Market Socialism or Participatory Planning?
Pat Devine

DOI: 10.1177/048661349202400305

The online version of this article can be found at:
http://rrp.sagepub.com/content/24/3-4/67

Published by:
SAGE
http://www.sagepub.com

On behalf of:

Union for Radical Political Economics

Additional services and information for Review of Radical Political Economics can be found at:

Email Alerts: http://rrp.sagepub.com/cgi/alerts
Subscriptions: http://rrp.sagepub.com/subscriptions
Reprints: http://www.sagepub.com/journalsReprints.nav
Permissions: http://www.sagepub.com/journalsPermissions.nav
Citations: http://rrp.sagepub.com/content/24/3-4/67.refs.html
Market Socialism or Participatory Planning?

Pat Devine

ABSTRACT: This paper consists of a critical analysis of the British school of market socialism and a discussion of participatory planning as an alternative model for a socialist economy. It concludes that market socialism's claim to combine efficiency with socialist objectives is incoherent and that, unlike market socialism, models of participatory planning have the potential to contribute to the renewal of the socialist project.

INTRODUCTION

Recent experience has given rise to contradictory conclusions on the desirability of constructing well-developed models of what a socialist economy might look like. Brus and Laski (1989), based on their experience of unsuccessful attempts to elaborate normative models of what ought to emerge from the process of reforming the administrative command systems of the Soviet Union and Eastern Europe, have come to doubt the usefulness of any attempt to define a desirable future economic system. Socialist theorists from the West, on the other hand, tend increasingly to argue that the experience of the ex-communist countries makes it essential to be quite explicit about what is meant by socialism, particularly its economic organization.

Thus, Miller (1989) argues that, however justified Marx's position of rejecting utopian system-building may have been,

it is no longer either intellectually defensible or politically advantageous to maintain it. Socialism is no longer an unsullied ideal: faute de mieux, people will identify it with the unattractive form of statism that has emerged over the last half-century in Eastern Europe ... The working class has a substantial stake in contemporary capitalism, which has provided it both with relative economic prosperity and with highly valued personal and political freedoms ... A viable socialist programme must convince a broad constituency that these benefits can be preserved and others added to them in a socialist society - and this requires something more than airy anticapitalist oratory (p. 6).

Similarly, Breitenbach, Burden and Coates (1990) believe that,

if people are to be won over to socialist politics, they will need to be able to see in advance what socialism could be like ... one reason for the

Department of Economics, University of Manchester, Manchester M13 9PL.
I should like to thank Fikret Adamant, Elena Lieven and the Review's referees for comments on an earlier draft of this paper.
contemporary weakness of the European Left is its inability to specify in sufficient detail what its alternative vision entails, and how that vision can deal with the many complexities of life in modern societies (p. ix).

I share the view that discussion of well-developed models of a socialist economy is essential. However, I do not think it is useful to develop general equilibrium models of a "socialist" economy that can be compared with general equilibrium models of a "capitalist" economy in terms of Pareto efficiency. All such models are vulnerable to the Marxist and Austrian critiques based on recognition of the dynamic, non-equilibrium character of economic activity in any real world context of time and uncertainty. By assuming uncertainty away, they impart a bias toward market solutions. However, this is in no way an argument against theoretical and historical analysis. Both are essential if we are to gain a sense of the laws of motion, or modus operandi, of economic systems — those that have existed or still do exist, and those that might emerge or be created in the future. Furthermore, models of a possible future socialist economy that do not take account of accumulated theoretical and historical experience are unlikely to be credible, even though, of course, the conclusions drawn from that experience will always be influenced by the values of those constructing the models.

This paper is in two parts. Part one considers recent work falling broadly under the heading of market socialism. Interestingly enough, market socialism has been largely, though not entirely, abandoned by reformers who previously advocated it as a possible way forward in the (ex-)communist countries. The reasons for this evolution are examined first, as a preliminary to an evaluation of what Blackburn (1991) calls the "British school of market socialism," which developed in the 1980s following the publication of Nove’s influential work on "feasible socialism" (Nove 1983). This evaluation concludes that market socialism is a contradictory general model: it is based on enterprise autonomy yet would like enterprises to take account of wider social considerations; it involves atomistic decision-making, yet seeks to contain the market uncertainty necessarily associated with it. Elson’s concept of the "socialization of the market" (Elson 1988), which is an attempt to take account of these contradictions, is then discussed. It is closely related to market socialism but seeks to embed market transactions in a set of interactive social processes. Part one ends by arguing that the issues at stake in discussion of models of a socialist economy can be clarified by distinguishing between market exchange and market forces, and by focusing on the extent of participation envisaged.

Part two of the paper is concerned with models of a socialist economy based on participatory democracy. It starts with a discussion of Albert’s and Hahnel’s model of "participatory economics" (Albert and Hahnel 1991b) and then restates the essence of my own model of democratic planning based on
"negotiated coordination" (Devine 1988). Certain aspects of that model are then clarified in response to criticisms that have appeared since it was first published. The paper concludes that, unlike market socialism, models of participatory planning have the potential to contribute to the renewal of the socialist project.

**PART ONE: MARKET SOCIALISM**

*Market Socialist Thinking in Eastern Europe*

After Lange's contribution to the socialist calculation debate in the 1930s (Lange 1938), the concept of market socialism next surfaced among economists seeking reform of the administrative command system in Eastern Europe, the best known in the West being Kornai and Brus. In the summer of 1956 Kornai headed a group that put forward proposals anticipating the design of the Hungarian New Economic Mechanism which was implemented in 1968 (Kornai 1990). In 1961 Brus published a discussion of the role of the market in a socialist economy (published in English in 1972) in which he argued for central planning to be combined with, or rather to be implemented through, a regulated market mechanism (Brus 1972). Both authors subsequently concluded that their earlier belief in the possibility of combining plan and market had been naive (Brus and Laski 1989; Kornai 1986). Why?

The earlier models of market socialism in Eastern Europe allowed decentralized enterprise decisions in product markets but not in factor markets. The central planning authorities were to concern themselves with macroeconomic and major investment decisions, while the use of existing capacity and minor investment was to be the responsibility of enterprises. This combination was intended to promote efficiency in the use of local knowledge, available only at the level of the enterprise, while freeing the center to decide on the allocation, or more precisely the reallocation, of society's resources considered as a whole. Planning the overall pattern of use of the means of production was seen as the defining characteristic of socialism as an economic system. It was to make this possible that socialists saw the common/public/state ownership of capital as necessary.

This model has now been decisively rejected by both Kornai and Brus. Using the definition "market socialism = state property + market coordination," Kornai (1990) asserts that historical experience has shown market socialism to be an incoherent concept — it has become clear, he argues, that "[t]he market mechanism is the natural coordinator of private sector activities" (p. 58, emphasis added). Kornai has abandoned socialism and now passionately advocates a "free" economy based on private property and private capital accumulation.

Brus and Laski (1989) describe the combination of central planning and regulated product markets as a "flawed model." The flaw consists primarily
in the absence of a capital market, the main consequences of which, they argue, are an overbearing role for the center and the inhibition of dynamic competition. While the first consequence may be due to the particular circumstances of countries emerging from decades of monolithic statism, Brus and Laski suggest that the inhibition of dynamic competition, due to a systemic problem of entrepreneurship, may be of more general relevance. This encourages them to investigate the properties of what they call "market socialism proper … a consistently reformed system, which although still based on state ownership in one form of another includes a capital market along with the product and labour markets" (p. 105).

In this consistently reformed system investment decisions are made by enterprises on the basis of their expectations of future profitability. Since enterprises act independently of one another, yet the outcome of each enterprise’s investment decision depends on the aggregate effect of all their decisions, Brus and Laski recognize that we are in a world, all too familiar from the experience of capitalist economies, of systemic uncertainty, cumulative investment behavior and instability. They discuss the policies that would be available to the state in seeking to stabilize the level of economic activity and maintain full employment in their market socialism proper, and conclude that the problems confronting policymakers would be effectively the same as those under capitalism.

Finally, Brus and Laski raise the obvious question as to whether market socialism proper, "requiring full independence of firms and true entrepreneurship" (p. 132), is compatible with generalized state ownership. Strictly speaking, they argue, it is not, but the following compromise is suggested: "the renunciation by the state of all interest and involvement in enterprises’ activity, except the return on the growth of assets" (pp. 135-36). If this could be achieved in practice, they suggest, there should be no difference in principle between the behavior of a socialist and a corporate capitalist manager. Both would have the same objective function, would be assessed by the same criteria and would be motivated by the same incentive package.

However, Brus and Laski consider the real problem to arise with respect to entrepreneurship:

even with the appropriate socialist motivation the problem of entrepreneurship may remain unresolvable without anchoring responsibility for losses in personal stakes. Fully fledged market conditions resemble … the game of poker, which can hardly be played without risking one’s stake. Thus it is not so much the degree of personal competence, dedication, motivation, and taste for innovations, as the conditions forcing a principal to weigh risks against responsibilities in a real world of uncertainty, which seem to draw the line distinguishing entrepreneurial from purely managerial behaviour" and, inevitably, "the true principals … are nowhere to be found in the anonymous state institutional structure (p. 142).
As a possible way of dealing with this issue, Brus and Laski review various institutional forms consistent with state ownership — state holding companies, self-managed firms, contracting or leasing out. Their conclusion is that "the chances of bringing the behaviour of state enterprises closer to the requirements of an effective market mechanism are the greater the further such enterprises are removed from state ownership in the traditional sense" (p. 146) and this brings them back to the question: why have state ownership at all? Although they adduce some possible arguments for state ownership, and do not regard the case for it as inevitably lost, their overall judgment is that "the pure logic of the fully fledged market mechanism seems to indicate the non-state (private) enterprise as the more natural constituent of the enterprise sector" (p. 149).

The British School of Market Socialism

Although the discussion of market socialism so far arises from the particular historical experience of attempts to reform administrative command planning systems, three issues of general relevance emerge for any system in which the coordination of economic decisions occurs primarily through the market mechanism. These relate to (1) the ownership status of enterprises, (2) the locus of responsibility for investment decisions, and (3) the role, if any, envisaged for planning. The three are, of course, interdependent. If enterprises have full responsibility for investment decisions (subject only to contractual financial conditions), then whatever their de jure status they are de facto private (in the sense that decisions will be motivated by the sectional self-interest of the particular individuals or groups making them), and planning involving the ex ante coordination of interdependent decisions will be absent.

In the discussion of the British school of market socialism which follows (based on the models of Estrin/Estrin and Winter, Miller, Nove and Breitenbach et al.), particular attention is given to how these three issues are dealt with.

(1) The ownership status of enterprises

The favored form of enterprise in the models of market socialism under discussion is some form of worker cooperative, with financial ownership usually separated from control over production, so that enterprises borrow or hire capital from an investment agency (Estrin 1989b; Miller 1989). However, large-scale state owned and small-scale private or self-employed enterprises are also often envisaged (Breitenbach et al. 1990; Nove 1991).

(2) The locus of responsibility for investment decisions

In Estrin’s model, self-managing worker cooperatives undertake production and bear the risks, while entrepreneurial/capital market functions are
vested in ... competing holding companies, whose primary task would be to manage social capital ... I envisage the holding companies as first and foremost profit-maximizing institutions ... empowered to create entirely new self-managed firms ... [with] the capacity to transfer social capital out of low productivity uses, even against the declared opposition of the workers' council in the firm (Estrin 1989b: 187-89).

Given the central role played by holding companies in this model, their ownership status is crucial. Estrin suggests that the self-managed firms themselves might be the shareholders, along perhaps with the government.

Miller (1989) proposes that enterprises should be responsible for investment decisions, obtaining their capital from "a plurality of investment agencies" which would have a dual remit. On the one hand they would

pay considerable attention to the expected profitability of enterprises ... to that extent, their function would be to simulate a capital market by allocating capital among existing enterprises where its marginal returns are greatest. This aim would, however, be balanced against others ... enterprise creation, in response either to employment needs or to market opportunities ... investment in each area should be sensitive to local needs - to the need to provide a balanced range of employment, to environmental needs, and so forth. These considerations preclude the banks from acting as simple profit-maximizers" (pp. 310-11).

Miller's view that the investment agencies or banks should not be simple profit-maximizers contrasts with that of Estrin and leads him to suggest that they should probably be publicly owned bodies. In Nove's original model of feasible socialism, major investments of structural significance would be the responsibility of the central planners, but he argues that most investment would involve only marginal adjustment and would be the responsibility of enterprise management, financed out of retained profits or bank credit. Enterprise investment might be guided, however, by subsidies or credit direction, in order to take account of externalities or other socially desirable considerations (Nove 1983). This original approach is essentially retained in the second edition (Nove 1991), with the uneasy addition of "[s]ome sort of capital market" (p. 239), reflecting, perhaps, a similar evolution in Nove's thinking to that of Brus and Laski.

Finally, Breitenbach et al. (1990) envisage a range of government industrial banks that would provide capital equipment for state enterprises and cooperatives on lease. These banks would operate within clearly defined guidelines. In relation to state enterprises,

[they would be obliged to ensure that funds requested were for purposes generally consistent with objectives defined in the National Plan. Requests
would also have to be in line with the management plan of the particular enterprise which would already have been agreed with its appropriate Planning Board (p. 51).

In relation to cooperatives, which would not need to agree to a management plan with the Planning Boards, the banks would have greater discretion, but there would be "a general government remit and sometimes specific guidelines from the Planning Boards to ensure that banks funded cooperative ventures of an innovative, financially risky nature or in the public interest for some other reason" (p. 51).

I have set out the position of these four models on investment in ascending order of the importance they attach to considerations other than profitability. Thus, Estrin allows no other considerations. Miller seeks a balance between expected profitability and wider considerations. Nove assigns responsibility for major investment decisions to the central planning authorities and allows for investment subsidies and direction of credit in relation to minor investment in exceptional cases. Breitenbach et al. envisage investment by state enterprises as having to be consistent with both national and sectoral planning objectives. The locus of responsibility for investment decisions moves steadily away from the enterprise toward a more or less negotiated interdependence between the enterprise and representatives of wider social considerations. However, the full picture with respect to the balance between enterprise independence and wider social interdependence in each model will only be clear when the role envisaged for planning is taken into account.

(3) The role of planning

Estrin and Winter (1989) recommend indicative planning, particularly in relation to investment, in order to "improve the functioning of markets, without threatening to displace them as the principal allocation mechanism" (p. 119).

Their diagnosis of the inadequacies of markets in relation to investment decisions is compelling:

the market may fail to provide sufficient or correct information to the investor about the future. It will be remembered that prices are the main source of information in a market ... The capital market is also a place where the 'anarchy of the market' may be particularly costly ... This suggests that there could be significant gains from the state using an indicative plan to co-ordinate investment in particular sectors or products ... Finally, it is obvious that the repercussions of investment decisions can be large for people far removed from the decision-making process ... Investment decisions today shape the structure of production tomorrow, determining what the economy will be able to produce, what skills will be needed, and where workers will be required to live ... It is choices of this sort, each taken on sensible grounds from the perspective of the decision-
maker but ignoring the cumulative effects on communities, regions, and the industrial structure of the economy, that call for public intervention ... Another serious deficiency of the market system is that price signals may need to be exaggerated in order to stimulate the desired adjustments ... the deviation of prices from their long-run levels is an important issue because it undermines the costless signalling function, which we previously viewed as one of the principal advantages of the market mechanism ... 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 (pp. 109-12).

The indicative planning that Estrin and Winter advocate in order to deal with this formidable set of problems is

a decentralized, and preferably democratic, process of consultation and discussion concerned exclusively with plan construction and elaboration. The process provides a forum in which information can be pooled and in which diverse interest groups can confront one another concerning spillover effects. In itself, the plan does not contain an implementation procedure. It is left to individual agents to strike separate deals with one another, each deal enforceable like any other voluntary contract. Such a procedure contains rather more teeth than might at first sight appear, because one of the major actors in a market socialist economy is the state (p. 116).

The model draws on the French experience of indicative planning and industrial policy in the two decades after 1945 when the teeth consisted of "a considerable arsenal of policy interventions, from subsidies and tax concessions to penalty clauses and credit restrictions" (p. 117).

Miller does not discuss planning at all, while Nove in his second edition reiterates the position on planning of his first edition, responding to none of the detailed criticisms raised in the interim (as opposed to Kornai's general critique of market socialism, to which he responds in Appendix 2). Thus, as already noted, in Nove's model central planners would be responsible for major structural investment. In addition,

directly or through the banking system, the planners would endeavour to monitor decentralised investments, conscious of the need to avoid duplication and the financing of plainly unsound projects initiated locally... [and] there would be the vital task of setting the ground-rules for the autonomous and free sectors, with reserve powers of intervention when things got out of balance, or socially undesirable developments were seen to occur (Nove 1991: 220-21).

There is no discussion of the process, relationships or institutions through which the central planners would set about fulfilling these responsibilities.
Finally, Breitenbach et al. (1990) provide an impressionistic sketch of a complex planning structure. They appear to envisage a process in which national, regional and sectoral plans are adopted; enterprises draw up enterprise plans, which they have to discuss and agree with their sectoral planning authority; and, in the event of disagreement, there is recourse to an arbitration tribunal. Thus, "[t]he planning and setting of targets by each enterprise for itself, with review, guidance and possible modifications agreed with the planning authorities, is the nub of our concept of socialist planning" (p. 42). Breitenbach et al. make strong claims for their model, invoking the language of decentralization yet asserting that the advantages of planning are maintained.

I have outlined these four models within the British school of market socialism in some detail, whenever possible in their own words, in order to highlight the difficulties that arise when seeking to obtain the efficiency advantages conventionally associated with the market while at the same time incorporating the social considerations that the market cannot deliver.

Estrin/Estrin and Winter rely unambiguously on profit maximization to guide not only production but also investment decisions. They claim that indicative planning can help to overcome market failure with respect to investment decisions by improving the information available to decision-makers. However, they do not seriously address the fundamental weakness of indicative planning — the fact that, after all the discussion and exchange of information has taken place, investment decisions remain atomistic. Even if a consistent set of investment plans could be worked out ex ante, the absence of any implementation procedure means that each enterprise in the end acts independently. Indicative planning cannot remove the irreducible uncertainty about what other enterprises will do that is inherent in a system based on ultimate enterprise independence. This is what leads Estrin and Winter to invoke industrial policy in the form of fiscal and monetary incentives in an attempt to give their indicative planning some teeth. However, while such incentives may influence enterprise decisions, the decisions remain atomized, market uncertainty arising from ignorance of the interdependent actions of rivals persists, and the anarchy of the market is not overcome.

Nove recognizes the need for some direct central planning and for extensive regulation, but he does not discuss how planning would be undertaken, nor does he address the issues raised by Eastern and Western experience of regulation failure. It is remarkable that such an influential model as his "feasible socialism" should remain so undeveloped.

Breitenbach et al. seek to combine decentralized enterprise initiative with wider social considerations and ex ante coordination of interdependent investment decisions. The interactive and negotiated character of their decentralized planning process appears to have something in common with
my own model of participatory democratic planning through negotiated coordination (Devine 1988). However, their concept of participation is very limited, confined largely to the workers in an enterprise. There is no discussion of participation at other levels of decision-making, in particular of the way in which the sectoral planning authorities would be constituted. Yet if enterprises are not represented in the sectoral planning authorities, along with other relevant interests, the interactive process envisaged between the two levels will be characterized by the familiar pursuit of sectional interests and information bias.

My overall conclusion is that models of market socialism represent an attempt to square the circle. Market socialism is advocated because markets are alleged to be efficient in generating information and motivating enterprises to act on the basis of that information. The logic of this argument is Kornai's espousal of capitalism, or Brus's and Laski's market socialism proper, with product and factor, including capital, markets. Efficiency is achieved by independent (private) enterprises pursuing profit maximization. However, the British school of market socialism is understandably reluctant to accept this logic, for two basic reasons.

First, there is the recognition that atomistic decision-making with respect to investment necessarily involves market uncertainty, in the sense that whether or not the expected profitability of an investment is realized depends among other things on the number of interdependent investments being undertaken simultaneously. This is what underlies the argument for indicative planning and industrial policy, as ways of seeking to reduce market uncertainty without limiting enterprise independence. Yet unless enterprise independence is limited market uncertainty cannot be overcome.

The second reason for reluctance to accept the logic of efficiency through the market is the desire to allow wider social considerations than those determining enterprise profitability to influence enterprise decision-making. Yet the clear objective of maximizing profit, and benefiting from it, is what is supposed to provide the enterprise with the incentive to make efficient use of the resources, including the local information, at its disposal. If wider social considerations are to be taken into account, either the independence of the enterprise to pursue profit maximization must be limited, or the enterprise must be constituted in a way that directly involves representatives of wider social interests in the decision-making process. In either case, procedures and/or criteria that enable profitability considerations and wider social considerations to be combined in the process of reaching a decision are needed.

In my view, market socialism, interpreted as a system in which efficiency is sought through decentralization of economic decision-making to more or less fully independent enterprises, is a blind alley. It ignores the characteristic feature of the modern world — interdependence. What is needed, instead, is a model in which those who are affected by decisions are
involved directly or indirectly in taking them — a model incorporating participatory political and economic democracy. Rather than retreating back to the privatization of economic decision-making in independent enterprises, socialists need to explore ways of socializing decision-making by internalizing interdependence in the institutions through which the decision-making process takes place. Elson’s concept of socializing the market is an attempt to move in this direction and will now be discussed.

Elson’s Model of a Socialized Market

Elson (1988) differs from the market socialists discussed above in that she recognizes that markets are social institutions whose functioning affects the behavior of buyers and sellers. Thus, in relation to the fiscal and monetary policies relied on by market socialists, and others, to influence market behavior, she writes:

Intervention in markets changes the current parameters (prices, interest rates, exchange rates, tax rates, level of demand, etc.) that market-makers and other decision-makers face, but not the characteristics of the market process itself. In particular, it does not change the social isolation of decision-makers, so that there remain overwhelming pressures for each to pursue their own interests in a myopic fashion, and to circumvent or subvert the changes introduced by central authorities. Intervention in markets tends to be ineffective or extremely costly if agents in the market respond solely to piecemeal individual advantage; and yet the social isolation imposed by markets makes it difficult for individuals to do anything else. Intervention in markets provides no institutions to facilitate collective reflection before individual units take decisions (p. 20).

Elson’s answer is to retain markets but to embed them in a set of institutions that enable such collective reflection to take place. Thus, "the price formation process must be a public process, not one controlled by enterprises; and information must be shared, with the nexus of trust, reciprocity and goodwill setting the limits within which the market operates, rather than being subordinate to the market" (p. 27). She defines her concept of socialized markets as follows:

A socialized market is one in which the market is made by public bodies... It is also one in which the 'invisible handshakes', the relations of good will and reciprocity, which market economies have found it necessary to construct at least to some degree, are made into public information networks with open access rather than 'charmed circles' or 'gentlemen’s clubs' which exclude 'outsiders'" (p. 32).

Elson’s model, as it relates to the theme of this paper, may be summarized as follows. First, worker-managed enterprises would operate in "socialized
markets" on a self-financing basis. Property rights, other than use rights, would be vested in a "Regulator of Public Enterprises," who would be responsible for allocating public funds to new enterprises and reconstructing unprofitable existing enterprises. Second, public agencies — "market makers" or "Price and Wage Commissions" — would generate "price and wage norms" by recording the actual prices and wages agreed in product and labour markets. These agencies would sometimes anticipate trends by changing norms before changes occurred in recorded transactions, but Elson stresses that "[n]orms need to be formed interactively on the basis of information from buyers and sellers, not imposed centrally" (p. 33). Third, there would be a system of "buyer-seller networks," with the functions of facilitating information exchange, enforcing information disclosure, and promoting interaction. Such networks would enable some of the interdependencies of decision-making to be manifested before decisions are taken; so that individual units could make their decisions in a more public-spirited way, considering the implications of their decisions for others, as well as for themselves ... Buyer-seller networks would form the basis for a decentralized social planning process in which the implications of the investment plans of different units for each other could be considered before such plans are finalized. The secretariats of such networks could interact with a national planning agency to generate an overall agreed strategy for the national economy ... The desirability of decentralization of decisions on capacity utilization and innovation does not mean that no form of central planning for the whole economy is required. Indeed, there must be an overall strategy to identify which sectors are to expand and which to decline; how much is to be allocated for investment and how much for consumption (pp. 34-35).

Let us consider Elson's model in relation to the three issues identified above in the discussion of attempts to reform administrative command planning — the ownership status of enterprises, the locus of responsibility for investment decisions and the role envisaged for planning. Although there would be a household and cooperative enterprise sector, most enterprises would be publicly owned and worker managed. They would be self-financing, operating within a regulated legal environment and a set of socialized markets. They would be responsible for the use of existing capacity, assisted by information derived from their participation in the relevant networks. Some capital market functions, such as reconstruction and decisions on new entry, together with provision of the necessary finance, would be performed by the Regulator of Public Enterprises.

In relation to investment, the situation is less clear. The Regulator is responsible for the formation and financing of new enterprises, but is this also the case for entry by existing enterprises into new industries? If not, where does the finance come from? It is also unclear where the ultimate
locus of decision-making for new investment in an enterprise’s existing industry lies. One possibility is that finance for such investment would be internally generated, and hence the enterprise would decide. Thus, the markup on average unit cost to be included in the price norm established by the relevant Price Commission "could vary across industries to generate a higher surplus in industries in which the [national planning] strategy requires expansion, and a lower surplus in industries in which the strategy requires contraction" (p. 38). However, price norms are not actual prices. Furthermore, the total surplus available to an enterprise would depend not only on the realized markup but also on the degree of capacity utilization. If the implication of this is that some source of external finance might be required, it would presumably come from the Regulator, who would have to take a view on the soundness (expected profitability? social usefulness? consistency with planning objectives?) of the proposed investment.

Since investment decisions are interdependent, the crucial question in relation to Elson’s model is whether they are ultimately made separately by each enterprise, or whether they are coordinated ex ante. In my view the language and emphasis of Elson’s model is only really consistent with full enterprise autonomy within the framework set by the Regulator of Public Enterprises. The complex of Price and Wage Commissions and networks envisaged seems to amount to a form of indicative planning, with the exchange of information that takes place influencing the decision that each enterprise then independently makes. Thus, [e]nterprises would be free to choose their suppliers and customers, but their inter-relations with each other... would be mediated by Price and Wage Commissions and network co-ordinators" (p. 43). This view is, perhaps, supported by the frequent references to individual unit decision-making and the virtual absence of references to collective decision-making, at however decentralized a level (e.g., sector, industry, region). If this is correct, then Elson’s model is as vulnerable to the fundamental weakness of indicative planning as is Estrin and Winter’s — investment decisions remain ultimately atomized and market uncertainty persists.

**Market Exchange and Market Forces**

All the models discussed so far are based on markets, but the concept of the market needs to be unpacked. I think that the central issues under consideration can be clarified by distinguishing between market exchange and market forces. Market exchange involves transactions between buyers and sellers, where what is being exchanged consists of either stocks (inventories) or goods and services produced by enterprises using their existing capacity. Market forces refer to the process whereby changes are brought about in the underlying allocation of resources, the relative size of different industries, the geographical distribution of economic activity, through the interaction of decisions on investment and disinvestment that are taken independently of
one another, with coordination occurring *ex post*. It is this process that was referred to by Smith as the invisible hand and by Marx as the anarchy of production.

The models all assign ultimate responsibility for the use of existing capacity, involving both the purchase of inputs and the sale of outputs, to enterprises operating in markets — they are all based on market exchange. Market exchange generates information about the balance between demand and supply, and, if there are alternative sources of supply competing against each other to satisfy customers, about the relative performance of different enterprises. It is in relation to the way in which this information influences investment and disinvestment that concern about markets, meaning the operation of market forces, arises. Recognition of both the market uncertainty arising from the interdependence of atomistic investment decisions and the social consequences of changes in the industrial or geographical distribution of economic activity leads to more or less far-reaching attempts to socialize investment.

Market socialism’s appeal is its claim to combine efficiency with socialist objectives. However, Brus’s and Laski’s argument is in my view convincing — the efficiency conventionally associated with the market mechanism depends not on market exchange but on the operation of market forces. It is the incentive and disincentive of profit and loss inherent in the operation of market forces that provide the motivation to make efficient use of the information generated by market exchange. For this incentive system to work, enterprises must be fully autonomous and, however widely they may choose or be obliged to consult, must ultimately be free to make their own investment decisions. They must, in other words, be the *de facto* private property of those who, directly or indirectly, make the decisions. If this is correct, models of market socialism can only sustain their claim to efficiency if resources are allocated primarily through the operation of market forces, in which case investment cannot be socialized.

All the models in the British school of market socialism that I have discussed, including that of Elson, are based on market exchange, and all recognize the need at least to modify the operation of market forces. However, I have argued that there is a limit to the extent to which the operation of market forces can be modified without the efficiency claims for market socialism being undermined. This is the contradiction with which all models of market socialism are confronted. Estrin/Estrin and Winter assign ultimate responsibility for investment to enterprises, as does Miller. In Nove’s model, although major investment would be decided on by the state, most investment would be decided on by enterprises. These models, therefore, rely primarily on market forces to allocate resources and hence qualify as market socialism proper, with the corollary that investment is not socialized. The situation, as we have seen, is less clear with respect to the models of Breitenbach et al. and Elson, since they seek to develop some sort
of interactive coordinating process. However, to the extent that their models do modify the operation of market forces, the efficiency claims made for them may also need to be modified. Elson’s model is further distinguished from the others by the central role it gives to participation, albeit often expressed in a way that makes it rather difficult to see quite what is intended.

This discussion of market socialism has identified three areas in which models of a socialist economy might differ: the presence or absence of market exchange; the role, if any, of market forces; and the extent and form of participation. In the next section I consider two models of participatory economic systems. The first, that of Albert and Hahnel, involves neither market exchange nor market forces; the second, my own model of democratic planning, is based on market exchange but rejects market forces in favour of a conscious social process of negotiated coordination.

PART TWO: PARTICIPATORY PLANNING

Models of participatory planning are based on the principle that decisions should be taken, directly or indirectly, by those affected by them. The fact that all affected by a decision are involved in taking it enables the all-pervasive interdependencies of economic life to be taken into account. Models of participatory planning differ according to how they conceive of: the different interests affected by a decision; the sort of information needed for decision-making at different levels, and the way in which the information is generated; and the process through which decisions are taken.

Albert’s and Hahnel’s Iterative Model

Albert’s and Hahnel’s model is presented in two companion volumes (1991a, 1991b). They take the interests affected by economic decisions to be people as workers and as consumers; the necessary information about interdependence to be indicative prices, measures of work performed, and qualitative indicators of what is involved in producing goods and services and what is gained from consuming them; and the process through which participatory planning takes place to be one of successive iterations converging on a feasible plan.

Albert and Hahnel (1991b) summarize their model as follows:

Each consumption ‘actor’ proposes a consumption plan. Individuals make proposals for private goods. Neighborhood councils make proposals that include approved requests for private goods as well as the neighborhood’s collective consumption requests. Higher level federations make proposals that include approved requests from member councils as well as the federation’s collective consumption requests.
Similarly, each production ‘actor’ proposes a production plan. Workplaces enumerate the inputs they want and the outputs they will make available. Regional and industry federations aggregate proposals and keep track of excess supply and demand. Every actor at every level proposes its own plan, and, after receiving information regarding other actors’ proposals and the response of other actors to its proposal, each actor makes a new proposal. As every actor ‘bargains’ through successive ‘iterations’, the process converges (p. 63).

Albert’s and Hahnel’s model is similar to Mandel’s model of "articulated workers’ self-management" (Mandel 1986) in that it rejects market exchange as well as market forces and seeks to achieve ex ante coordination of all production and consumption decisions, a general equilibrium in which planned demand and supply are equal for all products. However, unlike Mandel’s, their model gives equal status to people as consumers and producers, is fully decentralized in that it involves successive revisions of decentralized proposals until a set of mutually acceptable proposals is reached, envisages a pivotal role in the decision-making process for indicative prices, and is precise and well developed.

The strength of Albert’s and Hahnel’s model as a theoretical exercise is that it shows how the necessary information and motivation for efficient decision-making, taking full account of social costs and benefits, might be generated in a decentralized economic system based on the principles of equality, non-hierarchical relationships and participation. However, its focus is on the ex ante coordination of the use to be made of existing productive capacity, on providing a nonmarket alternative to market exchange, and this raises two problems. First, the requirement that all economic decisions be coordinated ex ante renders the model vulnerable to criticisms of excessive complexity and ultimate unworkability. Second, it has little to say about the ex ante coordination of major investment, about a nonmarket alternative to market forces, although some pointers are given (Albert and Hahnel 1991a). In addition, the model appears to allow no role in economic decision-making for the political process and the institutions of representative democracy, relying instead on varieties of interactive polling procedures (Albert and Hahnel 1991a).

**Participatory Planning Through Negotiated Coordination**

My own model (Devine 1988) is based on participatory political and economic decision-making in which decisions are made and implemented, directly or indirectly, by those who are affected by them. It incorporates market exchange, but not market forces. Enterprises decide independently, in negotiation with customers if appropriate, what use to make of their existing capacity, e.g., product specifications and quantities, and set their prices equal to their long run costs. They then engage in market exchange with their customers. However, changes in capacity through investment or disinvestment are not decided atomistically by enterprises but are arrived at
through a process of negotiation among affected interests and are coordinated *ex ante*. Thus, resources are reallocated in response to changing demand and supply conditions not through the operation of market forces but through a process of negotiated coordination.

In terms of the three respects in which models of participatory planning differ, the model:

1. recognizes as having a potential interest in economic decisions not only workers and consumers, but also the communities in which production takes place, representatives of regional and society-wide decision-making bodies, and groups concerned with particular issues, such as the environment or equal opportunities;

2. relies on two sources of information, a) quantitative information, derived from market exchange, about the balance between demands and supplies, and about the relative performance of enterprises, and b) qualitative information, supplied by the representatives of the interests affected, about the consequences for them of different decisions given their particular circumstances and concerns; and

3. operates through a process of negotiation involving those affected by the decision in question.

The model can be outlined by considering the decision-making process at the levels of society as a whole, the industry and the enterprise. Broad social priorities and changes in strategic direction are decided through the democratic political process on the basis of alternative plan variants prepared by the planning commission to reflect the major options that have emerged in preparatory public discussion. These priorities and strategic decisions determine the planned overall allocation of available resources among different uses and hence the planned distribution of purchasing power in the economy. They inform the planning commission’s decisions about major investment and are also the basis for determining primary input prices. A similar process occurs at regional and local levels.

Enterprises are run by boards consisting of representatives of their workers and customers, the communities in which they are located, the national or regional planning commission, depending on the geographical reach of their activities and groups concerned with particular issues. They set prices equal to long-run costs and are responsible for meeting demand from individuals, social agencies concerned with collective provision and other enterprises who in general have a choice of supplier. The board decides on general policy issues concerning the use of existing capacity and the framework within which internal worker self-management takes place. Thus, the model unambiguously incorporates market exchange.

However, while the pattern of demand, as determined by social decisions about the overall distribution of society’s productive resources among alternative uses, and by the detailed decisions of individuals and social
agencies, reflects the desired structure of productive capacity, this desired structure is unlikely to correspond fully to the existing structure. In reality, some industries will need to expand and others to contract. Furthermore, within a particular industry, the output of some enterprises may be preferred to that of others, and there may, therefore, be a prima facie case for some enterprises to expand and others to contract. The market mechanism brings about such changes through the independent investment decisions of enterprises responding to price signals and expectations of future profitability. These atomistic decisions are subsequently coordinated ex post as the enterprises respond to profits above or below those expected, i.e., through the operation of market forces.

In my model there is no role for market forces. Changes in resource allocation are brought about through a process of negotiation and are coordinated ex ante. This takes place in what I call negotiated coordination bodies, made up of representatives of all those affected by the changes: the enterprises in the industry; major supplying industries; customers — consumer organizations, social agencies, or major using industries, as the case may be; the sections of the national planning commission concerned with major new investment and regional distribution; the relevant regional planning commissions; and other groups with a particular interest in the investment decisions at issue.

Negotiated coordination bodies would be responsible for deciding how changes in the capacity of their industry should be achieved, and how differential performance among enterprises in the industry should be dealt with. They would have before them two sorts of quantitative information: first, on expected changes in demand or costs; second, on the performance of each enterprise in the industry, generated by the interaction of demand, reflecting consumer/user choice, and cost of production, reflecting productivity. They would also have before them two sorts of qualitative information: first, on the reasons for any differential performance by enterprises, including consumer/user opinion; second, on the economic and social situation prevailing in the communities and regions potentially affected by the geographical distribution of the planned investment or disinvestment, on democratically agreed priorities for regional redistribution, and on the concerns of the interest groups represented. This quantitative and qualitative information would be the basis on which those affected, through their representatives on the negotiated coordination body, would construct an investment plan for the industry that constituted their definition of the social interest in relation to the decisions facing them.

A central principle of the model is openness of information. Since enterprises would not be privately or sectionally owned atomistic competitors, although they would compete, the suffocating influence of commercial secrecy would be absent. All the information relating to the activities of enterprises would be publicly available — to their negotiated
coordination body, to other enterprises, to government bodies and social agencies, to anyone who was interested. Given the cross-cutting representation of affected interests on enterprise boards and negotiated coordination bodies, information bias would be minimized. Regular audits would provide information on the use being made by each enterprise of the part of society’s productive resources entrusted to it.

If a negotiated coordination body decided that the performance of one of its constituent enterprises was unsatisfactory, the enterprise would be aware of the reasons for this and would be given time to take corrective action. If, in the end, enterprises failed to respond and sanctions were judged to be necessary, they would take the form of not agreeing to subsidies for current production or to new investment. However, while sanctions are clearly possible within the model, and would in fact be extremely effective since they would be informed by detailed local knowledge, they are not an integral part of the model. The antisocial impact of narrowly sectional or self-interested motivation could be contained, but containing narrow self-interest is not the same thing as seeking to harness it and set it to work by designing an incentive system that rewards and therefore reinforces it.

Unlike models of market socialism based on the operation of market forces, the model of negotiated coordination is prefigurative. It anticipates a society in which people wish in principle to act in the social interest and the problem is for them to decide together what that means in practice. The process of negotiated coordination would be an exercise in self-government that did not invoke a spurious concept of the social interest by regarding it as unproblematic. Instead, the social interest at each level of decision-making would be defined by those whose interest it was. The process of negotiation involved would face the representatives taking part, and ultimately the groups they represented, with the challenge of arriving at an agreed, equitable outcome. It would both recognize present reality and have a transformative dynamic.

Three Clarifications

It will be recalled that I discussed the British school of market socialism in relation to the ownership status of enterprises, the locus of responsibility for investment and the role of planning. In the model of negotiated coordination, enterprises are socially owned, investment decisions are made by planning commissions and negotiated coordination bodies, and planning takes place through an interactive process involving the determination of what is to count as the social interest at each level by those who are affected by decisions at that level. I also identified two reasons why market socialists are reluctant to accept the full logic of relying on market forces to achieve efficiency — recognition of the interdependence of investment decisions and the desire to incorporate wider social considerations into enterprise decision-making. In the model of negotiated coordination, investment decisions are
coordinated ex ante and social considerations are internalized in the decision-making process through the participation of those affected by the decisions.

Since I first presented the model, it has been subject to sympathetic criticism from socialists influenced by the collapse of administrative command planning and impressed by the arguments for market socialism, and to hostile criticism from advocates of the free market. The issues that have been raised can be discussed under three headings: (1) alleged complexity and administrative overload; (2) whether the model really amounts to command planning in disguise rather than a participatory alternative to the market, with the related question of whether people really want to participate; and (3) the substantive issue of innovation Blackburn 1991; Breitenbach et al. 1990; Estrin 1989a; and Hare 1989.

(1) Alleged complexity and administrative overload

The concerns that have been expressed under this heading suggest a need to reemphasize the distinction between market exchange and market forces. The model does not propose the ex ante coordination of demand and supply for all products, i.e., the absence of market exchange. If it did, then it would be vulnerable to the criticisms made above of Albert’s and Hahnel’s and Mandel’s models on the grounds of excessive complexity and probable unworkability. On the contrary, however, in my model each enterprise decides what to produce with its existing capacity and in what quantities on the basis of the expected demand for its products. Customers in general have alternative sources of supply and are able to negotiate with suppliers. Thus, the flexibility and sensitivity to customer demand in the use of existing capacity that is conventionally associated with the market mechanism is an integral part of the model. Pressure to respond to changes in the desired structure of productive capacity, to reallocate resources in response to changes in demand, is also central to the model’s design. However, such reallocation is brought about through the negotiated coordination bodies that constitute the distinctive feature of the model as an economic mechanism, not through the atomized investment decisions of enterprises.

With respect to enterprise management, there seems no reason to suppose that it would suffer from administrative overload as a result of the pluralism of the interests represented. Enterprise boards would decide on general policy issues and on the guidelines within which internal self-management would operate. They would, of course, consist of representatives of a much wider range of interests than just shareholders or workers. However, since decisions would ultimately be made by majority vote, there is no reason to suppose they could not be reached efficiently. A more serious problem is that of deciding which interests have a legitimate interest in an enterprise’s activities and the proportions in which they should be represented. However, this is a problem common to participatory democracy in general and would presumably be settled by a combination of principle and pragmatism.
(2) Command planning in disguise? Do people want to participate?

A second area requiring clarification concerns the nature of vertical and horizontal links and their relative importance. Following Nove's original argument (Nove 1983), there is a tendency for it to be assumed that horizontal links between enterprises must involve markets and vertical links between sectoral or economy-wide institutions and enterprises must involve commands. In my model, horizontal links between enterprises involve markets interpreted as market exchange but not markets interpreted as market forces. Furthermore, the relationship between enterprises and their negotiated coordination body is not based on commands but involves negotiation. Of course, if agreement cannot be reached, the negotiated coordination body may decline to subsidize an enterprise's loss-making activities or to agree to new investment in the enterprise. However, this relationship is no more reminiscent of a command economy than is the relationship envisaged between holding companies and enterprises in some of the market socialist models that have been discussed.

The relative importance of horizontal and vertical relationships cannot be assessed simply in terms of which dominate. My model is based on market exchange, which means that, in relation to the use of existing capacity, horizontal relationships prevail, but not on market forces, which means that, in relation to changes in capacity, vertical relationships prevail. One way of thinking about this is in terms of property rights. The model is founded on the concept of social ownership, defined as ownership by the set of interests affected by the use of the assets involved. Social ownership of the assets constituting the existing capacity of enterprises is exercised by the interests represented on enterprise boards. Social ownership of the social capital involved in investment decisions in a sector is exercised by the wider set of interests represented on the sector's negotiated coordination body.

It is, of course, true that major investment in my model is decided on by the planning commission. However, this is done on the basis of a strategic plan arrived at democratically through the political process and is given effect by making purchasing power available to the relevant negotiated coordination body, which may be newly created if a new industry is involved. The interests represented in the negotiated coordination body then decide, if necessary by majority voting, how the required investment is to be distributed among newly created or existing enterprises, with the latter participating in the decision-making process.

Since decisions are ultimately taken by majority voting, it is clear that I make no assumption that participatory democracy means there will always be agreement. Nevertheless, I do expect that a decision-making process in which all those affected participate would lead to greater understanding of the different interests involved and would generate a dynamic toward compromise and consensus. Of course, whether or not people would want to participate is a matter on which expectations differ. My view is that the
extent of desired participation is likely to increase as the degree of equality of economic and social power and personal development increases. If this expectation turns out to be wrong, while it would not affect the ability of my model to function, it would undermine its transformatory and empowering purpose, and hence its point.

(3) Innovation

Finally, the ability of the model to deal with innovation needs to be addressed, not least because of Brus’s and Laski’s argument that it is above all the entrepreneurial function that requires private ownership. In the model, proposals for innovation are envisaged as arising from research institutes, negotiated coordination bodies, existing enterprises and individuals. Proposals for major innovations would be made to planning commissions at all levels, and for minor innovations to negotiated coordination bodies, with both types of institution having resources earmarked for the financing of innovation. However, while the institutional structure through which decisions on innovation would be made was set out in the original model, the question of the incentive to innovate was not adequately discussed.

There would be internal and external pressures on enterprises to propose and adopt innovations. An enterprise’s customers and workers would be represented on its board, and they would have an incentive to promote innovations that were in their interests. Enterprises would compete for customers through product design and cost reduction, with the more successful and innovative enterprises having a prima facie case for a disproportionate share of the investment allocated by their negotiated coordination bodies, albeit in the context of the full range of considerations advanced by the other interests represented. The absence of commercial secrecy, the cross-cutting representation of enterprises on one another’s boards and the participation by enterprises in their negotiated coordination body would stimulate the rapid diffusion of successful innovations.

It is, however, likely that the rate of innovation and the sort of innovation undertaken would be influenced by being decided through negotiated coordination. While the poor innovative performance of the command planning economies was one of the main reasons for their demise, much innovation in capitalist economies is at best merely wasteful and at worst positively socially harmful. Participatory planning through negotiated coordination would enable innovation to be brought under conscious social control, creating the conditions for achieving a more sustainable relationship between the economy and the environment.

CONCLUSION

My conclusion is that the present hegemony exercised by models of market socialism over discussion of what a socialist economy might look like is
unwarranted. Market socialism proper involves the operation of market forces as the principal means of allocating resources, and this is incompatible with socialist objectives. Attempts to claim efficiency advantages for models of market socialism that incorporate market exchange but seriously limit the operation of market forces are contradictory and utopian in the bad sense. Models of participatory planning exist which, although utopian in the good sense, are no more complex than some of the market socialist models discussed and, unlike them, are coherent and well-developed. They are also prefigurative and transformative and hence have the potential to contribute to the renewal of the socialist project.

REFERENCES
