

What Would a Socialist Economy Look Like?

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1 The Problems of Capitalism

Many of these problems are not peculiar to capitalism, but a socialism worthy of the name would solve them. Most of the problems are interrelated.

Inversion of Means and Ends The economy should exist to serve human needs, rather than people existing to serve the economy. As individuals, most people confront the economy as something which imposes on them a series of unappetizing choices. As a society, the economic sphere has metastatized, sweeping more activity into the realm of the market. Growth has become an end in itself, threatening the survival of the planet and the species. And the profits of arms makers supercede the right of people everywhere to be free from war and coercion.

Power The power of the rich over the rest of us is often lamented, as is the corrupting influence of money in politics. Less appreciated is the power of corporations acting *in their own interest* to shape politics. The entire structure of laws and institutions, domestic and international, that limit the scope for democratic choice is also a problem. Men have power over women, whites over non-whites, and Europeans over non-Europeans. Finally, economic organizations are essentially feudal in their structure, with the president and board as king and others following their orders.

Inequality You know the drill.

Poverty Including low wages and joblessness.

2 Feasible Socialism

Alec Nove, in his book, **Feasible Socialism**, lays out a blueprint for Socialism that has many attractive features. His socialist economy has a variety of forms of economic organization, including cooperatives and state-run enterprises, the latter being reserved significant, large scale natural monopolies. It would have a bias toward smaller-scale organization. Units above a certain size would be subject to democratic control through some mix of control by those working in them and other interested parties, including the national and local governments.

3 The Problem of the Market

In Nove's story, as in many others, economic enterprises compete in a market. I am provisionally convinced by the argument that real markets, with real rewards for success and penalties for failure, help the performance of the economy. Even so, I think the case is overstated: much of the dynamism of modern economies comes from research in universities, and most individuals engaged in research in industry are on salary—they don't own the economic benefits of their discoveries. The increase in agricultural productivity has historically been one of the main drivers of prosperity, and the US achievements in that area owe much to government-sponsored efforts to discover and publicize agricultural improvements. Finally, government military spending has been crucial to many industries. A lot, perhaps even the crucial part, of long-term innovation comes from processes which do not link innovation to material reward.

But, as I said, I think I accept that we need markets.¹ If one accepts a market in goods, then some firms will make more money and others less, and so will the people working in them. If one accepts a market for labor, then what will block the dynamics of the current labor market and the massive inequality that it brings (particularly in the US)? Nove speaks of an incomes policy, and decisions about maximum acceptable inequality, but passes rather too quickly over the problem of how those would be implemented. In fact, he notes that such decisions could not be binding on the types of business in

¹Even in Soviet central planning, there were markets in consumer goods and labor, though of a modified kind. So we haven't really had a large-scale experiments in completely doing without markets.

which most people would probably work.

This is not a minor problem: most income is labor income, and a socialism that does not attack the inequality of labor income is not serious. Furthermore, despite the great praise that has been heaped on the market, even by self-described socialists, there is nothing impressively fair or efficient about the labor market. The existing economy has wide variations in what people make, even if they are doing about the same work or if they have about the same characteristics (2:1 ratios of pay between the highest and lowest paid jobs in the same narrow job category are the rule in metropolitan labor markets). In part, it's just dumb luck: some jobs pay more than others, and some people get the good jobs and others don't.

A direct attack on such inequality runs afoul both of the supposed importance of linking economic performance of businesses to their members well-being, and to the principle of freedom of action of individual businesses and the citizens who join those businesses. The most obvious indirect attack on the problem through progressive taxation has nothing particularly socialistic about it.

This doesn't mean progressive taxation is a bad thing, but if in fact we are fighting for a market economy with more democratic firms and progressive taxation then it does seem we might dispense with the socialist label.

I believe this is the implicit position of many who call themselves socialists, and it is one reason for our lack of confidence. It lacks millennial fervor, and it may well be internally inconsistent. Is it possible to admit the market without having it take everything over?

4 Ways Out

Several responses to this dilemma seem sensible.

First, it suggests a closer look at exactly what it is about markets that seems crucial to innovation. There are markets in goods and services, labor, and capital. Markets consist of bundles of rights and practices. Perhaps we can slice off some part.

Second, if there is no way out, then we need to revisit the assumption of the necessity of markets.

Third, we need to consider the whole range of policies that could and do limit inequality in practice. If the government commits to making jobs available to people on some terms, that will place a floor on the whole economy.

Unions tend to reduce inequality, as does any process that makes individual wages public. Laws and tax incentives can press businesses to limit inequality.