

## The Major Point of Contention

Let me begin by accepting Erik's characterization of our disagreement about markets. In Erik's words: *"Robin feels very confident that a complex, large-scale, well-functioning economic system... could exist in which markets have been completely replaced by participatory planning."* Yes, I do.

In Erik's words: *"My position is that the optimal institutional configuration of a democratic-egalitarian economy is much more likely to be a mix of diverse forms of participatory planning, state regulatory mechanisms, and markets."* That is the proposal I assume Erik will defend in greater detail in round two of this dialogue. It is what I regard as a pragmatic, nuanced version of market socialism -- even if Erik objects to being categorized as a market socialist -- which I will criticize in the same thoughtful and comradely spirit that Erik has criticized participatory economics.

Erik goes on to clarify: *"Specifically, I am skeptical that an institutional design in which markets have been completely eliminated -- where they play no role whatsoever in economic coordination -- is likely to be as efficient as an institutional configuration that combines a variety of forms of economic coordination: participatory planning, centralized regulations, and market interactions.... This way of thinking about the issues implies that the concept of 'markets' is not a binary -- you either have markets or you don't."*

I understand that Erik does not recommend a system where economic activity is organized by markets alone. Nonetheless, there either will be or there will not be markets in the system Erik recommends. That is a "binary" choice to use Erik's words. In round two I anticipate that Erik will explain why he believes there should be markets in greater detail, while I expect to explain why I believe markets should not be used.

At the beginning of the twentieth century virtually all who opposed capitalism saw the market system as a destructive force that required replacement by democratic planning. During the middle third of the twentieth century social democratic political parties changed their position on this issue, and came out in support of the view that Erik expresses above -- a system that combines markets with state regulation and planning through the political system. During the last fifth of the twentieth century many radicals from the generation to which Erik and I both belong reacted to the demise of the planned economies and free market triumphalism by joining social democrats in support of a vision of "socialized markets" while endorsing the "tacit knowledge" critique of comprehensive planning voiced by conservative champions of free market capitalism like Von

Mises and Hayek fifty years earlier. I believe the participatory planning procedure that is a key part of the participatory economic “model” demonstrates that these concessions to the practical necessity of markets were unwarranted, which is fortunate, since the pernicious effects of markets become ever more apparent as the global market system continues to spread its influence destroying community and natural environment alike.

As I said in my opening piece, the case against markets logically consists of two parts: (1) How bad are markets? And, (2) is there a more desirable alternative that is feasible? Here I respond to Erik’s specific criticisms of the alternative to markets we have proposed – participatory planning. I postpone until a second round in this dialogue my full argument against the use of markets until after Erik presents in more detail his case for how and why he believes markets are part of a desirable economy. But let me foreshadow my objection to markets in the broadest terms: When a division of labor is coordinated by markets those who take advantage of others are often rewarded while those who behave in socially responsible ways are often punished for having done so. For this reason markets act like a cancer that undermines efforts to build and deepen participatory, equitable cooperation. In my view those who admire the convenience markets afford individuals fail to appreciate the magnitude of the socially destructive effects markets unleash. I claim we can provide for the desirable conveniences markets afford through participatory planning, and thereby avoid the cancerous effects market interactions have on social relations. Erik has challenged this claim in specific regards, which I will now address.

### **Household Consumption Planning**

Erik raises two issues about household consumption planning: (1) How useful is it anyway? And (2) aren’t mid-year adjustments really just markets? In the process he raises questions about how detailed consumption pre-ordering can or should be that other critics have raised before him. David Schweickart ridiculed household consumption planning in his book review of *Parecon: Life After Capitalism* titled “Nonsense on Stilts” in 2006. Seth Ackerman rejected participatory economics for this reason alone in “The Red and the Black” published in *The Jacobin* (9) in 2013. Aware of the prevalence of this objection, Stephen Shalom made this his first question in a Q&A session with me about *Of the People, By the People: The Case for a Participatory Economy* posted on the *New Politics* website on January 14, 2013. I can also testify that it is the most frequent issue raised by students in my classes over the past twenty years when they are mulling over whether they would personally like to live in a participatory economy.

David Schweickart put it this way: *“Unless requests are made in excruciating detail producers won’t know what to produce. In any event, they have little motivation to find out what people really want.”*

Seth Ackerman thought it sufficient to dismiss comprehensive planning of any kind as a practical impossibility by simply pointing out: *“There are more than two million products in Amazon.com’s ‘kitchen and dining’ category alone!”*

Stephen Shalom worried: *“Not all products are consumed within a year. So last year, for example, I bought an electric razor; I don’t want ‘same as last year’ for that. The sneakers that I bought two years ago have worn out; so I’d need to amend last year’s request.*

And most recently Erik put it this way: *“The problem is that the gross categories provide virtually no useful information for the actual producers of the things I will consume. It does not help shirt-makers very much to know, based on the aggregation of individual household consumption proposals, that consumers plan to spend a certain per cent of their budget on clothing; they need to have some idea of how many shirts of what style and quality to produce since these have very... different opportunity costs.”*

Since this concern features so prominently in critics minds let’s give it a name. “I’m going to call it the “size 6½ purple women’s high-heeled leatherless shoe with a yellow toe problem.”

Quite simply the “problem” is this: A shoe producer must know to produce a size 6½ purple women’s high-heeled leatherless shoe with a yellow toe. It must know that size 6 will not do, a red toe will not do, a low heel will not do. However, it is unreasonable to expect the consumer who will eventually discover she wants a size 6½ purple women’s high-heeled leatherless shoe with a yellow toe to specify this at the beginning of the year as part of her annual consumption request.

How does a shoe producer in a market economy know to produce a size 6½ purple women’s high-heeled leatherless shoe with a yellow toe, rather than a slightly different shoe? In a market economy shoe producers guess what shoe consumers will want when they decide to go shoe shopping. They guess based on their experience. They guess based on any consumer research they engage in, perhaps including “focus groups.” They guess based on government projections of changes in relevant economic variables such as the distribution of income among households. And recently, many large companies have started to use newly available data gathering and processing capabilities to predict what products particular customers will want in the future. When I go to the Amazon website to

inquire about some book, Amazon now tells me what other books I might be interested in buying. Only when I go on the internet from my wife's email address does Amazon provide me with book suggestions that do not match my preferences. In our brave new market economy producers often know what we will want before we do! In market economies producers also try to influence what I will want to buy through advertising. In other words, a shoe company will decide to produce a certain style shoe and use advertising to make people want to buy the style they have decided to produce.

In sum: In market economies producers guess what to produce -- because many sales are not arranged through pre-orders -- and producers use advertising to try to influence consumers to buy what they have produced. New technologies of automated inventory supply line management and consumer data base mining have made their guess work more accurate, but in the end producers are still guessing. Finally, in market economies more successful producers are those who guess more correctly and manipulate more effectively, while less successful producers are those who guess less correctly and manipulate less effectively. But most importantly from the perspective of society there is often a great deal of inefficiency that results from this guessing game that is an intrinsic feature of market economies. Unlike planned economies, in market economies there is no attempt to coordinate all the production and consumption decisions actors make before those decisions are translated into actions. As a result a great deal of what economists call "false trading" occurs. False trades are trades individual parties make at prices that fail to equate supply and demand -- which actually occurs more often than not! While seldom emphasized, competent economic theorists know that all false trading generates inefficiency to some extent, and disequilibrating forces operate in market systems alongside equilibrating forces when quantities adjust as well as prices. The notion that in market economies the convenience consumers enjoy of not having to pre-plan their consumption with producers comes at no price is based on the grossly inaccurate assumption that market economies are always in general equilibrium. For all their faults, twentieth century planned economies did not experience major depressions, or even significant recessions caused by mutually reinforcing disequilibrating forces in markets that all too often go unchecked by sufficient countervailing fiscal and monetary policies.

But how will all this work in a participatory economy where there *is* a self-conscious attempt to coordinate production and consumption decisions before production begins?

Let's begin with information consumers will have about what is available. Ironically, the two million products in the Amazon.com "kitchen and dining"

section is not an insurmountable problem rendering comprehensive economic planning of any kind impossible at all. Instead it is a wonderful example of how consumers can become aware of the tremendous variety of products that will be available in a participatory economy. Just as Amazon.com can list millions of products – providing pictures and details about their characteristics – consumer federations can provide this service to consumers in a participatory economy for any who wish to shop online. And for those who prefer what some of my students once told me were “the pleasures of malling it” in person, consumer federations can host shopping malls where anyone who wishes can go to see and be seen, and walk away with whatever strikes their fancy. Information about product improvements can be provided by consumer federations as well. The fact that it will be consumer federations providing information about products, rather than producers singing their own praises as is the case in market economies, seems to me to be a significant change for the better.<sup>1</sup> But, how, critics ask, will consumers pre-order?

It is important to distinguish between what we need to accomplish and what we do **not** need to accomplish in the annual participatory planning process. When the year starts any shoemaking worker council with an approved proposal knows it should start making shoes. It also knows how much cloth, leather, rubber, etc. it has been pre-authorized for during the year and how many shoes it has said it can make. It also knows that X% of the shoes it made last year were women’s shoes, and Y% of the women’s shoes it made last year were size 6½. How does it know whether to make size 6½ purple women’s high-heeled leatherless shoes with a yellow toe, or size 6½ purple women’s high-heeled leatherless shoe with a red toe? It does just what a shoemaking company in a market economy does: It makes an educated guess. Then, as soon as actual consumption begins new information becomes available. Suppose purchases of size 6½ purple women’s high-heeled leatherless shoes with a yellow toe are lower than producers expected while the red toed shoes are disappearing like hot cakes. This kind of new information is what helps worker councils answer the question: Exactly what kind of shoe should I be producing, just as it does in market economies. So much for the claim that a planned economy has no answer to the size 6½ purple women’s high-heeled leatherless shoe with a yellow toe problem. It has the same answer a market system does with regard to moving from a “coarse” decision about shoe production to a “detailed” decision about size 6½ purple women’s high-heeled leatherless shoe with a yellow toe production.

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<sup>1</sup> We have also suggested that consumer federations be primarily responsible for research and development of new and better products in a participatory economy, rather than leave product innovation to producers as is it in market economies.

This first kind of new information fills in the details producers need to know about exactly what kinds of shoes people want, *which is why consumers do **not** need to specify these details when submitting their personal consumption requests during the planning procedure.* Submitting personal consumption requests during planning is not impossibly burdensome because the form has an entry called “shoes” for one to put a number after, not an entry called “size 6½ purple women’s high-heeled leatherless shoes with a yellow toe!” Those kinds of details are revealed by actual purchases as the year proceeds. In other words, Erik misreads our proposal when he writes: *“Since the coarse categories would not be useful for planning by federations of workers councils, and this is the fundamental purpose for pre-ordering consumption, I will assume that the finest level of detail is required.”* Consumption proposals during planning are made using what Erik calls “coarse categories” because the fine level of detail producers require is revealed as the plan is actually implemented. Whether filling out even this reduced list of items is beyond people’s capabilities or desires I will return to shortly.<sup>2</sup>

What about David Schweickart’s claim that worker councils *“have little motivation to find out what people really want,”* disenfranchising consumers as the centrally planned Soviet economy certainly did for decades. Here it is important to distinguish between the worker council production plan that was approved as “socially responsible” before the year began, and what the worker council is credited for at the end of the year. Plan approval is based on projected social benefit to cost ratios. However, worker councils are credited for the social benefit to cost ratio of actual outputs delivered and accepted, and actual inputs used during the year.<sup>3</sup>

It is last year’s *actual* social benefit to cost ratio that serves as a cap on average effort ratings worker councils can award members. So if their approved production plan had a SB/SC ratio of 1.09 but their actual ratio at year’s end turns out to be 1.03 the cap on average effort ratings for workers in the council next year is 1.03 not 1.09. Therefore, a worker council that failed to reduce yellow toed shoe

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<sup>2</sup> If a consumer knows she wants women’s shoes, or size 6½ shoes, there is no reason for her not to add this information when filing out her consumption order – since it is useful for producers. The point is simply that she does not have to if this is too burdensome, and she can change her mind later if she wants.

<sup>3</sup> Similarly, consumers, and consumer councils and federations are charged for what they actually consume during the year, not what was approved for them in the plan. Any differences are recorded as increases or decreases in the debt or savings of individual consumers, neighborhood councils, and consumer federations.

production and increase red toed shoe production in response to signals that become available during the year about what consumers truly like would end up with a lower actual social benefit to cost ratio, and consequently a lower average effort rating for the following year.<sup>4</sup>

Actual purchase patterns during the year reveal more than needed details about consumer desires. They also signal when consumers have changed their minds. At the individual level people reveal by their purchases that they want more of some things and less of others than they indicated during planning. At the aggregate level individual increases and decreases sometimes cancel out and therefore require no changes in production. When they do not cancel out, how to increase or decrease production of shoes because consumers have changed their minds must be negotiated between the shoe industry federation and the national consumer federation. Again, there are different ways these adjustments could be handled, each with its pros and cons. But the relevant point is that adjustments can be made.<sup>5</sup> The difference between a planned economy and an unplanned, market economy, is that to the extent that consumers submit proposals that reflect their changed circumstances and tastes, and to the extent that worker councils submit

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<sup>4</sup> There are endless details one could pursue in this, as in other areas, regarding exactly how a participatory economy would actually function. Suppose a worker council delivers yellow toed shoes to the consumer federation. Suppose the consumer federation accepts them anticipating that they will sell, only to discover later that nobody bought them because they bought red toed shoes instead. Who takes responsibility? Does the worker council get credit for them because they were accepted by the consumer federation? Or does the consumer federation notify the worker council at the end of the year that it does not get credit for some of the yellow toed shoes it produced? Selling is different from selling on consignment. The important question is not which option will be chosen – because that will be decided by the people who live in a participatory economy. The issue before us now is simply if there are perfectly straightforward solutions to these problems, and therefore a participatory economy is, indeed, a practical possibility.

<sup>5</sup> The crucial questions are: (1) To what extent will the shoe industry or consumers bear the burden of adjustments? (2) Will shoe customers who change their demand for shoes be treated any differently from shoe customers who did not? In the case of excess supply the issue reduces to whether or not producers will be credited for shoes that are added to inventories, and if so how much. The case of excess demand is more complicated. To raise shoe production more resources will have to be drawn out of inventories or away from industries experiencing excess supply. Beyond crediting shoe workers for working longer hours, will the indicative prices of shoes and those resources be increased above their levels in the plan, or not? If shoe production is not raised sufficiently to satisfy all who now want shoes, will those who did not increase their demand above what they ordered be given preference?

proposals that reflect their new technologies and work preferences, the plan creates an initial situation that reduces the number and size of adjustments that are necessary. All mechanisms for making adjustments in a market economy are available if wanted in a planned economy as well, although presumably a participatory economy would put a higher priority on using mechanisms that distribute the costs of adjustments more fairly.

Finally, how burdensome is it for consumers to put numbers next to a list of “coarse categories?” Perhaps I was too flip when I explained in my most recent book how a lazy person such as myself might spend no time on submitting a new consumption request without impinging on the ability of my neighborhood council to participate in the planning procedure, and without serious personal repercussions. If a person does not fill out and submit a consumption request form their neighborhood council can simply use their actual consumption last year as their new consumption request for this year. If their effort rating for this year warrants this level of consumption, their request will be approved and included in the neighborhood proposal. If not, and if a person continues to fail to respond to requests for a new proposal, the neighborhood council can reduce every item in their last year consumption by the same percent until the reduced request is covered by their lower effort rating this year. In this way neighborhood consumption councils, who must submit neighborhood proposals during the planning procedure, can do what they have to do even if some of their members fail to provide personal consumption proposals.

My response to Stephen Shalom, who was concerned that he could not simply re-use his proposal from last year to save time and aggravation because some items last for more than a year, illustrates how these matters can be resolved easily. Being a thoughtful and responsible person, when Steve remembers that the sneakers he bought two years ago have now worn out he would add a pair of shoes to his consumption request this year that were not on his consumption list last year. He would also not request a razor this year. Being less thoughtful and lazier, I would probably not remember I need new sneakers but do not need another razor, and I might not bother submitting a revised request even if I did. So my initial consumption request might well be the same as last year and not include a pair of shoes, but still include a razor. Moreover, when my neighborhood council sends me the revised indicative prices in the second round of the planning procedure and asks me if I want to revise my consumption proposal I might not bother to respond, whereas Steve might choose to modify some of his requests in response to updated indicative prices – perhaps requesting two pair of shoes if their indicative price has fallen, or postponing replacing his sneakers another year if their indicative price rose significantly. The important thing is that no matter what Steve or I choose to



do individually there will be an initial consumption proposal for the entire neighborhood submitted by our consumer council, and there will be revised neighborhood consumption proposals submitted in every subsequent round as well. And that is all that is required for the planning procedure to function.

What would happen when I discover during the year that I want a new pair of sneakers I didn't order but don't need the razor I did order? I would order a pair of sneakers that looks suitable online, or pick up a pair at a distribution center or mall run by a consumer federation. Perhaps Steve and I would both be charged a slightly higher price for our sneakers than we were quoted at the beginning of the year. Perhaps I would be charged a higher price than Steve because I was the one who created an adjustment cost. Perhaps I would be told I have to wait until next year because it proved too difficult to increase shoe production enough to provide for all who now want shoes. I would not pick up an electric razor and therefore would not be charged for one.<sup>6</sup>

In the end Erik seems to understand how signaling necessary details to producers, and making adjustments because consumers changed their minds can work in a participatory economy. He writes: *“Production...in effect would be done pretty much as... now: producers would examine the sales and trends of sales in the recent past, and make their best estimate of what to produce...on that basis. Indeed, since producers and their sector federations can continually and efficiently monitor these trends, they are in a position to make updates to plans in an on-going way on the basis of the actual behavior of consumers, rather than mainly organize their planning activities around annual plans animated by uninformative household pre-orders.”* This is accurate enough, although I don't see why Erik dismisses household pre-orders as “uninformative.” They certainly provide industry federations more useful information at the start of the year than the zero information market systems provide producers about changes in consumer intentions.

From year to year consumers' incomes change, and consumers' desires change. Signaling producers about these changes is what pre-ordering is for and why it is

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<sup>6</sup> I did not mean to imply that most people care as little about their consumption as I do, or that most people will be as irresponsible about pre-ordering as I am. I offered myself as an example to make something clear: At the individual level thoughtlessness and laziness is still possible -- which is important for people who worry they would not enjoy filling out personal consumption request forms -- because the system can accommodate some people who are thoughtless and lazy. Of course if everyone submitted no pre-order -- as I joked I would -- pre-ordering would be useless, as Erik points out.

quite useful for producers. Necessary details can be filled in from consumer profiles and actual purchases during the year, and adjustments can be negotiated with the aid of instantaneous inventory supply line prompts at the disposal of worker councils and federations. But just because pre-ordering lacks detail and people change their minds does not mean the planning process is pointless. If we want consumers to influence what is produced in the economy, and if we are going to decide what is produced in large part through a planning procedure, then we need consumers to provide their best guesses about what they will want. We don't need them to agonize over their proposals, and we certainly can accommodate them when they change their minds.

Finally, Erik asks: *"I don't understand why my personal consumption should be the business of a neighborhood council, even apart from the problem already discussed of the usefulness of the procedures involved."*

This question has been raised before, and fortunately I already have a name for it. I call it the "kinky underwear problem." One may not want one's neighbors gossiping about what kind of underwear one has ordered.<sup>7</sup>

In recent expositions I have tried to explain that it was never our intent that one's neighbors should sit in judgment over one's consumption requests, and offered several suggestions for how consumer privacy could be protected. The bottom line is that personal consumption requests must be approved or disapproved, and this must occur before neighborhood consumption councils can submit their aggregated neighborhood consumption requests during the planning procedure. Since neighborhood councils must aggregate their members' approved requests we talked about them as also approving them. But even in our earliest presentation we specified that as long as one's effort rating plus any allowance was sufficient to cover the social cost of one's request it could not be denied. In 1991 we also wrote of neighbors' having the opportunity to provide constructive feedback and suggestions about particulars, which in retrospect was probably overly enthusiastic on our part. Over the years it has become apparent, at least to me, that for most people today concern for privacy is far greater than any desire for constructive feedback from one's neighbors.

In any case, there are a number of ways to protect privacy. (1) Eliminate review and make approval or disapproval of individual consumption requests automatic based on effort rating and allowances – which seems to be Erik's preference. (2)

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<sup>7</sup> Since one simply puts a number after the category "underwear" when submitting personal consumption requests kinky underwear is really not an issue – although the point remains: Why should one's neighbors pass judgment on one's consumption request.

There is no reason to attach names to personal consumption proposals. Review only requires an effort rating, any allowance, and a personal consumption request form that is filled out. Submissions can be by number, not name. (3) Personal requests – with or without names attached -- could be reviewed by consumption councils that are not geographically based. So any information about one's consumption request would be available only to strangers. In this case the decision to approve or disapprove would have to be passed on from the non-geographical council to one's neighborhood consumption council so it could be added to other individual requests and requests for neighborhood public goods.

Similar issues arise regarding who approves special need requests and requests for loans. To enhance building strong, local, neighborhood communities we suggested that special need requests, and loan applications be handled by one's neighborhood consumption councils. But that is not the only option. These functions could be de-localized if people felt that was more advantageous.

Finally, is the adjustment process really just a market after all, as Erik suggests? Approved consumption plans are not treated as binding contracts since individuals are free to change their minds as the year proceeds. One possible option for making adjustments would allow indicative prices to rise when excess demand for something appears during the year, and indicative prices to fall in the case of excess supply. If it looks like a market, and smells like a market, doesn't that mean it is a market?

In this case the answer is "no." Here are the crucial differences:

(1) In market economies there is no plan that has been agreed to at the beginning of the year. There is no plan where people had an opportunity to affect production and consumption decisions at least roughly in proportion to the degree they are affected. There is no plan that incorporates effects on "external parties" which are ignored by buyers and sellers who make the decisions in market economies. There is no plan that would be efficient, fair, and environmentally sustainable if carried out. Instead, in a market economy all decisions about how to organize a division of labor and distribute the benefits from having done so are settled by agreements between buyer-seller pairs – which predictably leads to outcomes that are inequitable, inefficient, and environmentally unsustainable.

(2) Even when adjustments are made during the year in a participatory economy individual buyers and sellers do not negotiate those adjustments between themselves however they see fit, including any adjustment in prices. Instead, adjustments are negotiated socially. Industry and consumer federations negotiate

adjustments in production. And whether or not to adjust indicative prices is also a social decision, so that fairness as well as efficiency can be taken into account.

Markets are the aggregate sum of haggling between many self-selected pairs of buyer-sellers. Neither participatory planning nor the adjustment procedures I have discussed above permit self-selected buyer-seller pairs to make whatever deals they want -- because we have learned that the consequences of allowing this are unacceptable.

### **Externalities**

Erik points out: *“The geographical boundaries of a particular source of pollution may or may not correspond to the boundaries of existing consumer federations.”*

Erik is absolutely correct. New “communities of affected parties,” or CAPs would have to be created whenever the effects of pollution did not conform to areas already defined as neighborhood consumer councils or federations, which adds a whole new institutional layer to the economy. Moreover, I have acknowledged that the most difficult problem with our proposal for how to handle externalities will be settling on membership in CAPs.<sup>8</sup> I have stated for the record: “Since membership in a CAP entitles one to extra consumption rights a serious problem will be that people may claim to be adversely affected and deserve membership in a CAP even though they are not. This means the process of defining CAPs -- deciding who should, and who should not be included – must be carefully monitored. It might even be necessary to create a formal ‘judicial’ system for settling disputes over membership in CAPs. Presumably expert testimony of scientists and medical personnel would be relevant, along with testimony on the part of individuals petitioning for membership, as well as testimony from current members contesting their claims.” Unfortunately, there appears to be no way around this.

Erik asks: *“Would coalitions of most affected consumers be able to constitute themselves as an ad hoc federation and insist on higher prices for the rights to pollute?... Could they constitute a blocking coalition?”*

No. This is a misunderstanding of how the procedure works. Once membership in a CAP has been settled – through what may sometimes be a contested judicial process as explained above – the CAP must come up with a single answer to how many units of the pollutant they are willing to permit given the level of compensation quoted. Disagreements among members of CAPs about how much

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<sup>8</sup> This and other issues Erik raises are treated at great length in “Wanted: A Pollution Damage Revealing Mechanism,” under review at the *Eastern Economic Journal*.

to allow must be hashed out among themselves – presumably through discussion where people try to persuade others to agree with them, but ultimately determined by democratic vote. There will be disagreements among members of CAPs over how the CAP should respond, just as there will be disagreements among members of consumer councils and federations over how much of any public good to request. But just as members of consumer councils and federations who have different preferences and opinions must come up with a single answer for which public goods to request, and how much, so must members of a CAP with different attitudes about pollution come up with a single answer to how much pollution they are willing to permit.

A different issue is whether the compensation paid the CAP will be distributed equally among all its members. Again, I have addressed this issue at greater length in the article cited above. The simple solution is to distribute equal shares to all members of a CAP, in which case everyone has an incentive to report truthfully how much they believe they will be damaged. However, if members of a CAP wished to pay greater compensation to members who are more adversely affected they could do so without distorting incentives to report damage by using any of several “incentive compatible mechanisms” that are now part of the public good literature. The key to incentive compatibility is that the formula for determining an individual’s compensation must *not* use the individual’s own reported damage. As ingenious as they are, I suspect people would usually find these incentive compatible procedures for distributing compensation unequally among members of CAPs to be more trouble than they are worth.

Erik says: *“Unless I am misunderstanding the process involved, the procedures Robin advocates would likely generate considerable heterogeneity in the pollution taxes (i.e. the negative externality charges built into “indicative prices”) faced by producers of similar goods in different places. This means producers in areas where consumers don’t care so much about pollution would be able to produce at lower cost. However, there is no restriction (as far as I can tell) that they only distribute their products to the pollution-indifferent consumers. This means that the same goods will be available to consumers elsewhere at lower and higher indicative prices depending on the pollution preferences of consumers in the places where production takes place. This begins to look like a situation that generates market pressures on the high cost producers.”*

While true that in Portland Oregon firms may be charged a higher amount for a ton of particulate matter released than firms in Dallas Texas, this does not produce the problem Erik worries about. What it does is induce firms releasing particulate matter to locate in Dallas rather than in Portland. The charge is higher in Portland

either because Portland is hemmed in between the Coastal and Cascade Mountains so the particulate matter stays in the air longer than in Dallas where the prairie wind sweeps it away faster, or because Portlanders value clean air more than the residents of Dallas. In either case, our best estimate of the social cost of particulate emissions in Portland is higher than in Dallas, and that is a signal we want to send particulate emitters when they are deciding where to locate.

What happens when a worker council building houses in Portland needs cement? There will be a single indicative price for cement nationwide which it will be charged for each ton it uses no matter the source. But where will the cement come from? A Portland cement factory, or a cement factory in Dallas? If the social cost of transporting the cement from Dallas to Portland is less than the higher social cost of producing cement in Portland because the charge for releasing particulate matter in Portland is higher, the cement will come from Dallas. Otherwise it will come from Portland.

Finally, Erik suggests: *“Consumers might decide that they prefer a simpler system which combines government regulations that impose various kinds of limits on allowable pollution with a system of uniform taxes on different types of environmental externalities.”*

Simpler is always better, all other things being equal. But in this case other things are not equal. Government regulations mean limiting emissions. But how much should the government require polluters to reduce emissions? 5%, 10%, 30%, 70%? A market system provides no help when we try to answer the “how much” question. A uniform tax on each type of pollution? The example above demonstrates why the same tax on particulate emissions in Portland and Dallas is actually wrong. But even if a uniform tax on particulate emissions nationwide were efficient, how high should the tax be? \$5 a ton, \$10 a ton, \$30 a ton, \$70 a ton? Again, the market system provides no help when we try to answer the “how high” question. The beauty of the procedure we have proposed, as Erik acknowledged, is that it generates a credible quantitative estimate of how high emissions charges should be, and induces players to emit socially efficient quantities as a result. It is true that you don’t get this major advantage at no cost. But the cost reduces to spending some extra time and resources to set up a judicial procedure to settle foreseeable disputes over membership in communities of affected parties.

There is actually one other “cost” – although I think Erik will agree with me that it is actually not a “cost” but a “benefit.” Our mechanism doesn’t work if communities have significantly different incomes because it would lead to a race to the bottom effect where pollution was unfairly and inefficiently located nearer poor

communities. Only in a highly egalitarian economy such as the participatory economy we propose does it appear possible to design a mechanism that reveals accurate quantitative estimates of the damage from pollution.

### **Public Goods Planning**

As Erik says, we are in substantial agreement about how to plan for public good consumption. He is correct that once it is decided how much of consumers' income will go toward private versus public consumption, approval of private consumption requests could be handled outside neighborhood consumption councils. I have already explained why designating neighborhood councils to handle private consumption requests, as well as requests based on special needs and requests for loans, seems to be a good way to build strong local communities, but all these decisions could be de-localized if people wanted to.

Erik is also correct when he observes that many functions performed by what we call political institutions today are performed by consumer federations in a participatory economy. That is because markets cannot be relied on to provide adequate amounts of public goods, so different levels of "government" must step in and do this through public expenditures on public goods paid for by taxes. In effect, market economies fail utterly to provide public goods, so in the most egregious cases people have come to insist that government institutions fill this void, even if very imperfectly. Since we consider public goods to be just as much a part of "the economy" as private goods, we have proposed economic institutions and procedures to handle them, which we believe also eliminates the unfortunate bias in market economies against public goods and in favor of private good consumption.

Frankly, I don't see the distinction Erik tries to draw between consumer public goods and citizen public goods. Not all goods that are public are public for the same reason and the same way. And "yes," each of us is both consumer, producer, and citizen. And "yes," there will still be a need for an appropriate set of political institutions to handle political issues besides the institutions we have proposed to handle economic decisions.<sup>9</sup> But I don't see any purpose in setting up a separate network of citizen councils to demand citizen public goods. Even if this were done, presumably these councils would function just as our consumer federations do, and

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<sup>9</sup> Stephen Shalom has proposed a set of political institutions that he argues are compatible with the values and goals of a participatory economy, which is sometimes referred to as "parpolity."

they would have to participate in the participatory planning process, making and revising proposals in every round.

### **Risk and Innovation**

Any group of workers who can submit a proposal during the planning procedure that is approved as socially responsible, i.e. whose social benefit to cost ratio is at least one, will receive the inputs it requests to start producing when the year begins. That could be a group composed mostly of students exiting the educational system. It could be a group of disgruntled members of an existing worker council who have been consistently outvoted about how to do things, and who want to start up a new operation to try and do things their own way. The problem is how to protect others from negative consequences if a group of crackpots submit a proposal that looks good and is approved, but in fact is a fantasy because they will not be able to comply with their promise. If this happens at a minimum resources will be wasted, and in all likelihood other worker councils who rely on deliveries from the crackpots which do not arrive will be unable to fulfill their plans through no fault of their own. That is what I meant when I wrote that it seems wise to empower industry federations to verify the credibility of new groups asking to participate in the planning process. By “credible” I simply meant “not obvious crackpots.”

I sympathize with Erik’s concern that industry federations might be too conservative in these judgments, and act like old fuddy duddies who stifle creative new ideas. And I would look kindly on any suggestions to prevent this from happening. What I do not agree with is Erik’s tendency to interpret democracy with regard to economic system design as “anything any group in the economy wants to do should be permitted rather than disallowed.” There will be people in a participatory economy who want to start up a privately owned firm, hire employees, and keep the profits. When a solid majority disapprove of this kind of economic relationship I think they have every right to outlaw it. It has no place in a participatory, equitable economy. It is inconsistent with economic self-management for the employees, and when wages commensurate with sacrifices are not forthcoming, it will be inconsistent with economic justice as well. Crowd sourcing where investors earn a return on their investments would melt the glue of economic justice that holds a participatory economy together. It would create the same problem the Cuban government creates every time it succumbs to pressure to appease frustrated Cuban entrepreneurial desires by allowing people to start up small businesses for profit. When a trained doctor stops doctoring in Cuba to drive a private taxi, and earns ten times more a week from doing so than his fellow doctors who continue to work in public clinics at wages commensurate with their



efforts and sacrifices, it makes those colleagues feel like suckers. What Cuba has long needed to do instead is to allow frustrated Cuban workers to self-manage their own workplaces, and allow Cubans with frustrated entrepreneurial ideas opportunities to start up new worker self-managed enterprises that balance jobs and reward effort.

But there is a practical problem with Erik's suggestions about risk and innovation as well. Even if those who received startup funds from crowd sourcing agreed that the enterprise would be run according to participatory economic principles, and even if investors received no return on their investment, the new enterprise would have to obtain the inputs it needs to operate through the participatory planning procedure. And it can't do this without being certified as "credible."

I think what are needed are multiple ways for groups who want to start up new enterprises to demonstrate their credibility so they can participate in the planning procedure. If a group comes with an impressive display of crowd sourcing support, this can demonstrate credibility. If members of the group have relevant educational credentials, this can demonstrate credibility. If members of the group have worked in the industry elsewhere this demonstrates credibility. Another option would be to create a review board separate from all the industry federations where groups who were turned down for accreditation by their industry federation could appeal for approval. We could even order this board to overturn rulings until the number of new firms they approved who turned out to be crackpots reached some specified percentage – demonstrating that we were no longer being too conservative in accrediting startups.

It seems to me better to think along these lines than to think about adding a dose of capitalist investment to a participatory economy. Not only is this a practical impossibility because of the way all enterprises must obtain their inputs, it is unnecessary and destructive of equitable cooperation.

### **The Organization of Work and Pay**

Erik and I are clearly in broad agreement on these issues: He writes: *"I fully support the central ideas of Robin's framework for both the organization of work and for pay: balanced job complexes and pay determined by effort rather than contribution."* As I noted earlier, many prominent market socialists do not support either balancing jobs or pay according to effort rather than contribution, so it is gratifying to have an ally on these issues which are highly contested at this point even among those who see themselves as staunch "leftists."

Moreover, since I was never under any illusions that balancing jobs and rewarding effort would always be easy to achieve, I welcome discussion about difficulties that will arise in what Erik calls “*the practical implementation of the ideals.*”

As I see it there are two “practical” problems: (1) There will be people in a participatory economy who disagree with the principles. What does one do when workers in an enterprise want to reward contribution rather than effort? What does one do when workers in an enterprise don’t want to balance jobs? (2) Even if everyone did agree on balancing jobs and rewarding effort, sometimes it will be difficult to accomplish because effort, empowerment, and/or desirability can be difficult to measure.

Regarding the first problem: Supporters of participatory economics *recommend* that worker councils *try* to balance jobs and reward effort *as best they can, taking practical obstacles into account.* However, we *propose* to leave this up to individual worker councils to work out as they see fit, and we would oppose any proposals authorizing anyone outside a workplace to impose these policies on a workplace where a majority of members did not wish to implement them. This is why we expect that different worker councils will go about things quite differently. Some may decide to do just what Erik suggests might prove reasonable in some cases -- pay everyone the same rate of pay per hour they work.

What does one do then when a majority of members of a worker council want to reward contribution rather than effort? What does one do when a majority don’t want to balance jobs? And, “yes,” in early years there will be worker councils where those favoring balancing jobs and rewarding effort will be in the minority. First and foremost, other workers in the same enterprise must argue with these workmates, explaining to them why failing to balance jobs will erode effectively equal rights to participate in workplace decisions, and why rewarding contribution rather than effort will be unfair to some members. Secondly, political groups who champion economic democracy and justice must wage fierce ideological campaigns on these subjects. There must be an ongoing national dialogue on these issues driven by political parties and interest groups, facilitated by the formal political and educational systems, until what may start as a slim majority who support these principles nationwide has become an overwhelming majority. It will be of great importance that such a national debate form the backdrop for discussions that will rage inside individual worker councils. But we believe, and I suspect Erik agrees, any attempt to impose these principles on unwilling workers will only prove counterproductive.<sup>10</sup>

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<sup>10</sup> As indicated previously, I do not believe this principle should be applied to minorities who want to set up private businesses for profit. A participatory economy is an economy where the

Regarding measuring effort: I admit it is sometimes difficult to measure effort, or sacrifice, and confine myself only to clarifying one issue that is understandably confusing.

Erik writes: *“Different people can experience the exact same intensity of work as very different levels of burden. Some professors find sitting at a desk and writing intensively for eight hours exhilarating; others find it torture.”*

And: *“I would find it an excruciating burden to collect tolls at a bridge four hours a day, but I find it a pleasure to write and lecture 60 hours a week. Which involves more ‘effort’? I would rather work 60 hours a week at my job than 20 hours a week as a toll collector even for the same overall pay, but many toll collectors would find it an enormous burden to spend as many hours a week as I do doing the ‘work’ I do.”<sup>11</sup>*

Consider this: Just as some people like apples more than oranges while other people like oranges more than apples, some people like mowing lawns more than washing windows (me) while other people like washing windows more than mowing lawns (my eldest son.) It would have been crazy – economists call it “inefficient” – for me to have washed the windows and my son to have mowed the lawn at our house. It would have been less crazy, but nonetheless still crazy for each of us to mow and wash half the time. So of course we agreed that I would mow four hours a week and he would wash four hours a week -- *and our jobs were balanced for both desirability and empowerment!*

What’s the trick? Mowing lawns and washing windows are more or less equally unempowering. Mowing lawns and washing windows are more or less equally undesirable *for the average person*. Clearly they are not equally undesirable for either me or my son; and an hour spent mowing would have been a bigger sacrifice for my son than for me, just as an hour of washing windows would have been a bigger sacrifice for me than for him. But if you advertise window washing and lawn mowing jobs for the same rate of pay the line of applicants for each job would be roughly the same length, and *that is the sense in which we call them equally undesirable forms of human activity (as compared to leisure.)*

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role of employer is outlawed, just as the role of slave owner has been outlawed everywhere in the United States since June 19, 1965. But as long as every worker in a worker council has one vote, I believe each worker council should be permitted to decide how to organize work and how to reward one another as they see fit.

<sup>11</sup> David Kotz raised similar concerns in his contribution to a Symposium on the future of socialism published in *Science & Society* 66(1), Spring 2002.

Erik should clearly not apply for a job collecting tolls in a participatory economy, any more than I should have washed windows at my house. However, *because on average people would rather write and lecture than collect tolls* Erik should be compensated somewhat less for an hour of professor work than a toll worker is compensated for an hour of toll collection -- whether or not practical complications make this easy to measure and achieve in a participatory economy.