RESPONSE TO DAVID LAIBMAN’S “APPRaisal OF THE PARTICIPATORY ECONOMY”

On My “Errors”

In the interests of brevity and moving on to substantive discussion of concrete differences about how to go about planning, let me plead “guilty as charged” to what Laibman considers to be my “speculative-idealist” and “neo-anarchist” errors. I plead “guilty,” but I do not believe that they are, indeed, errors. Specifically:

On participation: I do believe that power vacuums get filled, and I do believe that history has demonstrated that being pessimistic about the consequences when people leave decisions affecting them to others is warranted.

On reward for effort: Laibman concedes the logic that rewarding effort, or differential sacrifice is fair. I have never recommended imposing this norm on a worker council whose members do not agree. So I do not see any practical disagreement between us on this issue.

On balanced jobs: Laibman concedes that balancing promotes greater participation by all in workplace decision-making. I have always conceded that balancing is sometimes difficult to achieve, and rejected imposing more balancing than a worker council chooses for itself. So again, I see no practical disagreement.

1 This commentary is in response to David Laibman’s article, “Horizontalism and Idealism in Socialist Imagination: An Appraisal of the Participatory Economy,” which appeared in this journal, Vol. 78, No. 2 (April 2014).
On consumption: Laibman objects to what he portrays as a devious attempt on our part to "structure consumption," and says: "We need to be clear: the enemy is capitalism, not department stores." Let me be clear: I believe the enemy is not only private ownership of the means of production but also the market system — not to be confused with department stores where goods can be displayed and acquired in any kind of economy. Specifically, I dispute the view that markets are fine, it is only "capitalist markets" that are problematic. I am surprised that Laibman, as a fellow advocate of comprehensive planning, did not agree with me rather than with market socialists on this point.

One of the many problems with markets is that they are not just a devious attempt to "structure consumption" choices; they are a powerful mechanism which does significantly mold consumption choices in counterproductive ways. By minimizing the transaction costs of expressing preferences for individual consumption, but failing to reduce transaction costs for expressing preferences for collective consumption, markets bias consumption choices toward the former and away from the latter. One of the advantages of planned economies is that it is possible to eliminate these perverse biases. A participatory economy eliminates them by having consumer federations express preferences for collective consumption and environmental protection at the same time people express their desires for individual consumption in the iterative planning process.

The Essential Issue

However, besides accusing me of these "errors," Laibman offers an extensive criticism of our participatory planning procedure. Let me flag what I see as the essential issue before responding to Laibman’s specific criticisms.

In our system consumers propose what they want to consume through their neighborhood consumer councils and federations; and workers propose what they would like to produce through their worker councils and federations. We call these "self-activity proposals" and claim as a principle virtue of

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2 When I use the plural "our," I refer to work done by Michael Albert and myself over recent decades; see, e.g., Albert and Hahnel, 1991; 1992; 2002.
3 What exactly are "capitalist markets," and how do they differ from "non-capitalist markets?" In capitalism there is a labor market where "labor power" can be purchased by capitalists who own the means of production. All socialists agree that we should eliminate this particular market. Whatever else "socialism" may be, it certainly requires elimination of the market for labor power, just as the market for slaves was finally banned when slavery was outlawed. The question, however, is: Having eliminated the market for labor power, is the rest of the market system somehow rendered unproblematic — as market socialists would have us believe? Or, is leaving economic decisions to "market forces" still sufficiently problematic so we should replace it with some form of democratic planning — as I believe.
our planning procedure that it allows consumers and workers to exercise greater influence over what they do than other procedures for arriving at a comprehensive production/consumption plan for the economy. However, consumers and workers need some way to know when their proposals are socially responsible, and someone has to say "no" to socially irresponsible self-activity proposals. A consumption proposal may be too greedy, i.e., impose costs on society in excess of what its members' work efforts warrant. A production proposal may use scarce productive resources belonging to all less efficiently than they could have been used elsewhere. There are three possible answers to the question: Who will blow the whistle on socially irresponsible self-activity proposals?

1) Rely on councils to self-police. This is the answer of many anarchists, whether they realize it or not. This solution says we can trust worker and consumer councils to make socially responsible self-activity proposals. Most anarchists think councils can be trusted to do what is socially responsible even when they lack the information necessary for them to figure out if their proposals are socially responsible. While anarchist proposals fail to do so, the participatory planning procedure does provide councils with the information necessary for them to determine whether or not their own proposals are socially responsible. Armed with estimates of opportunity and social costs, and average effort ratings for consumer councils, every worker council and consumer council can calculate whether or not its proposal is socially responsible. So in a participatory economy one possibility is relying on individual councils to police themselves.

2) Make our Iteration Facilitation Board into the policeman. Empower the IFB to sit in judgment on whether or not self-activity proposals submitted by worker and consumer councils are socially responsible. The IFB could simply reject proposals it deems socially irresponsible and leave it to councils to revise their proposals and resubmit. Or, after rejecting a proposal the IFB could revise the proposal to meet its criteria for social responsibility. This is how things were always done in centrally planned economies, and would effectively turn our IFB into a central planning board. It is also the solution I believe Laibman ultimately advocates.

3) Let other councils police. As Laibman accurately reports, this is the solution we propose — mutual policing by other councils — because we think it both unwise and unnecessary to entrust this important decision to a central authority. Many who otherwise might find this option appealing assume it is impractical because it would be too difficult or too time consuming.

I find it ironic that many anarchists reject the participatory planning procedure because they don't like the fact that it puts prices on things they don't like to quantify or compare, unmindful of the fact that without credible estimates of opportunity and social costs it is impossible for workers and consumers to know whether or not their proposals are socially responsible in order to even know how to self-police.
But before addressing these important questions, I must respond to some of Laibman's criticisms which frankly, I find farfetched.

**Misleading Criticisms**

1) To claim that the participatory planning procedure is a market economy because it involves a “talonnement” process is absurd. In its economic usage *talonnement*, which is simply French for “groping,” is a synonym for an iterative process. The method of material balances used in centrally planned economies for decades was a *talonnement* process, but it was an alternative to leaving production decisions to a “market process.” Pat Devine’s model of negotiated coordination of investment is a *talonnement* process, but it is an alternative to leaving investment decisions to a “market process.” Likewise, our model of participatory planning is a *talonnement* process — because worker and consumer councils revise and resubmit their self-activity proposals in a sequence of iterations, “groping” toward an annual plan. But this iterative, participatory planning procedure is an alternative to leaving annual production and consumption decisions to be determined by a “market process.” In short, conflating *talonnement* with markets is inaccurate and highly misleading.

A market process is one where any two parties are free to strike a deal whenever they wish to do so. As such, it is a process where what economists call “false trading” occurs frequently, since trades seldom take place at prices that would clear all markets. Walras’ thought experiment, where an auctioneer adjusts prices up or down in light of aggregate excess demand or supply — *i.e.*, where an auctioneer “gropes” toward finding market clearing prices — captures one element of what often goes on in markets. When there is aggregate excess demand for a good often its price tends to rise, reducing excess demand, and when there is aggregate excess supply for a good often its price tends to fall, reducing excess supply. But Walras’ thought experiment — like much of 20th-century neoclassical general equilibrium microeconomic theory — fails utterly to capture other essential features of markets, one of which is the prevalence of false trading and its consequences. In any case, in participatory planning no decisions are final until all excess demands have been eliminated — which is similar to Walras’ thought experiment but not to any actual market system. More importantly, in participatory planning no decisions are finalized until participants approve of one another’s proposals as socially responsible — which is not a characteristic of any market system, nor of Walras’ thought experiment.

2) Laibman is correct that a feasible plan might be voted down, and that if a feasible plan were voted down this would lead to changes in estimates of opportunity and social costs. But he is wrong to suggest that it would be
a mistake to vote down a feasible plan. Just because a plan is feasible does
not mean it is either efficient or fair. He is also wrong to assert that voting
down proposals in a feasible plan would leave “no prospect of convergence
in sight.” What we have proved in a peer-reviewed journal which nobody has
challenged for over 20 years, is that if worker council social benefit to cost
ratios less than one are rejected, if consumer council proposals whose average
social cost exceed their members’ average effort ratings are rejected, and if
the IFB adjusts prices in accord with excess demands and supplies, then the
planning procedure will eventually converge not only to a feasible plan, but
to a plan that is also efficient (see Albert and Hahnel, 1992).

3) Laibman is wrong about what councils in our participatory economy
need to know to vote “yea” or “nay” on other councils’ proposals. He writes:
“Each of n councils would have to have detailed knowledge of the local
circumstances in each of the other n – 1 councils; each council, in effect,
would have to be a central planning board unto itself.” Nothing could be
farther from the truth.

Here Laibman is channeling the famous “tacit knowledge critique” of
socialist planning von Mises and Hayek made almost a hundred years ago.
However, their critique was aimed at a central planning board — which is
what Laibman, not we, wishes to empower. Von Mises’ and Hayek’s point
was that no central planning board could possibly gather all the local knowl-
edge possessed by each production unit about its own circumstances and
abilities, and therefore, if central planning boards were empowered to make
decisions about what local production units do, decisions would be based
on missing information. Many after von Mises and Hayek have pointed out
that the problem is even worse than missing information. Production units
under central planning have a perverse incentive to mislead planners into
underestimating their true capabilities in order to induce planners to allo-
cate to them more inputs than they truly need, and set output quotas below
their true capabilities. Consequently, under central planning plans are often
based on misinformation, not just missing information.

But the incentives for production units in our participatory planning pro-
cess are exactly the opposite. Instead of under-reporting their true capabilities
— which is the “rational strategy” for production units in central planning
where units will be rewarded (or punished) for fulfilling production quotas
assigned them by the central planning board — worker councils in the par-
ticipatory planning process have an incentive to reveal their true capabili-
ties, because the more capable — those whose proposals have higher social
benefit to cost ratios — will be allocated the inputs they want, while the less
capable will not be. Any worker council which under-reports its true capa-
bilities during the planning process runs the risk of not having its proposal
approved and being disbanded.
So, in our model does each council have to try to elicit accurate detailed information from \( n - 1 \) other councils, as Laibman claims? Of course not, and when Laibman goes on about "not enough free evenings to the \( n \)-th degree" and "drowning economic democracy in a sea of information overload" he is engaging in hyperbole. As critics of central planning have pointed out, gathering detailed knowledge about unit production capabilities is an expensive, time-consuming task, even for a central planning board, especially since it is working against perverse incentives for units to misrepresent. We certainly do not recommend multiplying this dysfunctional process by \( n \). Our point is that all each council needs to know about the other \( n - 1 \) councils is whether their social benefit to cost ratios are above one, which means they are behaving in socially responsible ways, and our procedure places this information at everyone's fingertips.

There will be exceptional cases where "the numbers lie," requiring review. For a small percentage of proposals an investigation digging into precisely all of the detailed local knowledge that Laibman incorrectly asserts is required for normal cases will be necessary. What will determine whether special reviews are necessary for 2% or 1% or 0.1% or 0.01% of cases? Quite simply the tolerance workers and consumers in a real participatory economy will have for taking more time — reviewing more cases — versus running the risk that a proposal is misjudged — reviewing fewer cases.

4) Laibman complains that a negative vote does not tell a council why other councils think its proposal is socially irresponsible, and "what it has to do to bring its proposal into a condition for social approval." But this is exactly wrong. Every council whose proposal is rejected knows exactly what it has to do to win social approval: Modify its proposal until its social benefit to cost ratio is one or higher. Or, petition for a special review where it must explain to others satisfaction why the numbers lie in its particular case.

5) Laibman's discussion of price formation during the planning process is non-substantive and argumentative in the extreme. This is not the place to debate socialist price theory at length, or challenge Laibman's claim that classical Marxism provides the only coherent theory of price in all of economics. But I want to reiterate for the record that because we have incorporated a number of incentive-compatible mechanisms into the planning process with regard to externalities and public goods, the "indicative prices" that emerge from our planning procedure are reasonably accurate estimates of the opportunity costs of using different scarce productive resources and the social costs of producing different goods and services; and point out that

5 Laibman's talk of a "super ratio \( R \)" and an "\( R_{max} \)" is completely unnecessary and ends by missing the point: As long as another worker council's social benefit to cost ratio is greater than one the rest of us are all better off if they go ahead and do what they propose than if they do not, and therefore we have no reason to object.
Laihman offers no substantive argument to believe otherwise, despite the fact that he acknowledged our claims in these regards in his summary of the planning procedure early in his article. Instead, Laihman assumes that when prices are adjusted to equate supply and demand in the participatory planning procedure — which is required for any plan to be feasible — the same prices will emerge as would emerge from a market process, which is most emphatically not the case. Different processes, involving different actors, facing different constraints, generate different prices. And the iterative process called participatory planning is a different process, involving different agents operating under different constraints than mutually agreeable bilateral exchange between individual consumers and producers, i.e., a market system. Therefore the prices that emerge from the participatory planning process will be significantly different from the prices that emerge from market competition. Our estimates of opportunity and social costs are certainly not “Walrasian wolves in socialist sheep’s clothing.”

How Should Planning Be Organized?

In a self-conscious process of equitable cooperation in which worker and consumer councils make self-activity proposals, someone has to decide if proposals are “socially responsible.” As explained above, there are only three possible choices: self-policing, policing by a central authority, or mutual policing. Not only do we recommend mutual policing over self-policing or policing by a central authority, we recommend a particular criterion for mutual policing.

Why should anyone else have a say over what another worker or consumer council does, unless their proposal is somehow socially irresponsible? More precisely, why should groups of workers and consumers not be free to do what they choose, so long as they are not behaving in a way that 1) uses scarce productive resources that belong to all in a way that yields less social benefits than they might; 2) damages the environment which belongs not only to everyone living today but all future generations; or 3) is greedy, given how their sacrifices compare to those of others?

We believe others have the right to protect themselves against behavior on the part of other worker and consumer councils that is socially irresponsible in any of these ways. But fortunately, this does not usually require reviewing the details of others’ self-activity proposals, which is unnecessarily intrusive, and eliminates space for autonomous action preventing groups of workers and consumers from engaging in self-management. Reviewing details of worker council proposals is not only impractical; it is a “busy-body” vision of what democratic, socialist, economic planning should look like, and most people shrink from it with good reason. That is why we were at great pains
to design procedures that would give everyone the information necessary to quickly determine whether self-activity proposals were, indeed, socially responsible without need for detailed review, and proposed that this be the only basis for rejection.

Laibman asks, why then not let the numbers decide? Why not make rejection and acceptance of proposals automatic without voting? For the simple reason that sometimes numbers do lie. And for the substantive reason that we wish to engage everyone in a conscious process of coordinating autonomous economic activity constrained by the single criterion of social responsibility. What the worker council social benefit to cost ratios speak to is whether or not a plan is efficient. And what the consumer council average social cost to average effort comparisons speak to is whether or not a plan is fair. Since “speak to” is not the same as “conclusively demonstrates” we propose voting, and appeal procedures for any council whose proposal was voted down based on the numbers, but who still feels its proposal is responsible, i.e., that in its case the numbers do, in fact, lie. But notice that there is a coherent agenda for appeals: Why do the numbers lie in a particular case? This is a far cry from any group of workers or consumers petitioning to engage in an unstructured debate over why they should or should not be permitted to do something.

Laibman complains that councils do not talk to one another, or negotiate directly with one another. Except in the rare case of a special review, this is an accurate observation. It is also why our planning procedure is feasible in the sense of “practically possible” in a world where people do not have an infinite amount of time or patience to discuss and negotiate every aspect of every possible economic activity for every group in the economy in talkathons with no clear agenda.

Laibman summarizes his criticism as follows: “There is an unresolved tension between economic coordination and socialist democracy in the participatory economics proposal. Moreover, this tension is not resolvable, so long as the programmatic insistence on the horizontal principle is retained” (222). I think there is a practical problem, rather than some mysterious “tension” between “economic coordination” and “socialist democracy.” I also think the practical problem is best resolved by the participatory planning procedure rather than empowering what Laibman calls a “planning center.”

The problem stems from the undeniable fact that anything any group in the economy does has implications not only for the members of the group, but implications, usually of lesser and unequal magnitudes, for other groups as well. The immediate implication of this “problem” is that we should not give everyone equal decision-making authority over every decision. In other words, “straight up democracy” is not the desired solution. The practical side
of the problem stems from the fact that a meeting of all the members of all of the groups — or even of delegates from all the groups — to consider and evaluate all the options for all the groups is a practical impossibility. Even if we were willing to give every delegate one vote at such a meeting — which, as explained above, we should not — there would never be enough time for the delegates to review, evaluate, and vote on all the different possible activities all of the groups could engage in. Such a meeting, lacking any clear agenda for how to proceed, is a practical impossibility.6

So what is possible? We can trust what Laibman calls a “planning center” to gather and process all the detailed information that is impossible for everyone to do. We can put the planning center under democratic control. We can make the information gathering and processing competent. But in the end this is just an improved version of central planning which was practiced undemocratically and incompetently for many decades in the Soviet Union and elsewhere.7 Or, instead, we can empower worker councils to come up with their own self-activity plans, guided by simple metrics that inform them how their proposals affect others, and allow them to police one another as well. To make mutual self-policing possible we need to make the criterion for saying “no” very clear and simple for councils to apply. And we need to limit time-consuming judicial proceedings for difficult cases to a minimum. We believe this is what the participatory planning process we have proposed does.

Laibman concludes his criticism saying:

You can’t have it both ways. Either the councils are involved in detailed deliberations about each other’s proposals — in which case the specter of information overload reappears, and the issue of the power of councils to “say no” to each other must be faced squarely. Or they are not — in which case we have a “participatory economy of equitable cooperation” in which all behavior is parametric, and the impersonal forces of — dare I say — the market once again reign supreme. (Laibman, 2014, 229.)

This is pure sophistry. We did not propose that every council be involved in detailed deliberations with regard to what every other council does. As noted, not only is this undesirable; if any victorious socialist revolutionaries tried to

6 I suspect a truncated version of this practical impossibility is what many well-meaning people envision as “truly desirable, deliberative, socialist democracy.” But the problem with this vision is precisely that it is a practical impossibility, and when that proves to be the case a super-truncated version would leave us without a feasible plan, or more likely with a “default” plan that is feasible but with little to recommend it. A different problem is that many with what we might call a “libertarian bent” experience this kind of deliberative fantasy as a nightmare not a dream — as an undesirable intrusion on autonomous action.

7 Even so, the tacit knowledge problem and perverse incentive for production units under central planning to under-report their true capabilities would remain.
run an economy in this way it would grind to a halt in a matter of months. But the alternative we do propose is not, as Laibman claims, “the market once again.” There are no markets if no bilateral deals can be struck. Just because there are prices does not mean we have a market system. Without credible estimates of opportunity and social costs—our “indicative prices”—it is impossible for anyone to know if production or consumption proposals are socially responsible. And what does Laibman’s claim that “all behavior is parametric” and “impersonal” in our participatory planning procedure amount to? We provide councils with reasonably accurate metrics that allow them to make quick judgments about the social responsibility of most proposals so review boards can concentrate their time and energy on difficult cases that occasionally require more “personal” treatment.

The issue here is not whether councils should inform themselves about what the lives of those working in other councils are like, in all their rich human and social details. The issue is not whether workers and consumers should not learn more about the complicated ways in which their choices affect the natural environment. They can do all of this they want, both to learn more about how they affect and are affected by the world they live in, and also to learn better ways to do things from one another. Instead, the issue is who says “no,” and on what basis. In this regard we think councils have a legitimate interest in protecting themselves from socially irresponsible behavior on the part of others. That is why they get to say “no” to one another. What we have accomplished—that no other socialist visionaries have before—is demonstrate that a particular planning procedure can be relied on to generate very simple metrics that allow councils to make this determination easily and quickly, with the exception of occasional cases where detailed deliberation proves necessary.

This is not the place to examine Laibman’s alternative to our proposal in depth, centered around what he calls a “planning center” which he claims is distinct from both a “command-elite center” and a “perfunctory IFB.” In anticipation of another discussion, I can state what my main objection reduces to: Despite disarming adjectives, I find Laibman’s “planning center” to be indistinguishable from a traditional central planning board, which Laibman would empower, in my opinion, both unwisely and unnecessarily, to say “no” to groups of workers and consumers about what they can and cannot do, robbing them of an autonomy they should enjoy.

Robin Hahnel

4626 NE 25th Ave.
Portland OR 97211–6434
robinhahnel@comcast.net