employment, fully competitive economy.[13]

Investment Mechanism (Three)

To gain a measure of qualitative control over the dynamic dimension of the economy, however, additional measures must be taken of a more directly political nature. The supplemented mechanism is IM(3). Negative measures are not particularly problematic. Such measures are commonly undertaken in a democratic capitalist economy (almost always over the vigorous objections of the National Association of Manufacturers, local Chambers of Commerce and other industry organizations). If the nation (or a local community) wishes to prohibit or discourage the production or use of specific products, or if it wishes to set standards governing the use of certain technologies, the appropriate bills are introduced to the legislature, public hearings are held, a vote is taken. If the legislature is unresponsive, referenda may be held. It seems clear that a democratic socialist society should avail itself of the full range of political mechanisms currently available, modifying and supplementing them so as to make the political process ever more responsive to popular input. It should also be clear that a socialist society with an economy such as proposed here is much advantaged in comparison with capitalism in effectively overseeing local businesses: worker-managed firms will not run away to greener (lower-wage, lesser environmentally regulated) pastures, nor need a region worry about creating a "bad business climate" that will not attract capital.

As for *positive* direction other mechanisms are required. We should distinguish between two sorts of endeavors society might like to promote, those capital investments related to the provision of free goods or services, e.g., infrastructure, possibly schools, hospitals, urban mass transit, basic research facilities and the like, and those investments intended to be money-making, but, which, because of positive consumption or production externalities, are more valuable to society than their profitability indicates.

Two issues arise with respect to both sorts of endeavors: *deciding* which projects to promote and *funding* those projects. The decisions themselves should be made democratically, by the legislatures at the appropriate levels. Investment hearings should be held (as budget hearings are currently held); expert and popular testimony should be sought. The legislature should then decide the amount and nature of capital spending on public goods and which areas of the cooperative sector it wishes to encourage. Grants to pay for public expenditures should be made free of charge. "Encouragement grants" to the cooperative sector should carry a lower use-tax rate than the national rate (perhaps for a finite period only). Total amount and terms would have to be decided by the legislature, since these factors operationalize the degree of encouragement society wishes to give.

Allocation of IM(3) Funds

Funding to implement these decisions should come from the same tax-generated investment fund as all other capital investment. The allocation of the funds should proceed something like this.

First, the national legislature decides, in accordance with the democratic procedures described above, on public capital spending for projects that are national in scope, e.g., an upgrading of rail transport. Funds for these projects are transferred from the investment fund to the appropriate governmental agency that will oversee the project, e.g., the Department of Transportation. The rest of the investment fund is allocated to the states on a per-capita basis.

The national legislature may also decide that certain types of projects should be encouraged, and, accordingly, specify the amount of funding to be made available and the tax rates for such projects.

State legislatures now make similar decisions: on state-wide public capital spending, and on encouragement projects. Funds for the former are transferred from the state portion of the investment fund, the remainder being allocated per-capita to the communities, which then make the decisions about local public investment and their own encouragement grants.

Democratic decisions having been made at the national, state and local level, the community investment banks now allocate their funds. Public capital spending has already been deleted, so they have before them the remaining funds together with national, state and local encouragement guidelines. The banks now make funds available to existing enterprises and new groups in accordance with these guidelines. If a firm wants to undertake production of an encouraged product, it may apply for a grant carrying a reduced tax rate. Other firms apply for grants at the regular rate. Grant officers evaluate proposals and make awards, selecting as best they can the mix of projects that will maximize the long-term well-being of their community.

Note, although local banks have the final authority on grant allocations, they are neither encouraged to nor penalized for offering the reduced-rate grants. If too few firms are willing to undertake an encouraged project, the legislature must reevaluate the following year, perhaps lowering the tax rate further, perhaps deciding the project is infeasible.

Optimality of IM(3)

In IM(3) as in IM(1), if there are too few applicants for available funds, the excess is returned to the national pool, to be redistributed. In IM(3) as in IM(2), entrepreneurial divisions may be expected to provide guidance to new collectives wishing to go into business and to firms wishing to retool or expand into a new area of production.

It is my contention that IM(3) approaches the optimality conditions for democratic investment laid down in Part II. There it was proposed that an optimal investment mechanism should allow for A) democratic will-formation as to societal priorities, and B) a rational coordination of investments that 1) reflects these priorities, 2) incorporates accurate cost-benefit analysis, 3) gives sufficient encouragement to entrepreneurial innovation, and 4) is reasonably immune from corruption.

Priorities under IM(3) are determined democratically. Public investment and the encouragement grants reflect these priorities. The incomes of both those applying for grants and those awarding them are linked to economic success, so all parties will be striving for accurate cost-benefit analysis. Both existing enterprises and enterprises in formation have access to investment grants (and are provided with technical assistance), so innovation is encouraged. Finally, grant officers and other officials of the local investment banks are employed by their communities, and hence are democratically accountable.

The one area seemingly unaddressed by IM(3) is *rational coordination* of investment. This, however, may not be as large a problem as might be supposed, for we may assume that all local banks are linked electronically, and given access to each other's grant decisions. Thus potential overinvestment or underinvestment in a particular area may be spotted early on, and corrective action taken.

OWNERSHIP OF PRODUCTIVE ASSETS

Let us conclude by considering a philosophical issue of considerable practical import. *What should be the nature of productive asset ownership in an ideal socialist society?* The model I have proposed embodies implicitly some assumptions as to how this question should be answered. Let me make at these assumptions explicit, and indicate alternative possibilities.

It is useful to begin by underscoring the important distinction between two historically related institutions, both of which are essential components of capitalism: private ownership of means of production and wage labor. Consider: it is perfectly possible to abolish the latter without touching the former, since property ownership, even under capitalism, does not, in and of itself, entail the right to hire laborers (any more than it carries with it the right to purchase slaves). Wage labor can be prohibited by a simple law, such as the constitutional amendment Vanek proposed to the government of Malta:

> Wherever and whenever two or more people work together in a common enterprise, it is they and only they who appropriate the results of their labors, whether the positive (products) or the negative (costs or liabilities), and who control and manage democratically on the basis of equality of vote the activities of their enterprise. These workers may or may not be owners of the capital assets with which they work, but in any event such ownership does not impart any rights of control over the firm (Vanek 1990: 203).

It is my contention that the *primary* concern of a democratic socialist society (at least one with relatively well-developed productive forces) should be wage labor: its abolition, or at minimum, its severe restriction. The young Marx was right to see alienated labor (wage labor) as the constituting core of capitalism.[14]

Before concerning itself with the nature of ownership, a democratic socialist society should first decide whether wage labor should be permitted — *any* wage labor. Principle is on the side of abolition, but pragmatic considerations might argue for replacing the number two in the above amendment with a somewhat higher number. That is to say, a democratic socialist society might want to permit a limited amount of wage labor, despite its nondemocratic character. The model I have proposed, largely for the sake of simplicity, takes the abolitionist line.

Having settled the question of wage labor, a democratic socialist society must face the issue of asset ownership. Who should own the capital assets of the cooperative enterprise? Among the possible candidates: those who work there, the state, citizen-shareholders, society at large. Our model has implicitly endorsed the latter. *Workers* do not own their enterprise. They must pay a use-tax in return for their access to a portion of society's assets. Nor does *the state* own enterprise assets. The revenue generated by these assets is specifically earmarked for new investment. It is not part of the state's operating budget. No state official or employee receives income from these assets. (The state's operating budget should be financed by some mix of personal income, personal property and personal consumption taxes.) Since no provisions have been made for citizen-shareholders in our model, it seems right to assign ownership (if such an assignment is necessary) to society at large.

This social ownership manifests itself in certain features of our model. Since neither workers nor the state nor citizen-shareholders own the enterprise, none of these agents may sell it. Nor may workers allow the value of the assets under their control to deteriorate in value. Workers are required by law to maintain depreciation reserves. (They may spend these reserves on any capital asset they choose, but the total value of the assets — adjusted for inflation — must be kept intact.) In the event that a firm goes bankrupt, the net assets, if there are any, revert to the community. Movable capital can be sold, the proceeds added to the local investment fund. Buildings can be turned over to other existing or potential firms, which, of course, must pay the use-tax.

I have made explicit the ownership relations implicit in our model, but the normative question remains. Our model precludes worker or citizen ownership of enterprise assets. The question is: should it? What is at stake here? Might not other ownership arrangements be more effective in promoting economic efficiency, dynamism and/or rationality?

It should be noted that the highly successful Mondragon network *does* allow worker ownership, in the form of internal capital accounts to which a share of the reinvested profits are added, on which interest is paid, and which must be liquidated when a worker leaves the firm. It should also be noted that various transition schemes being proposed for Eastern Europe involve the issuing of shares of the capital assets of society to its citizens. (See, for example, Feige (1990).)

This is not the place for a detailed analysis of such alternatives, but a few observations are in order. First and most importantly: in light of the distinction between private property and wage labor, I would maintain that most of these schemes are compatible with an economy that may rightly be called *socialist*. If wage labor is eliminated, and if there is substantial social control over investment, I think a society may rightly be called socialist *whatever* ownership scheme is adopted. To give the matter a different twist from Sweezy's, I would argue that it is not planning that qualifies an economy as socialist, nor the presence or absence of the market. What qualifies an economy as socialist is democracy — *economic* democracy:

ideally, workplace democracy coupled with democratic planning of investment.

This is not to say that it makes no difference which form of asset ownership is adopted by a democratic socialist society. I remain convinced that the model I have outlined is optimal on both economic and ethical grounds. Let me say briefly why, then offer a caveat or two.

Let us turn the question around. Why should there be any private ownership of (shares of) an enterprise's collective assets? More specifically, why should there exist arrangements by which mere ownership entitles one to income?

The standard economic argument against a worker self-management economy that does not include worker or citizen ownership (actually, this is commonly, though erroneously, put as an argument against worker-self-management *per se*) is that such a system will necessarily utilize its capital non-optimally. For, it is said, workers will tend to consume a greater share of their enterprise's profits than is optimal, since the full fruits of reinvestment will not be available to them. Such gains as accrue will be available to them only while they are working at that enterprise, and not when they move elsewhere or retire.[15]

My brief answer to this argument is that real-world uncertainties make an infinite time-horizon a meaningless concept. When it comes to investment decisions, Keynes's observation cannot be much off the mark:

> A large portion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation. ... Enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus, however candid and sincere. Only little more than an expedition to the South Pole, is it based on an exact calculation of benefits to come (Keynes 1936: 161-62).

So I find the theoretical argument for private property rights under socialism wholly unpersuasive. There are, however, two practical arguments that have more force.

The first applies specifically to the issue of *transition*, transition from a centrally planned economy to a democratic socialist one. If our "ideal model" were implemented by simply turning firms over to their workers, serious inequalities would result, since some firms would be much more viable than others, and some would not be viable at all. So it is often argued — e.g., by Jeffrey Sacks (1990) — that it is better to privatize productive assets and give each citizen a diversified, portfolio of more or less equal value.

On the face of it, this is not an unattractive idea, in that this scheme would give every citizen, at least initially, an income source independent of her labor. However, the practical difficulties inherent in implementing such a scheme coupled with the danger of eventual concentration of wealth seem significant. If the point is to give everyone some guaranteed income, why not do so directly?

An alternative transition scheme that is fully compatible with our model is Vanek's: when state assets are turned over to workers, the initial valuation of the firm's capital assets, on which it will have to pay the use-tax, should reflect the firm's viability (Vanek 1990: 190-98). Here, too, however, there would seem to be major practical difficulties in implementation. It is not clear to me that there exists any "clean" answer to the transition problem.

Nor am I certain that there exists a clean answer to the other major argument for worker and/or citizen share ownership (and, for that matter, the proliferation of other private financial instruments): such arrangements give firms alternative channels to investment capital. Such arrangements are desirable, it is said, for at least three reasons. More capital can be mobilized this way, since voluntary investment can supplement the tax-generated investment fund. Firms have more flexibility, not being confined to bank financing. The potential tyranny of political authorities is undercut. Against these positive arguments must be set two negative considerations: 1) such arrangements will tend to exacerbate inequality, since the magic of compound interest can take hold, and 2) the stability and democratic control of the economy will be reduced. Are the advantages sufficient to outweigh the disadvantages? To repeat: I do not think there is a clean answer to the question. I think we will know more in a few years.

We will know much more than we do now in a few years about many things. If a reversion to capitalism turns out to be as difficult as it now appears to be, the societies currently in transition may be compelled to embark on some innovative experiments. We will know better in a few years what works and what doesn't — and for whom. It would be foolish to predict that we will soon have before us a working example on a national scale of an optimally desirable, feasible democratic socialism, but I think we might see some experiments that the smart money today — predicting capitalism everywhere — will find surprising.

NOTES

1. Already in print: Miller (1989), LeGrande and Estrin (1989), and Brus and Laski (1989). Underway as of this writing: a collection of essays presented at the Radical Scholars and Activists Conference (Chicago 1990) edited by Justin Schwartz, a collection from the conference "Perspectives on Market Socialism" (Berkeley 1991), edited by John Roemer, and my own contribution, Schweickart (forthcoming).

2. To the reader who observes (correctly) that wage labor is itself a market relation, I would put my point another way: we should sharply distinguish the commodity market from the capital market and the labor market, and underscore that the latter two are the more pernicious. This commodity/capital/labor formulation is technically more accurate, but I find the market/private property/wage labor trichotomy more effective as a rhetorical strategy.

3. I will contend in Part V that workplace democracy is more central to the animating spirit of a desirable socialism than is public ownership of the means of production, so workplace democracy is a sufficient condition for calling an economy socialist. I will also claim that social ownership of the means of production is the optimal arrangement.
4. For the full argument, see Schweickart (forthcoming); cf. Schweickart (1980) for an earlier version.
5. Two Soviet economists have recently called attention to this. "The 'market system' of state socialism can be considered more progressive than the 'administrative-command system' of state socialism only within the framework of their common foundation: this actually refers to alternative strategies of the state (rather than society) that despotically determines one or another measure of the market and state regulation" (Radaev and Auzan 1990: 70).
6. I am oversimplifying somewhat to avoid cluttering the sketch. Legislatures at the local, state and national level are as free as under capitalism to correct for market imperfections. They will have, as we shall soon see, additional power with respect to investment planning. A case can also be made (which I will not attempt here) for requiring that *all* profits (net the use-tax and depreciation set-aside) be returned to workers as income. These and many other details must be passed over here.
7. I am presuming here conditions of at least moderate abundance. Under conditions of serious scarcity, a rationing scheme to insure the basic needs of all the population might be preferable.
8. I will use the terms "social control of investment" and "democratic investment planning" interchangeably in this article, even though they are not strictly synonymous.
9. Gross capital formation in the United States for the years 1970-1984 averaged 18.1% GNP, a figure that includes all nonmilitary public, business and household capital construction and purchases (including residential housing but excluding consumer durables). The average for 14 other developed capitalist countries was 23.3% (Lipsey and Kravis 1987: 31). Our model's capital-assets use tax finances only public and cooperative investment (not residential housing), and only "new" investment, i.e., that which cannot be financed from an enterprise's depreciation reserves. If we subtract from gross capital formation residential housing (roughly a quarter of gross capital formation in the United States) and the investment financed from depreciation reserves, the 5-15% figure seems reasonable.
10. The following analysis is based on Vanek (1990), with a cross check to Lydall (1989), who is far less sympathetic to the Yugoslav experiment than is Vanek. For the record, the three factors Vanek cites that I will pass over are: absence of monopolistic tendencies, existence of support structures, and equal access to technology for all firms.
11. In practice there would probably have to be some deviation from strict per-capita equality because of disparate regional needs and investment opportunities. Such deviations would have to be decided by the legislature.
12. One simple mechanism: an individual officer receives a fixed percent of all the grants she makes within the community, a somewhat lower percent on those funds returned to the center, but has deducted a percent of all "bad" grants, i.e., those for whom the use-tax cannot be paid.

Neither this mechanism nor any other is wholly immune from abuse or corruption, but the same can be said of all real-world capitalist mechanisms (as we see so vividly in the newspapers everyday). All economic systems depend, to an important degree, on a level of moral probity. I think it reasonable to suppose that the greater egalitarianism in the society at large, and the greater democratic accountability, will encourage a better ethical climate than one encounters today. I see no reason to think it would be worse.
13. I make this claim without offering much backing. Space constraints preclude all but the most cursory comparison of capitalism with the model(s) of socialism under consideration here. The reader can probably surmise the main lines of the argument. For a full treatment, see Schweickart (forthcoming).
14. "The relation of the worker to work also produces the relation of the capitalist (or whatever one likes to call the lord of labor) to work. *Private property* is therefore the product, the necessary result, of *alienated labor*. ... Although private property appears to be the basis and

cause of alienated labor, it is rather a consequence of the latter" (Marx 1966: 105-106). [Marx's emphasis.]

15. For an early formal presentation of this much-repeated argument, see Furubotyn (1974). For an analytical comparison of a model like my own with a Mondragon-style model, see Gui (1984).

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