



Participatory Economics & the Next System

By Robin Hahnel

Introduction

It is increasingly apparent that neoliberal capitalism is not working well for most of us. Growing inequality of wealth and income is putting the famous American middle class in danger of becoming a distant memory as American children, for the first time in our history, now face economic prospects worse than what their parents enjoyed. We suffer from more frequent financial “shocks” and linger in recession far longer than in the past. Education and health care systems are being decimated. And if all this were not enough, environmental destruction continues to escalate as we stand on the verge of triggering irreversible, and perhaps cataclysmic, climate change.



However, in the midst of escalating economic dysfunction, new economic initiatives are sprouting up everywhere. What these diverse “new” or “future” economy initiatives have in common is that they reject the economics of competition and greed and aspire instead to develop an economics of equitable cooperation that is environmentally sustainable. What they also have in common is that they must survive in a hostile economic environment.¹ Helping these exciting and hopeful future economic initiatives grow and stay true to their principles will require us to think more clearly about what kind of “next system” these initiatives point toward. It is in this spirit that the model of a participatory economy was created: What kind of “next system” would support the economics of sustainable and equitable cooperation?

The vision or model of a participatory economy is intended to demonstrate that a coherent, feasible, and desirable next economic system is perfectly possible; in short, it rebuts the “disabling” myth that “There Is No Alternative” (TINA) to capitalism and command planning.² The model should not be confused with a transition strategy or program to take us from the economics of competition and greed we are ensnared in today to an economics of equitable cooperation. However, clarity about what kinds of institutions and practices may best achieve our goals does have implications for strategy. So after explaining how a participatory economy might work, I comment briefly on what this implies about some priorities in the here and now.

Goals

The institutions and decision-making procedures of a participatory economy are designed to promote economic democracy, economic justice, environmental sustainability, and human solidarity—all while achieving economic efficiency. Many economic visionaries write in support of these goals but remain vague about what they mean concretely. We believe it is crucial to be very clear about precisely what one means by these goals, because often which economic institutions and procedures are appropriate depends very much on how one defines them. For us, *economic democracy* means decision-making input in proportion to the degree one is affected; *economic justice* means compensation commensurate with one’s efforts or sacrifices; *sustainability* means protecting the natural environment *and* ensuring



that future generations enjoy overall economic conditions at least as favorable as those we enjoy today; human *solidarity* means consideration for the well-being of others; and economic *efficiency* means using scarce productive resources and human capabilities wherever they yield the greatest social well-being.³

Major Institutions

The defining institutions of a capitalist economy are: private ownership of the means of production, limited liability corporations, and markets. In contrast, the major institutions that comprise a participatory economy are: *social ownership* of the productive “commons,” *democratic worker councils and federations*, *neighborhood consumer councils and federations*, and a very carefully constructed procedure we call *participatory planning* that these councils and federations use to coordinate, or plan, their interrelated activities themselves.

Social Ownership

In a participatory economy, everything needed to produce our way of life belongs to everyone, no more to one person than any other. While individuals own personal property, everything we need to produce goods and services is owned in common. This includes an expanded understanding of our natural environment to include “vital sinks” as well as natural resources (the *natural commons*), an increasingly complex array of useful manufactured artifacts (the *produced commons*), productive knowledge or “know-how” (the *information commons*), and all of the useful talents and skills people have that allow us to deploy all this natural and produced where-withal to productive ends. All of this “commons for modern times” is treated as a joint inheritance—what Joel Mokyr calls a “gift from Athena”—bequeathed to us all by countless generations who went before us. In our view, nobody has any more right to decide how this gift is used, or benefit from its use, than anyone else.⁴

Democratic Councils

Worker Councils: In a participatory economy, every worker in a workplace has one vote in the worker council, which is the ultimate decision-making body for the



enterprise. Just as stockholder meetings, where each stockholder votes as many times as the number of shares she owns, are ultimately “sovereign” in a capitalist corporation, the worker council, where each worker-member has one vote irrespective of seniority, is “sovereign” in a participatory economy. This does not mean worker councils will not grant authority over some decisions to particular groups of workers who are more affected. Nor does it mean workers will no longer avail themselves of expertise when it is useful for making decisions.

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Balanced Jobs: Every economy organizes work into jobs that define what tasks a single individual will perform. In hierarchical economies, most jobs contain a number of similar, relatively undesirable, and relatively disempowering tasks, while a few jobs contain a number of relatively desirable and empowering tasks. But why should some people’s work lives be less desirable and less empowering than others? If some sweep floors all week, year in and year out, while others attend planning meetings all week, year in and year out, is it realistic to believe they will have an equal opportunity to affect workplace decisions simply because they each have one vote in the worker council? To prevent enterprise democracy from atrophying we recommend that worker councils create a job balancing committee to distribute and combine tasks in ways that make jobs more “balanced” with regard to desirability and empowerment.

The proposal is not that everyone rotates through every task, which is impossible and ridiculous. Balanced jobs do *not* eliminate specialization. Each person will still perform a small number of tasks. But to avoid disparate empowerment, every effort should be made to be sure that some appropriate, empowering tasks are included in everyone’s job description. Our proposal is that balancing be done by a committee of workers in each workplace as they see fit, not imposed on workers



against their will by some outside bureaucracy. In sum, we simply propose that workers reorganize their work to eliminate the large, persistent differences in empowerment and desirability that characterize work life today while taking technological, skill, and psychological considerations into account.

Compensation According to Effort or Sacrifice: As long as work requires people to make sacrifices, it is only fair that those who make greater sacrifices receive extra “consumption rights” to compensate them for their extra sacrifice. To implement this conception of economic justice, we require worker councils to provide their members with what we called an “effort rating.” Worker councils need not go about rating members in the same way, any more than they have to balance jobs in the same way. There is only one restriction placed on how a worker council can assign its members effort ratings: in order to avoid any temptation for workers to award workmates higher ratings than they truly believe they deserve in exchange for like treatment, councils must be capped in the average effort rating they award to their members.⁵

Consumer Councils and Federations: In a participatory economy, every household in a neighborhood: (1) submits a consumption request, together with effort ratings of household members who work and consumption allowances of members who are too young or old to work or are disabled; (2) participates directly in discussions about, and votes on, what neighborhood public goods to request; and (3) votes for recallable representatives to higher level federations of consumer councils at the ward, city, state, regional, and national levels, where delegates discuss what higher level public goods to request during the planning procedure. Individual requests for additional consumption due to special need, as well as requests to borrow and consume more than an effort rating or allowance warrants, are also handled by procedures established by each neighborhood council. By organizing consumers into councils and federations, which participate on an equal footing with worker councils in the participatory planning process described below, people are empowered as consumers and not just as workers, and the notorious bias against expressing one’s preferences for collective consumption in market economies is eliminated.



Participatory Planning

An annual planning procedure decides which worker councils will use what parts of the productive commons to produce the goods and services that are to be consumed by which consumer councils and federations.⁶ Each worker and consumer council, and each federation of consumer councils, participates by submitting a proposal for what that council or federation wants to do, i.e. councils and federations make what we call “self-activity proposals.” There is an “iteration facilitation board” (IFB) that performs one, very simple function: at the beginning of each round, or iteration, the IFB announces current estimates of the opportunity cost of using each kind of capital (natural, produced, and human), the social cost of producing every good and service, the damage caused by every pollutant, and the social benefits of each consumption good and service. The IFB raises its estimate for anything in excess demand in the previous round of the planning procedure, and lowers its estimate for anything in excess supply. Then, councils and federations revise and resubmit new self-activity proposals until a feasible plan is reached, i.e. until there is no longer excess demand for any natural resource, any kind of physical capital, any category of labor, any intermediate or final good or service, or permission to emit any pollutant. Each council and federation must revise and resubmit its own proposal until it meets with approval from the other councils.

Consumption council proposals are evaluated by multiplying the quantity of every good or service requested by the estimated social cost of producing a unit of the good or service and summing. This result is compared to the average effort rating plus allowances of the members of the consumption council or federation requesting the goods and services. A neighborhood council whose members have higher than average effort ratings—indicating that they made greater than average sacrifices as workers—is entitled to a consumption bundle which costs society more than the average, whereas a neighborhood council with lower than average effort ratings is entitled only to a consumption bundle which costs less than the average.

Worker council production proposals are evaluated by comparing the estimated social benefits of outputs to the estimated social cost of inputs. In any round of



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the planning procedure, the social benefits of a production proposal are calculated simply by multiplying quantities of proposed outputs by current estimates of their social benefits and summing. The social costs of a production proposal are calculated by multiplying inputs requested by current estimates of their opportunity or social costs, including current estimates of the damages that would be caused by pollutants emitted, and summing. If the social benefits exceed the social costs—that is, if the *social benefit to cost ratio* (SB/SC) of a production proposal exceeds one—everyone else is presumably made better off by allowing the worker council to do what they have proposed. On the other hand, if $SB/SC < 1$, the rest of society would presumably be worse off if the workers go ahead and do what they have proposed—unless there is something the numbers fail to capture. Just as the estimates of opportunity and social costs make it easy to determine whether consumer council requests are fair or unfair, the social benefit to cost ratio makes it easy to see whether or not production proposals are socially responsible.

Elsewhere, we have demonstrated that each round in this social, iterative procedure will begin with more accurate estimates of opportunity and social costs and benefits than the previous round. Worker and consumer councils and federations will be induced to “whittle” their self-activity proposals down until an efficient feasible plan is reached.⁷ Moreover, because estimates of opportunity and social costs and benefits are immediately available to all, there is no need for a central planner to be the final arbiter, approving or disapproving proposals. Councils can vote “yea” or “nay” on other councils’ proposals without time consuming evaluations or contentious meetings, except in occasional cases requiring special review.



In essence the planning procedure boils down to this: when worker councils make proposals they are asking permission to use particular parts of productive resources that belong to everyone. In effect their proposals say: “If the rest of you, with whom we are engaged in a cooperative division of labor, agree to allow us to use productive resources belonging to all of us as inputs, then we promise to deliver the following goods and services as outputs for others to use.” When consumer councils make proposals they are asking permission to consume goods and services whose production entails social costs. In effect their proposals say: “We believe the effort ratings we received from co-workers indicate that we deserve the right to consume goods and services whose production entails an equivalent level of social costs.”

The planning procedure is designed to make clear when a worker council production proposal is inefficient or when a consumption council proposal is unfair, and it allows other worker and consumer councils to deny approval for proposals they deem to be inefficient or unfair. But initial self-activity proposals, and all revisions of proposals, are entirely up to each worker and consumer council itself. This aspect of the participatory planning procedure distinguishes it from all other planning models, which we believe is crucial if workers and consumers are to enjoy meaningful self-management.

In sum, a participatory economy is a planned rather than a market system. Long-run development decisions, investment decisions, and allocation of user rights over the existing productive commons are all made via participatory planning procedures and *not* left to be determined by the laws of supply and demand in various markets. Nor is there a market for labor. People are free to apply to become members and work in any worker council of their choice. And worker councils are free to hire new members from applicants as they please. But *nobody's pay can be determined in advance at the time of hiring*. Pay is determined only after work has been done by the effort rating workers receive from their co-workers. So there is free labor mobility, but pay rates are not determined by the law of supply and demand.

Finally, it is important to note that the planning procedure eliminates the well-known bias in market economies against public goods in favor of private goods.



In every round of proposals, requests for public goods are made by different levels of consumer federations at the same time and on the same basis that requests for private consumption are made. In other words, unlike in market economies, during participatory planning it is just as easy to express desires for public as private consumption.

We believe there is an essential difference between economic institutions and systems designed to help people figure out how to cooperate with one another, in ways that are both mutually beneficial and equitable, and those that compel people who want to cooperate to compete against one another instead. Many have swallowed the myth that authoritarian planning is the only alternative to markets. Our participatory planning procedure demonstrates that this TINA is nothing more than a *disenabling* myth. Participatory planning *is* a feasible and practical alternative to both market competition and command planning.⁸

Protecting the Natural Environment

Present economies are not just environmentally unsustainable, they are crashing vital ecosystems at breakneck speed. Absent a massive Green New Deal in the next several decades that replaces fossil fuels with renewable energy sources and dramatically increases energy efficiency in agriculture, industry, transportation, and all parts of the built environment, humans are at risk of behaving like the proverbial lemmings. The question we should ask regarding any economic system is whether or not its basic institutions and decision-making procedures afford creative ideas and proposals about how we relate to the natural environment. The profit motive ignores many environmental effects unmeasured in the commercial nexus and drives producers to grow or die. Markets are biased in favor of economic activities that pollute and against activities that preserve and restore valuable ecosystems; promote throughput-intensive private consumption at the expense of less throughput-intensive social consumption; and promote consumerism at the expense of leisure—all to the detriment of the environment. In other words, capitalism is on a rapid road to environmental destruction and is incapable of granting ideas about how to better relate to the natural environment. The question is whether or not the basic institutions of a participatory economy



create a setting and incentives that promote judicious relations with our natural environment. When ideas like organic farming, recycling, locally grown produce, smart growth, public transportation, energy conservation, solar and wind power, and more leisure are proposed in a participatory economy, will we discover they must swim against the current, as they do in capitalist economies today, or will they find the stream is at long last flowing in their direction?

Protecting the Environment in Annual Plans: As long as producers and consumers are not forced to bear the costs of pollution resulting from their decisions, we will continue to pollute too much. How does participatory planning internalize the negative external effects of pollution? In each iteration in the annual planning procedure, there is an estimate of the damage caused by every pollutant released. If a worker council proposes to emit x units of a particular pollutant into an affected region, they are charged the indicative price for releasing that pollutant in the region times x . Similarly, they are charged y times the social cost of producing a ton of steel if they propose to use y tons of steel, and z times the opportunity cost of an hour of welding labor if they propose to use z hours of welding labor. In other words, any pollutants the worker council proposes to emit are counted as part of the social cost of its proposal, just as the cost of making the steel and the opportunity cost using the welding labor are counted as part of the social cost of its proposal—all to be weighed against the social benefits of whatever outputs they propose to make.

The “community of affected parties” (CAP) living in the region affected looks at the current estimate of damages caused by a unit of the pollutant and decides how many units it wishes to allow to be emitted. A CAP can decide they do not wish to permit any emissions at all. But, if the CAP decides to allow X units of a pollutant to be emitted in the region, then the CAP is “credited” with X times the estimate of damages for the pollutant. What does it mean for a CAP to be “credited?” It means members of the CAP will be able to consume more than they would otherwise, given their effort ratings from work and allowances. In effect, tolerating some adverse effects from pollution is treated as a burden people choose to bear, worthy of compensation, just like the burdens people take on in work deserve compensation.⁹



Protecting the Environment in Long-Run Plans: The fact that annual participatory planning can treat pollution and environmental preservation in an “incentive compatible” way is a major accomplishment and significant improvement over market economies. But while annual participatory planning may “settle accounts” efficiently and equitably concerning the environment for all those taking part in the various councils and federations, what protects the interests of future generations who cannot speak for themselves? How can we avoid intergenerational inequities and inefficiencies while preserving economic democracy when much of the adverse effects of environmental deterioration will fall on the unborn, who obviously cannot be part of democratic decision-making processes today?

The interests of future generations, which include the future state of the natural environment, must always be protected by the present generation. This is true whether it is a political or economic elite in the present generation that weighs the interests of the present generation against those of future generations, or a democratic decision-making process involving all members of the present generation. In a participatory economy, intergenerational efficiency and equity regarding the environment must be achieved in the same way intergenerational efficiency and equity is achieved in all other regards: by means of restraints the present generation places on itself in its democratic deliberations during the investment and development planning processes.¹⁰

If the long-run plan calls for more overall investment, this decreases the amount of consumption available to the present generation in this year’s annual plan. If the long-run plan calls for reducing the automobile fleet and expanding rail service in the future, this reduces the amount of investment and productive resources this year’s annual plan is permitted to allocate to worker councils making automobiles, and it increases the amount of investment and resources to be allocated to worker councils making trains. If the long-run plan calls for a 25 percent reduction in national carbon emissions over five years, the national consumer federation must reduce the amount of carbon emissions it permits in each of the next five annual plans accordingly. Major changes in the energy, transportation, and housing sectors, as well as conversions from polluting to “green” technologies



and products, are all determined by the long-run planning process that allow federations to express preferences for investments in environmental protection and restoration as easily as they can express preferences for investments that facilitate future increases in private consumption.

There is no way to guarantee that members of the present generation will take the interests of future generations sufficiently to heart or choose wisely for them. Whether or not the present generation decides on a long-run plan democratically or autocratically, there is no way to guarantee it will not make mistakes. Maybe replacing cars with trains for our descendants is a mistake because solar powered cars will prove to be as environmentally friendly as trains and more convenient. Nor is there any way to make sure the present generation will not behave like Louis XV and simply decide, *Après moi, le deluge* (*After me, the deluge*). We can hope that people who practice economic justice diligently among themselves, as a participatory economy requires, will practice it on behalf of their children, grandchildren, and great grandchildren as well. We can hope that people used to permitting pollution only when the benefits outweigh the costs will apply the same principle in their long-run planning and include the costs to those they know will follow them. We can hope that when people have choices posed in ways that make perfectly clear when they would be favoring themselves unfairly at the expense of their descendants, that they will be too ashamed to do so.

Long-run participatory planning is designed to make issues of intergenerational equity and efficiency as clear as possible. Annual participatory planning is designed to estimate the detrimental and beneficial effects of economic choices on the environment accurately and incorporate them into the overall costs and benefits that must be weighed. But even so, there is no guarantee that future generations and the environment might not be slighted. Some, like Dr. Seuss's Lorax, will have to speak up in the long-run participatory planning process when they think others in their generation are neglecting future generations and the environment.

Additional Features that Protect the Environment: Besides the features of the annual and long-run planning processes discussed above, there are other aspects of a participatory economy that make it more likely that people will treat the



natural environment judiciously: (1) An egalitarian distribution of wealth and income means nobody will be so poor and desperate that they cannot afford to prioritize environmental preservation over material consumption. There will be no destitute colonists cutting down and burning valuable rain forests because they have no other way to stay alive. There will be no poverty stricken local communities who acquiesce to host unsafe toxic waste dumps because they are desperate for jobs and income. An egalitarian distribution of income and wealth also means nobody will be so rich they can buy private environmental amenities while leaving the public environment to deteriorate. (2) A system that minimizes the use of material incentives and emphasizes rewards for social serviceability greatly diminishes the environmentally destructive effects of conspicuous consumption. There is ample evidence that what Juliet Schor calls “competitive consumption” drives many to consume far beyond the point where additional consumption generates well-being in excess of the cost of lost leisure.¹¹ There is good reason to believe this phenomenon will die out in a participatory economy. (3) An allocative system that provides productive resources to workers as long as the social benefits of their work exceed the social costs (including the environmental costs) eliminates the competitive rat race for producers to accumulate and grow despite adverse environmental consequences. In other words, unlike capitalist economies, there is no unhealthy and environmentally destructive “growth imperative” in a participatory economy.

International Trade and Investment

The model of a participatory economy is a concrete and comprehensive proposal for how any national economy might be organized to best promote economic democracy, economic justice, solidarity, and environmental sustainability while using scarce productive resources and laboring capacities efficiently. Since we are under no illusion that this would be done in every country at the same time, we assume that any country practicing participatory economics would have to coexist in a global economy where many countries are still capitalist. We propose a guiding principle for how any participatory economy should interact with other economies we call the “50 percent rule.” International trade can be advantageous



if there are truly differences in opportunity costs between countries. In which case, the terms of trade distribute the efficiency gain from international specialization between trading partners. Any participatory economy should trade if there are truly efficiency gains. However, to remain true to its commitment to economic justice, a participatory economy should fight to secure terms of trade that distribute more than 50 percent of the efficiency gain to the less developed country. If the participatory economy is less developed than a trading partner, this simply means fighting for the most favorable terms it can secure. But in cases where the participatory economy is more developed than a trading partner, this means agreeing to terms that distribute more of the benefit from trade to its trading partner. The 50 percent rule allows for mutual benefit, but *also* reduces global inequality.

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The same logic applies to international financial investment, which can yield global efficiency gains when investment raises productivity more in the borrowing country than it would in the lending country. As long as the interest rate distributes more than 50 percent of the benefit to the less developed country, international financial investment is consistent with reducing global inequality. Of course, it goes without saying that a participatory economy would play a leading role in an international coalition to make the 50 percent rule a cornerstone of a “new international economic order.” But even before the global economic system is reformed to be fairer, there is no reason a participatory economy could not participate in international trade and investment to its own benefit without violating its fundamental commitment to economic justice as long as it abides by the 50 percent rule itself.



Economic Decentralization: How Much?

When there are differences in the social opportunity costs of producing goods in different countries, or in different regions within a country, specialization and trade can be mutually beneficial. However, a significant part of the present division of labor, both internationally and within countries, decreases rather than increases efficiency. Commercial prices systematically fail to account for external effects leading countries and regions to specialize in producing goods in which they actually have comparative *disadvantages*. Commercial costs of transportation significantly underestimate the full social cost of moving goods, leading to overspecialization. So it is understandable why many economic visionaries call for a significant decentralization of economic activity and a significant increase in local self-sufficiency. They do so in response to the dysfunctional overspecialization that characterizes today's economies.

However, supporters of participatory economics differ from many who preach the virtues of localism in that we are *agnostic* with regard to how self-sufficient versus how integrated different geographical areas should be. There is no doubt that often more internal diversification and self-sufficiency would move us in the right direction. But the question is *how much* more self-sufficient should economies become? When push comes to shove, local visionaries invariably concede that local regions would be only *semi*-autonomous. But that leaves two crucial questions unanswered: (1) How large is *semi*? And (2) how do you propose that the *semi* part be coordinated? We believe that our participatory planning procedures are the best way to answer both questions. How self-sufficient and how integrated economies will turn out to be under our procedures is difficult to say in advance, or in general, which is what I mean when I say we are agnostic regarding how much decentralization is best. But we are confident that our procedures provide an appropriate way for finding the right mixture of self-sufficiency and integration, and that the participatory planning process is far superior to markets as a way for regions that are only *semi*-autonomous to arrange whatever degree of dependency they discover is mutually advantageous.¹²



Enterprises: How Big?

Supporters of participatory economics are also agnostic with regard to how large production units should be. While some visionaries cringe at the idea of any large-scale production units, we recognize that there are sometimes significant economies of scale, in which case worker councils with thousands of members may be appropriate. It is important to distinguish between true economies of scale in production and commercial, financial, and monopoly advantages that large producers enjoy in capitalist economies. Many large corporations today are large not because of economies of scale in production, but instead because larger firms enjoy advantages over smaller firms in advertising, financing, and pricing. Since large worker councils in a participatory economy will not enjoy any of these advantages, and since devising participatory decision-making procedures for large groups is more difficult than for small groups, no doubt there will be fewer large production units and more small and medium-sized production units in a participatory economy than there are today. But in principle we see nothing wrong with large organizations *per se*. And, as in the case of self-sufficiency vs. integration, we believe the participatory planning procedure is well suited to discovering when it is advantageous to have larger production units and when it is not.

Work Week: How Long?

Many visionaries emphasize how much shorter the work week will be when productivity is increased and what Herman Daly calls “uneconomic growth” is eliminated, explaining that this will give everyone more time for civic engagement and personal development. We believe a participatory economy will stimulate increases in productivity while eliminating pressures to engage in conspicuous consumption. However, we are agnostic regarding what choice people will make about their consumption leisure trade-off in a participatory economy. First of all, we expect this will depend on a country’s level of economic development. But even in the case of advanced economies, rather than try to identify some number of hours per week we deem will be appropriate, we leave the choice of a standard



work week to be decided democratically by people living in any participatory economy. Moreover, we see no reason individuals should not be free to work more or fewer hours than whatever standard is set.

Growth: Good or Bad?

It is important to be very clear about what we are talking about “growing.” As long as we are talking about growth of economic *well-being*, we see no reason this cannot continue to grow indefinitely. In fact, we believe a participatory economy will not only distribute well-being far more equally, but should increase the rate of growth of well-being per capita as well. What cannot continue to grow “without limit” is what ecological economists call environmental *throughput*—natural “resources” used as inputs in production processes and material outputs of production stored in natural “sinks.” But material inputs taken from nature and material outputs deposited back in “nature” are not the same as economic well-being. Assuming a constant population and no change in hours worked, a sufficient condition for throughput to remain constant is that throughput efficiency increase as fast as labor productivity.¹³

This is not to say that taking more of our increases in labor productivity as leisure rather than consumption, and substituting less throughput-intensive consumption for more throughput-intensive consumption are not crucial to avoid further environmental degradation. But, as outlined above, a participatory economy promotes exactly these changes. In sum, we see no reason to believe that throughput in general cannot be prevented from increasing, and some kinds of throughput such as carbon emissions cannot be dramatically reduced, while labor productivity and economic well-being per capita continue to rise.

Time Frame and Theory of Social Change

A participatory economy requires replacing private corporations and markets with social ownership and participatory planning. And, a majority of the population must support making these changes for an intensely democratic economy to work. Therefore, we cannot expect to establish participatory economies in most



countries in the near future. In most countries, a transition strategy spanning decades will be necessary. However, this is not true everywhere.

For example, in Venezuela the conditions for implementing major features of a participatory economy have been present for some time. A government pledged to build “twenty-first century socialism” enjoyed majority support from the electorate for more than a decade. Moreover, what Venezuelans call their “social economy” already contains many of the institutions necessary to build a participatory economy. What is lacking is a campaign to replace market relations with participatory planning among the cooperatives, assemblies, communal councils, community clinics, *misiones*, and people’s food stores, all which comprise the social economy sector. Then, once the social economy has been consolidated and integrated by participatory planning among its parts, and once it has proved its superiority, there is no reason a popular government in Venezuela could not soon extend the social economy to replace the dysfunctional private and state sectors. Likewise, the Cuban government could replace its system of authoritarian planning with participatory planning at any time, transforming existing Committees for Defense of the Revolution (CDRs) into neighborhood consumption councils—unleashing at long last the creative self-managing capabilities of Cuban workers and consumers. There is also no reason that progressive governments in other Latin American countries such as Bolivia, Ecuador, and Uruguay could not immediately take steps toward implementing various parts of a participatory economy.

Elsewhere, had the Syriza-led Greek government not submitted to the draconian neoliberal austerity plan, but instead had the courage to launch its own economic recovery plan, its economic program could have built worker and neighborhood councils and the beginnings of participatory planning. The same would be true for a Podemos-led government coming to power in Spain or a Left Bloc government coming to power in Portugal. However, in the US and most countries, popular support for replacing not only neoliberal capitalism, but capitalism itself, will take many decades to build.

Only when a majority are sufficiently disgusted by capitalism and confident that workers and consumers can manage and coordinate their own economic affairs



will it be possible to leave capitalism in the dustbin of history where it belongs, moving on to launch an economic system supportive of sustainable, equitable cooperation. In most of the world, this will only happen when economic reform movements such as the labor movement, the anti-corporate movement, the environmental movement, the consumer movement, the poor people's movement, and the global justice movement have all become much more powerful by earning the support of many more people than they have today. This will only be possible when there are many more successful experiments in equitable cooperation such as worker owned cooperatives, consumer owned cooperatives, community supported agriculture initiatives, egalitarian and sustainable intentional living communities, community land trusts, community development corporations, cities practicing participatory budgeting, B-corps, socially responsible investment funds, and enterprising municipalities that capture the new wealth created by city planning for the citizenry instead of allowing landlords and developers to seize it.

Without the example of successful experiments in equitable cooperation like these, people will never move beyond reform, which never fully solves problems and is always vulnerable to "roll back." On the other hand, without much larger reform movements, experiments in equitable cooperation will remain isolated and never reach enough people. Broadly speaking, the answer is more powerful reform movements and campaigns, combined with more and larger experiments in equitable cooperation. Neither alone will prove successful, but fortunately each helps mitigate predictable pitfalls in the other.¹⁴

We needn't fear for lack of crises in the future. Financialized capitalism, capitalism running on fossil fuels, plutocratic capitalism—in short, modern day neo-liberal capitalism—can be counted on to consistently run roughshod over the interests of the vast majority and produce major economic and environmental crises in the process. But these crises will only help move us forward if they lead to larger reform movements and more experiments in equitable cooperation. Crises undermine confidence in ruling elites, but only if new progressive political leadership is ready will this lead forward rather than simply increase popular cynicism. The goal is clear enough: We must convince a majority of people



that ordinary people are perfectly capable of managing our own economic affairs without capitalist employers or commissars to tell us what to do. We must convince a majority of people that groups of self-managing workers and consumers are capable of coordinating their own division of labor through participatory, democratic planning, rather than abdicating this task to the market system or central planners. But how this goal will be achieved, and how people will be prepared to defend necessary changes from powerful, entrenched, minority interests who will predictably attempt to thwart the will of the majority, will vary greatly from place to place. All that can be said about it with any certainty is that in most places it will require a great deal of educational and organizing work of various kinds, given where we are today.

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Notes:

- 1 With the help of funding from the Kresge and Compton Foundations, Economics for Equity and the Environment developed a framework for evaluating “future economy” projects and applied it to six very different case studies. The framework, case studies, and a summary of results can be found at “Future Economy,” <http://www.futureecon.org>.
- 2 There are four websites that contain much more information about participatory economics and its relations to other post-capitalist proposals: <http://www.participatoryeconomics.info> in the UK, <http://www.zcommunications.org> in the US, <http://www.osallisuustalous.fi> in Finland, and <http://www.parecon.se> in Sweden. The most up-to-date book explaining the model is Robin Hahnel, *Of the People, by the People* (Auckland: Soapbox Press, 2012).
- 3 For an in depth justification of these definitions, and reasons to prefer them to other conceptions, see Robin Hahnel, *Economic Justice and Democracy: From Competition to Cooperation* (London: Routledge, 2005), chapters 1 and 2; Robin Hahnel, “Economic Justice,” *Review of Radical Political Economics* 37, 2 (2005): 131-154; Robin Hahnel, *Green Economics: Confronting the Ecological Crisis* (Armonk, NY: M.E. Sharpe, 2011), chapter 3.
- 4 For a fuller exposition and justification of this conception of social ownership, see Robin Hahnel, “Participatory Economics and the Commons,” *Capitalism Nature Socialism* 26, 1 (2015): 31-43.
- 5 One could set equal caps for all worker councils. Or, alternatively, one could set the average effort rating for each council equal to 100 times the ratio of the social benefits of the outputs it delivered last year to the social costs of the inputs it used last year. A discussion of the advantages and disadvantages of these different rules for capping average effort ratings in worker councils can be found in Hahnel, *Of the People, by the People*, chapter 15. But as long as the average effort ratings of worker councils are capped, we need not fear workers will engage in “effort rating inflation,” because to balance higher than average effort ratings for some there must be lower than average ratings for others. For a response to various objections that have been raised about the desirability and practicality of our proposal to base reward on effort, or sacrifice, see Hahnel, *Of the People, by the People*, chapters 12 and 15.



- 6 The annual planning procedure takes place in the context of an investment plan that has already decided what investment goods will be produced this year and how they will be distributed to increase the capacities of different industries and worker councils at year's end. It also takes place when the stocks of all kinds of natural capital, produced capital, and human capital available for use during the year are known.
- 7 In particular, the participatory planning procedure will yield an efficient outcome even when there are externalities and public goods, whereas it is well known that the general equilibrium of a competitive market economy will not. Readers interested in these and other technical issues should see Michael Albert, and Robin Hahnel, *The Political Economy of Participatory Economics* (Princeton, NJ: Princeton University Press, 1991), chapter 5; Michael Albert and Robin Hahnel, "Socialism As It Was Always Meant to Be," *Review of Radical Political Economics* 24, 3&4 (1992): 46-66; Michael Albert and Robin Hahnel, "Participatory Planning," *Science & Society* 56, 1 (1992): 39-59. With help from a grant from the Institute for Solidarity Economics in Oxford, England, a team of researchers in the System Science Department at Portland State University and the Computational Social Science Department at George Mason University is analyzing a computer simulation of the planning procedure. Among other things, they are studying how robust the participatory planning procedure is even when traditional "convexity" assumptions break down.
- 8 Erik Olin Wright raises concerns about practicality, particularly regarding consumption planning in Robin Hahnel and Erik Olin Wright, *Alternatives to Capitalism: Proposals for a Democratic Economy* (New York: Verso Books, 2015), chapter 2, to which I respond in chapter 3. For a thorough discussion of "why not markets?" see Robin Hahnel, "The Case Against Markets," *Journal of Economic Issues* 41, 4 (2007): 1139-1159; Robin Hahnel, "Why the Market Subverts Democracy," *American Behavioral Scientist* 52, 7 (2009): 1006 – 1022; Hahnel and Wright, *Alternatives to Capitalism: Proposals for a Democratic Economy* chapter 5.
- 9 See Robin Hahnel, "Wanted: A Pollution Damage Revealing Mechanism," *Review of Radical Political Economics* (2016), <http://rrp.sagepub.com>; Robin Hahnel, "Environmental Sustainability in a Sraffian Framework," *Review of Radical Political Economics* (2016), <http://rrp.sagepub.com> for an in-depth analysis of this procedure and demonstration that under traditional assumptions the procedure will: (1) reduce pollution to "efficient" levels, (2) satisfy the "polluter pays principle," (3) compensate the actual victims of pollution for the damage they suffer, and (4) induce "communities of affected parties" to truthfully reveal the extent to which they are damaged by pollution—none of which market systems accomplish.
- 10 For a discussion of how we propose that investment and long-run development planning be organized, see Hahnel, *Of the People, by the People*, chapter 16.
- 11 Juliet Schor, *The Overspent American* (New York: Basic Books, 1998).
- 12 For a sympathetic critique of eco-localist visions, see Robin Hahnel, "Eco-localism: A Constructive Critique," *Capitalism, Nature, Socialism* 18, 2 (2007): 62-78.
- 13 See Hahnel, "Environmental Sustainability in a Sraffian Framework" for a rigorous demonstration of this result in a Sraffian framework and an explanation of how it can help sort out the "sense" from the "nonsense" in the steady-state and de-growth literatures.
- 14 For a more extensive discussion of ideas about theories of social change and transition strategy, see Hahnel, *Economic Justice and Democracy: From Competition to Cooperation* and Hahnel and Wright, *Alternatives to Capitalism: Proposals for a Democratic Economy*, part 2.



About the Author: Robin Hahnel

Robin Hahnel is a radical economist and political activist. He is Professor Emeritus at American University in Washington, D.C. where he taught in the Economics Department from 1976–2008. He is currently a visiting professor in economics at Portland State University in Portland, Oregon, where he resides with his family.

His work in economic theory is informed by the work of Thorstein Veblen, John Maynard Keynes, Karl Polanyi, Pierro Straffa, Joan Robinson, and Amartya Sen among others. He is best known as co-creator, along with Michael Albert, of a radical alternative to capitalism known as participatory economics, (or parecon for short). His more recent work is focused on economic justice and democracy, and the global financial and ecological crisis.

Politically he considers himself a proud product of the New Left and is sympathetic to libertarian socialism. He has been active in many social movements and organizations over forty years, beginning with the Harvard and MIT SDS chapters and the Boston area anti-Vietnam war movement in the 1960s.



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James Gustave Speth, Co-Chair, Next System Project

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