Anarchist Accounting

Accounting Principles for a Participatory Economy

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There currently exist many useless things; many occupations are useless as well, for example, accounting. With anarchy there is no more need for money, no further need for bookkeeping and the other forms of employment that derive from this.

– Ravachol (late 1800s)

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PREFACE

The first time I came in contact with the participatory economics model was around the turn of the millennium. At the time I had already walked some distance down the mental road that would lead me away from a rather extreme neoliberal worldview where Margaret Thatcher and Ronald Reagan were role models, to an insight that finally drove me to a radical revaluation and reorientation of, not only my worldview but also of my whole life situation. In my job at the time as head of accounting in a large market leading bus company, I had become well aware of the obvious contempt that senior management at large companies can show towards their employees, and their relentless focus on maximising profit and personal gain at any cost, and above all, I had realised that I myself in my job was part of this. About the same time, mostly by a coincidence, I bought one of Noam Chomsky's books. In Chomsky's books systemic injustice and abuse of power, and their causes, are explained and described so clearly and obviously that it is impossible not to be affected. What an eye-opener it was! Thus my journey had begun.

I quickly became aware that the attempts to establish authoritarian socialist societies made during the twentieth century had been failures and that in practice they were often more undemocratic and unjust than the capitalism they replaced. It was obvious that hierarchies and concentration of power led to injustices and lack of freedom no matter how appealing the pro-worker rhetoric of Communist leaders. Libertarian tendencies within the socialist family of ideas seemed to provide a compelling analysis of the failures of authoritarian socialism.

Somewhere among all the texts on libertarian socialism, guild socialism, syndicalism and anarchism, which I began to read there was a reference to Participatory Economics. The Participatory Economics model was the clearest and most thoughtful alternative economic vision I had encountered. It describes in a coherent and consistent way how a modern society can organise its economy democratically and justly on the basis of libertarian socialist values, without private ownership of capital and without markets.

However, since my background is in accounting, I could not help but start pondering some of the practical accounting problems I felt the model generated that were not answered in any of the presentations of the model that I read. In September 2012 Professor Robin Hahnel, one of the model's two creators, visited Sweden and Stockholm for a number of presentations of the participatory economic model. During one of our informal conversations, I jokingly, but with a shred of seriousness, said that I was thinking about writing a book on accounting principles in a participatory economy. Without any hesitation Robin replied: "Then I have the perfect title ... Anarchist Accounting". The book title was born!

During the summer of 2014, I began writing and taking notes on various accounting problems, and their solutions, that I thought a future participatory economy would inevitably have to deal with. The notes grew and after a while I contacted Jason Chrysostomou, co-founder of the organisation Participatory Economics UK, to ask if he would be interested in helping with the creation of an English version. From this moment the book project became a collaborative effort, the result of which is both an English and a Swedish version of *Anarchist Accounting: Accounting Principles for a Participatory Economy*. I would also like to express my gratitude to others who have helped with designing diagrams, providing feedback and with proof reading. I am especially grateful to Professor Robin Hahnel who has provided extensive and constructive feedback for the book's initial two chapters, which describe the participatory economics model and set the scene for the rest of the book.

The book is essentially my own personal attempt to answer questions regarding the accounting of economic transactions in a participatory economy and I am solely responsible for any shortcomings in the suggested solutions of accounting problems that are presented in the book. Hopefully, others who are interested in serious and realistic alternatives to capitalism, and perhaps above all their practical implementation, will find the arguments interesting and stimulating.

Anders Sandström

Stockholm, 29th Febuary 2016

INTRODUCTION

If they think about it at all, most people assume there is no better alternative than capitalism, i.e. that markets and private ownership of capital are as unchangeable as the laws of nature. The widespread embrace of Margaret Thatcher's old TINA argument (There Is No Alternative) is arguably one of the biggest obstacles to replacing an economic system based on greed and competition with one based on democracy and justice.

People have a right to be sceptical of non-capitalist economic visions in light of twentieth century history[1]. Contemporary visions of a new economic system and a just society must provide an alternative to both capitalism and twentieth century authoritarian socialism. We who are looking for a different society must become much better at presenting and defending our visions, and above all, in explaining how they differ from twentieth century versions. At the same time, there is the risk that vision can promote sectarianism and elitism. To avoid this, and to ensure the right of future generations to make their own decisions, our visions must be flexible, inclusive, and allow continuous adaptation to new information and a changing world.

However, thinking through economic vision in a serious and concrete way provides at least three important benefits: (1) It builds optimism and confidence in the feasibility of a more desirable alternative system. (2) It helps to assess alternative strategic and tactical actions in our everyday struggles. And (3) it helps to inform experiments when people are in a position to begin implementing alternative social institutions. As long as visions are presented as merely proposals or suggestions and not as ideologically rigid dogmas, thinking through potential problems and exploring possible solutions in advance, can only be of help to future citizens who ultimately will decide how to build their new society.

How would accounting and bookkeeping look like in a society that does not allow private equity owners and private lenders and creditors, a society that is not based on greed and competition but instead on cooperation and solidarity? How would capital assets and production units be valued and monitored if they were not owned by private equity owners, and if the allocation of goods and services were not done through markets but instead through a form of democratic planning? Who would

1 In *Economic Justice and Democracy: From Competition to Cooperation*, Routledge Books 2005, Robin Hahnel describes twentieth century attempts to replace capitalism, and more contemporary alternative visions that have been created as a reaction to the failures of the twentieth century.

ask for what information? A non-capitalist, democratic economic system will need a coherent set of accounting principles in order to enable those affected by decisions to judge whether resource allocation and distribution of consumption rights is efficient and fair - at least as long as we live in a society with scarce resources.

This book focuses on the economy, and even more specifically on how accounting and bookkeeping principles could be designed in a libertarian socialist economic system. It explores what information and recording of transactions would be necessary to enable democratic participation and efficient decisions by those affected by decisions. The text must not in any way be interpreted as a definitive and immutable description of how the future accounting principles must be designed, but instead as just one of many possible ways to translate values into concrete solutions to technical issues. It should be seen as a starting point for further and ongoing discussions, and as a source of additional thoughts and ideas on the subject.

Some of the accounting terms that are used in the text may seem technical and sometimes even "capitalistic". This is inevitable because there is not yet an alternative non-capitalist economic terminology available to describe accounting principles no matter what system they belong to. A future alternative society is likely to develop a completely different set of terms to describe the activities and relationships discussed in this book. However, we want to show that it is possible to formulate and describe a coherent set of bookkeeping and accounting principles that are compatible with, and may even promote the goals of economic democracy and justice, even now, regardless of the concepts and terms used.

We hope to demystify issues that most consider too technical to concern themselves with, and show that a non-dogmatic discussion can be valuable despite some potential risks. We want to help demonstrate that alternative economic systems are indeed possible, and not merely lofty utopias that cannot be put into practice. And we want to inspire further discussion about economic vision. A discussion of this sort will of course never be "finished" but should constantly adapt and evolve based on new insights and new knowledge in a changing environment.

While this book focuses on the economy, it is important to keep in mind that the economy is only one part of society and that hierarchies with underprivileged and disadvantaged groups are found in all areas of society where the benefits and hardships resulting from social interaction are not distributed equally.[2]

ANARCHIST ECONOMICS

Anarchism is a political philosophy concerned with the abolition of coercive structures of authority and centralised power in society.[3] While today there exists much public misconception that associates anarchism with disorder and chaos, anarchist thinkers throughout the ages had in mind a highly organised form of society in which power, instead of flowing from the top-down, flows from the bottom-up. The closest example of an economy organised along these lines was in Spain from 1933-1936 where large parts of the economy in Republican controlled territory were under worker control, and industries were organised around federations of assemblies consisting of delegates subject to recall.

Participatory Economics is a formal economic model first presented in 1991 in two books by Michael Albert and Robin Hahnel[4], which is influenced by and firmly rooted within the anarchist/libertarian socialist heritage. Since then, it has been discussed, further developed and scrutinised in numerous subsequent books, articles, panel discussions, and debates on various forums all over the internet. The authors attempt to explain in concrete terms how in practice a modern economy of millions of people could be organised around the principles of self-management, equity and solidarity, as an alternative to both capitalism and authoritarian planning. A participatory economy is composed of self-managed worker and consumer councils, their federations, and a decentralised democratic planning procedure, outlined in more detail in the next chapter.

Anarchist Accounting: Accounting Principles for a participatory economy is based on the participatory economics vision but takes an additional step and discusses how accounting and bookkeeping could be designed

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2 For an account of how society's different spheres, their institutions, and hierarchies affects each other see Michael Albert et al., *Liberating Theory*, South End Press, 1986.

3 For a good overview on anarchist thought see Daniel Guerin. Anarchism. Monthly Review Press 1970 and Noam Chomsky. *On anarchism*. AK Press 2014.

4 Michael Albert and Robin Hahnel. *Looking forward*, South End Press 1991 and Michael Albert and Robin Hahnel. *The Political Economy of Participatory Economics*, Princeton University Press 1991.

and performed in a future libertarian socialist economy, in a way that is both consistent with and promotes its core values. This book is based on the Participatory Economics model and focuses on the model's institution for allocation - participatory planning - and especially on the requirements that participatory planning poses on information requirements and accounting. It touches only superficially and indirectly on the models other institutions such as jobs balanced for empowerment and desirability, and democratic decision-making procedures within the self-managed councils.

HISTORY OF ACCOUNTING

Every economy, both today and in the future, needs and will need some form of accounting. Accounting is the registration, summarisation and reporting of economic transactions in order to provide the necessary information for making economic decisions. For those unfamiliar with the subject, in Appendix 1 we provide a short introduction to accounting, which we recommend reading first.

The development of financial accounting from the simple notes of commercial transactions in antiquity to today's comprehensive accounting systems for monitoring, managing and controlling economic activity is the result of the needs of those in power and of capital owners, their need for increasingly sophisticated accounting procedures in order to maximise their return on investments and to administer and control trade, credit and production in different historical eras. The development and design of accounting systems have, in turn, influenced how and how quickly different economic systems and ideologies have developed, by creating favourable conditions for a certain type of capital accumulation through effective monitoring and control of economic activities. The growing complexity of accounting systems has also enabled the bookkeepers throughout history and especially in recent years to monopolise accounting knowledge, and to form themselves as an independent group of professionals with their own aspirations of power and influence in relation to their property owning principals.[5]

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5 Our short summary of the historic development of accounting is based on two texts: An article by Certified Public Accountant Stefan Engström in the Swedish magazine Balans #12/99, and H. Thomas Johnson and Robert S. Kaplan. *Relevance Lost. The Rise and Fall of Management Accounting*. Harvard Business School Press. 1987.

The cradle of financial accounting is usually placed in Mesopotamia, in the area around the Tigris and Euphrates rivers in present Iraq over 5,000 years ago. Favourable circumstances in that area gave rise to relatively developed trade. Several major trade centres such as Babylon and Nineveh came into existence, and a fledgling banking system began to take shape, which provided loans to merchants. Thus arose also the need to keep records and to control trade and debt transactions. But it was not until the early Middle Ages that what is referred to as modern accounting, i.e. double entry bookkeeping, arose. It is believed that the system of double-entry bookkeeping emerged in the Italian banks in city-states such as Florence and Venice in the 1200s where bank customers were assigned accounts with both deposits and liabilities. Transfers of money between people with accounts in the same bank could then easily be recorded by a simultaneous listing of the current balance on separate accounts with two sides or columns (Debit and Credit) which identified deposits and liabilities. In 1494 the Venice based Franciscan monk Luca Pacioli created the first known description in writing of double entry accounting in the mathematical dissertation *Summa de Arithmetica Geometria Proportioni et Proportionalita* (Overview of arithmetic, geometry, rule of three and proportionality).

Before the industrial revolution the purpose of bookkeeping was mainly to register transactions between independent producers of goods and their customers, or traders who bought goods for resale, or between lenders and borrowers. During the seventeenth and eighteenth centuries large trading companies were created, such as the East India Company, which ran an extensive trade in colonies around the world where the focus was on trade with exotic goods from distant parts of the world. Profits were the result of buying "exotic" goods cheap in the colonies and selling them dear in the home country, combined with buying manufactured goods cheap in the home country and selling them dear in the colonies. The actual production of goods in both colonies and home countries was carried out largely independently by peasants and artisans who largely controlled the actual production process. The pricing of goods and assets from an accounting perspective was simple and followed naturally as a result of market transactions between independent parties. With the industrial revolution an entirely different scenario came into play.

In the early nineteenth century technical progress had made it possible and profitable to mass produce goods. It became profitable for the owners of capital to invest much larger sums in production than before. Workers were contracted for longer time and it became important and significant to control and manage production processes. A hierarchical work division and organisation grew rapidly, with groups of workers whose only job was to manage and control other workers. The production units grew ever larger as a result of better and more efficient ways of communication and economies of scale, and it became important for investors to evaluate and compare different units based on the most profitable use of scarce resources. A large number of economic indicators and analytical tools were developed to evaluate and compare the efficiency of different units with respect to hours worked, resources used, etc. This trend was intensified by Taylorism which, in the early twentieth century, attempted to scientifically determine the optimal use of materials and labour. A growing proportion of transactions in time became internal transactions within large organisations and between different organisational units within the same group. Early in the twentieth century senior officials in the multinational DuPont Group[6] developed a set of key indicators or key ratios in order to facilitate the allocation of capital to the most profitable units within the Group – the so-called "Return On Investment" (ROI) ratios. Different versions of ROI ratios are still widely used today.

After the Second World War and especially in the period after 1970 the world economy has been characterised by two strong trends; an increasing concentration of capital and ownership in most industries, and an expanding financial sector. Many industries today are dominated by a small number of global and very large business groups that are often inter-linked and whose revenues in many cases exceed the GDPs of smaller countries. These business groups often control and own actors in several stages in the production and distribution chain. At the same time speculative financial transactions make up an overwhelming majority of all monetary transactions in today's economy. Many companies nowadays make significantly more money by speculating in currencies and securities than by producing goods and services and providing them to consumers. Furthermore, the principles of accounting for many

6 The DuPont Company was founded in 1802 producing gunpowder. Early on it diversified its production into different chemical products. Today it is one of the world's largest companies in its industry.

of today's innovative financial securities are often impenetrable and it is very difficult to get an accurate idea of these financial assets' values.

Today's accounting principles emerged and were shaped by the interests of private capital owners in controlling and managing the use of their capital, by nation states' interest in taxing corporations profits and assets, and by demands from accountants who in their daily work prepare financial information in income statements, balance sheets, cash flow reports, financial analyses, etc. While all accounting systems will inevitably share some common characteristics, differences in any future accounting system will reflect the differences in the economy's key institutions regarding the ownership of capital, its allocation system, modes of compensation, division of labour, etc.

OUTLINE OF THE BOOK

While this is a book on accounting and is therefore unavoidably somewhat technical in nature, every attempt has been made to make it as accessible as possible to non-accountants. Tables, diagrams and examples have been added throughout where possible to aid comprehension. Nevertheless, some sections do require some prior basic accounting knowledge. However, we are confident that readers with curious minds who are interested in exploring more practical matters around the organisation of a libertarian socialist economy, but who have no background in accounting, will still gain value from reading the book. Furthermore, since the book is based on the participatory economics model, the more knowledge one has of this model the better.

The first chapter gives a brief summary of the participatory economics vision, its values and institutions, as well as the main arguments against the market as an allocation mechanism. The chapter focuses on the model's institution for allocation - decentralised participatory planning - and its procedures. Participatory planning is a decentralised democratic planning procedure based on self-management in which it is the consumers and the producers themselves who propose and revise their own consumption and production.

In the second chapter we identify more carefully the actors and decision makers in a participatory economy, and identify and categorise the most important decisions and the demands on information and monitoring that different decision situations pose. In chapter three we then briefly summarise the main overall objectives that an accounting system would have in a participatory economy and how the accounting system can be designed to achieve these objectives. The bulk of the chapter is devoted to providing a schematic picture of how economic transactions in a participatory economy could be recorded and monitored.

In chapter four, we focus on consumption - both private and public – and the tasks that consumers perform, and the information they need. It is the consumers themselves, and not some central planning unit, that announce their consumption preferences in a participatory economy so that the worker councils can plan their production accordingly. This task must be possible to perform in a way that is not too detailed, and therefore too cumbersome and time-consuming for consumers. How "coarse" and flexible can consumers' consumption plans be, and what information do consumers need to be able to judge whether their own and others' consumption proposals are fair or not? Furthermore, the accounting system needs to be able to record and compare consumers' incomes and expenses, allow for loans and savings, and manage deviations between planned and actual outcomes in a flexible and equitable manner.

Chapter five focuses on work and production. We first discuss possible principles for the allocation of income *between* worker councils and how well these principles reflect differences in council members' effort or sacrifices. We do not address the internal allocation of consumption rights between individual members *within* a workers council. We then concentrate on how worker councils get access to production capacity and the pricing of user rights for different productive resources - i.e. produced capital, natural resources, intermediate goods, and labour. The pricing of user rights for productive resources should reflect differences in resources' productivity, which requires a categorisation of the resources that allows for this to happen. We then move on to discuss the categorisation of the goods and services that the worker councils produce using the productive resources they have access to.

The sixth chapter describes investment planning and long-term development planning. We discuss the classification and organisation of worker councils into industry federations and the basis on which such classification can be made, and what responsibilities the industry federations have. We move on to look at the planning of the productive capacity development of different industries, which results in specific and detailed investment plans. In addition, industry federations need to establish and fund various shared support function units in order to implement, monitor and evaluate the agreed investment plans. The supplies of different kinds of labour also need to be adjusted in light of long term development decisions and we discuss how this can be done. Finally, we look at trade between different economies and discuss the basis on which international trade should be organised.

Chapter seven, the last chapter before the summary, describes how the social costs created by emissions of polluting substances can be handled in a way that is based on a participatory economy's basic values. It is the preferences of the parties who are affected by pollution – whom we call the "communities of affected parties", or CAPs - that should form the basis for the pricing of emissions of polluting substances. The parties who are adversely affected by pollutants should have the right to decide whether they want to prohibit a substance altogether or receive compensation for the damage it causes them when released, and the parties that cause damage by polluting should be charged for the damage caused.

CHAPTER 1

PARTICIPATORY ECONOMICS

In this chapter we provide an overview of the model of a participatory economy[7] and try to convey a sense of its fundamental values and an understanding of the model's defining institutions. For those who want to immerse themselves further, we recommend a visit to the website *www.participatoryeconomics.info* which includes links to further articles, videos, books and other resources.

GOALS

Any economy has three tasks to accomplish: the organisation of 1) production and 2) consumption, and because humans abandoned individual economic self-sufficiency long ago in order to take advantage of the efficiency gains from a division of labour, 3) the allocation of goods, services, and resources among different producers, users, and consumers. A participatory economy, while performing these three tasks, explicitly aims to advance six specific goals: economic democracy, economic justice, solidarity, diversity, efficiency and ecological sustainability.

Economic Democracy

Supporters of the participatory economics vision define economic democracy as a condition where a person's influence over decisions is determined by how much the person is affected by the decision in question. If you are affected more than others by a decision, you should have more influence over that decision; if you are less affected than others by a decision, you should have less influence. This is also called self-management, which is the only way to promote economic freedom without the freedoms of some disenfranchising the freedoms of others.

Economic justice

Economic justice is about the distribution of the benefits and burdens that result from economic activity. In a participatory economy the goal is for any differences in income, i.e. a person's share of what is produced in the economy, to be based on differences in sacrifices or personal effort in performing socially valuable work. Income distribution should not be affected by how productive one's labour is, due to having access to

7 For a longer and excellent presentations of the model see R. Hahnel, *Of the People, By the People: The Case for a Participatory Economy*, Soapbox Press, 2012.

better tools and capital, being born with a higher intelligence or other factors that are beyond a person's control. Effort and personal sacrifice are the only factors that a person can influence and thus form the main basis on which any differences in compensation should be based. Of course, there are also many circumstances when income should be distributed based on need. For example, when people are not able to work because of severe disability; are too young or old to work, i.e. children and senior citizens; when in need of health and social care during times of illness; if they become victims of natural disasters, and in many other situations, as decided democratically by society. The complete rule for distribution of income or consumption possibilities in a participatory economy is therefore "to each according to effort or personal sacrifice, and needs".

Solidarity

Solidarity is defined here as concern for others' well-being and the attitude that circumstances for our fellow human beings should be valued and assessed as if they were our own. In private enterprise economies the interests of employers and employees are opposed to one another. And in market economies buyers and sellers are pitted against each other such that success for one person is achieved at the expense of someone else. A participatory economy seeks to create an environment where mutual aid, cooperation and solidarity is encouraged, and where our interests are intertwined in a way that the individual success means that others benefit as well.

Diversity

Diversity refers to a situation where people have access to a large number of different choices about how to meet their needs and desires. People vary greatly regarding their preferences, tastes, talents and lifestyles; the best life for one person is not necessarily the best life for another. A participatory economy therefore rejects conformity in favour of a society characterised by a great deal of diversity. An additional benefit of promoting diversity is the spreading of risks; it is advantageous to allow and test many ideas and options in different areas. That way, more doors will be kept open, and experience and knowledge will increase.

Efficiency

Efficiency means that our goals are achieved with the least possible waste of resources, time, effort and energy. A participatory economy wants to maximise human well-being for all, which requires using scarce resources where they are most valuable.

Ecological Sustainability

These five goals already indirectly supporting ecological sustainability, but supporters of participatory economics see long-term sustainability and the concern for the environment as an important and independent value in and of itself. A participatory economy is a green economy that wants to achieve economic goals without diminishing future generations' access to a stimulating and rewarding natural environment.

INSTITUTIONS

The next step is to consider how these goals will be achieved. The participatory economics model defines a minimal set of institutions designed to maximise our potential for achieving the above objectives. These institutions are; democratic worker and consumer councils, jobs where tasks are "balanced" with regard to empowerment, and where possible desirability; compensation based on effort or sacrifice and needs, and finally, a democratic allocation process, called participatory planning.

Democratic worker and consumer councils

In a participatory economy the means of production such as land, natural resources, factories, machinery and technical knowledge are owned collectively by all. All of this is treated as the "productive commons," belonging no more to any person than anyone else. Influence over decisions is therefore not based on ownership of private property, or on different groups' bargaining power. Instead, people meet in democratic worker and consumer councils and their respective federations, where they discuss and vote on decisions regarding their own affairs. All members have equal rights and all members have one vote.

The worker council is the highest decision-making body in every workplace in the same manner as the annual shareholder general meeting is, in theory, the highest decision-making body in a corporation in today's economic system. In addition, decision-making in every workplace should be organised to maximise self-management, i.e. so that each worker can influence decisions in proportion to the degree that she or he is affected by the outcome of the decision. To achieve this, different voting procedures can be agreed on to be used in different situations within workplaces, such as majority vote, consensus or different types of qualified majority. Larger workplaces may decide to create semi-autonomous subdivisions with decision-making authority over matters that primarily affect only them. All are free to apply for membership in the worker councils of their choice, or to apply to start a new worker council.

Each individual also belongs to a local neighbourhood consumer council. The consumer councils, among other things, handle individual household's requests for consumption, i.e. their suggested list of goods and services they wish to consume during the following year. An individual consumer's consumption rights are constrained by the member's income that she is allocated in her workplace (based on effort or sacrifice), in addition to any income she may receive through internal redistribution within consumer councils (based on need) or via the national system for allocation of income to those who are too young to work, retired or disabled. Every individual consumes both private goods such as food and clothing, and public goods such as parks, libraries and playgrounds. Through their neighbourhood consumer councils, and through delegates to higher level federations of consumer councils, consumers propose collective consumption at the same time that they make their requests for private consumption.

Every worker and consumer council elects representatives to the "higher" levels of councils, called council federations. Worker council federations are organised by industry and consumer council federations are organised geographically in increasingly larger geographic areas. For example, by neighbourhood, city, region and national level. This structure is necessary because different kinds of collective consumption, or public goods, affect smaller and larger constituencies. In order to counteract any potential misuse of power, representatives acting within federations can be subject to rules of rotation, recall and instructions from members of the council at lower levels.

Balanced jobs

In any economy, there are jobs that define the tasks a worker has to perform. In hierarchically organised economies such as capitalism or centrally planned state socialism the majority of jobs are defined in such a way that most of the tasks in a particular job are *either* relatively empowering *or* disempowering. This leads to a situation where a minority will monopolise access and utilisation of information and knowledge in the workplace, which in turn leads to a situation whereby this group dominates meetings and discussions in the workplace due to greater confidence and knowledge, even in a situation where every worker formally has one vote. An uneven distribution of empowering tasks promotes class differences and hierarchies.

A participatory economy aims to organise work in a radically different way in order to achieve real influence for everyone in the workplace and in society at large. To the degree that it is possible every workplace is expected to combine tasks into jobs that are roughly comparable in terms of empowering tasks. This means that all workers perform some tasks that are empowering and some that are less so. The idea is not that everyone should perform every task in a workplace. There will still be specialisation. A balanced job will still contain a limited number of tasks but at least some will be empowering, and tasks that are not empowering will be part of everyone's job. Balancing jobs for empowerment will help equip all in a workplace to participate meaningfully in democratic decision-making.

Every worker council is responsible for balancing jobs to the extent possible, and the way they approach this will necessarily vary greatly between different workplaces, depending on different practical, technological, and individual considerations.

Compensation based on effort, sacrifice, and need

A worker receives consumption rights, (or in other words, income), as compensation for work performed. In our current economy, the size of an individual's income depends on a variety of factors such as ownership of capital, bargaining power, talent, education, luck, and to a much lesser extent, effort or sacrifice. Because the only one of these factors a person can influence is their effort, a participatory economy aims to compensate workers based on the effort and personal sacrifice that they put into (socially valuable) work.

Worker councils are required to establish procedures *of their choosing* for grading members' efforts. Workers who choose to put in a higher level of effort in their work will receive more income. Effort or sacrifice can take different forms, such as working longer hours, working at a higher intensity, or performing more dangerous or unhealthy tasks. How worker councils evaluate effort is up to them, and they are likely to design very different procedures for this purpose. The only restriction is that the worker council's average effort rating, or consumption points that it distributes to its members is capped. Either every workplace is capped with the same average number of points it can distribute to its members, or alternatively this cap can be based on the relationship between the social benefit of the "outputs" the workplace produced in the previous year compared to the social cost of the "inputs" that the workplace used. This will be explained in detail later in the book. The purpose of putting a cap on the average effort ratings a workplace can assign to its members is to avoid the possibility that workers would deliberately exaggerate one another's efforts leading to "inflation" in consumption points.

Finally, decisions about awarding consumption rights based on special circumstances and needs on compassionate grounds are handled in the consumer councils, and decisions about consumption allowances due to disability, retirement and youth – both with regard to rules for eligibility and how large the allowances should be – are handled through a national system within the national consumption federation, not within workplaces.

ARGUMENTS AGAINST THE MARKET[8]

Before describing the final "defining" institution of a participatory economy - participatory planning - it may be worth thinking about why the market (a system of competitive bidding between individual buyers and sellers) is an undesirable allocation mechanism for a participatory economy. What are the arguments against the market?

Here we briefly present four arguments against retaining the market system: Markets (1) are unjust, (2) undermine solidarity and promote selfish attitudes and behaviours, (3) undermine both economic and political democracy, and finally (4) allocate scarce resources inefficiently.

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8 This section on arguments against the market is a summary of the arguments Robin Hahnel delivered before the Ministry for the Communal Economy in Venezuela during a visit in 2007. See www.monthlyreview.org/2008/01/01/against-the-market-economy-advice-to-venezuelan-friends/

Markets are unfair

In a private enterprise market economy capital owners receive compensation in the form of profit without exerting any work effort, meaning that the benefits that employees collectively receive are necessarily less than the market value of what they produced. Most socialists regard this to be unfair. But what about the income differences between categories of workers, and what if capitalist enterprises are replaced by worker-owned companies that take on members from a labour market where supply and demand is allowed to continue to influence relative wages? When labour is hired through a labour market - regardless of ownership - those who make a greater contribution to the companies' production and income (i.e. those who possess more "human capital") will obtain a higher income than those who contribute to revenues to a lesser extent (those who possess less "human capital") regardless of their effort and sacrifices. This is not consistent with our goal of economic justice, as explained above. Moreover, there is no way to correct this problem within the framework of the market system without creating large inefficiencies. If through legislation we set the salary levels that we believe to be just but continue to allow the market to allocate resources, different types of labour will be allocated inefficiently and the price structure in the whole economy will give inaccurate information about the social costs of producing various goods and services, which leads to further inefficiency.[9]

Markets undermines solidarity and promote selfishness

Disgust with the commercialisation of human relations is as old as trade itself. Markets encourage forms of human interaction that are characterised by pettiness and enmity while forms of cooperation based on respect and empathy are discouraged. Markets reward the most effective exploitation of fellow human beings and punish those who (without logic) insist on following the "golden rule" - treating others as you want to be treated. We are told that in a market system we will benefit by being useful to others but it is usually much easier to gain much greater benefits by exploiting others. Thoughtfulness, empathy and solidarity become unnecessary appendages in market economies.

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9 In the e-book *Alternatives to Capitalism: Proposals for a Democratic Economy'*, Verso Books 2015, Robin Hahnel and Erik Olin Wright discuss pros and cons of participatory economics and a variant of market socialism.

Markets have important political and cultural effects. Anthropologists point out that the way in which we regulate and coordinate our trade and economic activities affects the type of people we become, and markets are social environments that nurture callousness while punishing solidarity. As much as economists insist on ignoring it, the economy - its markets, workplaces etc. - is a gigantic school with rewards that encourage the development of specific skills and attitudes while other potential abilities and attitudes atrophy.

Markets are undemocratic.

First, markets undermine the character traits and abilities that are necessary for the democratic process. Among the abilities that those who have studied the issue believe to be fundamental to a well-functioning democracy is the ability to manage and communicate complex information, to take collective decisions, and the ability to feel empathy and solidarity with others. Markets create a hostile environment for the cultivation of all these traits. For example, solidarity is more likely to flourish if economic relations are personal and ongoing, rather than anonymous and fleeting as in market economies, and where caring for the needs of others is an integral part of the institutions that govern the economy. In short, the abilities required by the modern, democratic citizen regarding information management and decision-making are not cultivated by participation in market exchange. In fact, these skills and attitudes are undermined by markets.

Second, market transactions generally favour those with more wealth more than those with less capital assets. As long as capital is a scarce resource - i.e. as long as additional capital helps to make someone's work more productive - it is those who hold capital who will receive most of the efficiency gain that market exchanges can create, irrespective of how competitive or non-competitive particular markets happen to be. Economic liberalism and deregulation leads to greater concentration of wealth and, in a political system where money influences electoral prospects, therefore contributes to concentration of political power as well.

Additionally, because markets place pressures on workplaces to cut their costs in order to compete on price with other firms they encourage firms to externalise costs on society and introduce hierarchical decision-making structures within workplaces where senior managers make 'tough' decisions to the detriment of ordinary workers claiming such actions are necessary to keep the firm 'competitive'.

Markets are inefficient.

Economists use two definitions of efficiency. The narrower definition means that an outcome is efficient if there is no other possible outcome where at least one person is better off without someone else being worse off. This is called a Pareto optimal outcome. The broader definition says that a result is efficient if it maximises the net social benefit, i.e. the difference between the total benefit to society and the total cost to society. Based on either of these definitions, all competent economists acknowledge that markets allocate resources inefficiently whenever (a) there are externalities (b) competition is weak, and (c) markets are out of equilibrium.

1) External effects. Various manipulations to "externalise" costs, and let others bear the costs of production, and to "internalise" benefits i.e. to assimilate benefits without paying for them, are standard behaviour for companies in a market economy. In so doing they serve their private interest but at the expense of the interests of society. When the seller or buyer promote their own interests by externalising costs to someone who is not a party to the market transaction, or by assimilating benefits from other parties without paying for them, their behaviour creates inefficiencies that lead to misallocation of productive resources and thus to a reduction in economic wellbeing. As a result markets predictably lead to overproduction of goods and services when there are negative externalities associated with their production or consumption, and underproduction of goods and services when there are positive externalities associated with their production or consumption. The same aspect that make market transactions convenient for the buyer and seller – excluding all other affected parties from negotiations – is also a major source of inefficiency.

Those who pay for these externalised costs, so-called "third parties", and thereby increase the private benefits of the buyer and seller are easy victims for two reasons. They are geographically and chronologically scattered, and the negative impact on every individual is small and varies from individual to individual. This means that each individual external party has little incentive to insist on influence over the transaction. It is very difficult and cumbersome to organise coalitions that represent the collective interests when large numbers of people affected are scattered geographically and chronologically and have small but unequal interests at stake. However, the total sum of all external parties' interests are often much larger than the buyer's and seller's interests. One can say that markets reduce transaction costs for buyers and sellers precisely by disenfranchising externally affected stakeholders in the decision-making process.

Today most mainstream economists acknowledge the existence of externalities but usually insist that their effects are small and that they only appear to a limited extent, and therefore they can be disregarded when analysing how efficient markets are and how they function. In reality most, if not all economic transactions affect many people beyond the buyer and seller. In truth, the presence of externalities is the rule, and it is their absence that is the exception.

2) Absence of competition. Markets that are not competitive lead to an inefficient allocation of resources. When there are only a few sellers in a market it is in their interest to produce less than is socially efficient. Most products are currently sold in markets with limited or poorly functioning competition, and the trend is toward less competition, not more. This means that markets with limited competition is an important and growing source of inefficiency in today's market economies.

3) Imbalances between supply and demand. Markets often fail to balance supply and demand. The so-called "laws" of supply and demand which say that the quantity supplied will increase and the quantity demanded will decrease when the market price goes up is based on a highly questionable assumption about how market participants interpret price changes. The standard analysis implicitly assumes that buyers and sellers will see the new higher market price after a price increase as the new stable market price. If this is indeed the case then it is reasonable for sellers to provide more goods than before when the market price rises, and for buyers to demand less than before - in accordance with the law of supply and the law of demand. But sometimes buyers and sellers interpret price changes as an indication of further changes to come in the same direction. This is very common in property, stock and currency markets, but can and does happen in many other markets as well. In which case it is rational for buyers to react to a price increase by increasing the quantity demanded before the price rises even further, and for sellers to reduce the quantities they offer to sell in anticipation of higher prices. When buyers and sellers behave in this way, they create a larger excess demand and drive up the price even higher, leading to a "market bubble". When buyers and sellers interpret a price reduction as an indication of continued price reductions it is rational for buyers to reduce the quantity they demand and wait for even lower prices, and for sellers to increase the quantity they offer to sell before the price drops even more. Their behaviour creates in this case even greater excess supply driving prices down even lower, leading to a “market crash”. In other words, if market participants interpret price changes as signals indicating the likely direction of further price changes, and if they act rationally, they will behave contrary to how the “laws” of supply and demand predict, and drive markets even farther away from their equilibrium, increasing economic inefficiency.

Is there reason to be optimistic about the possibilities of “taming” markets to mitigate all these inefficiencies? Those who have such hopes downplay the practical problems that inevitably arise when we try to “socialise” markets. Intervention in the form of “Pigovian taxes and subsidies” to correct for externalities would have to be far too extensive. Moreover, since markets do not provide any signals about how high such taxes and subsidies should be, adjustments would inevitably be inadequate. Furthermore, interested parties would have every reason to challenge studies attempting to accurately estimate the true magnitude of external effects. And finally, powerful corporations will oppose breaking up and eliminating non-competitive market structures which generate social inefficiency but are highly profitable.

PARTICIPATORY PLANNING

What is the alternative to markets in a participatory economy? Here we briefly describe the main features of participatory planning[10] - an annual cooperative planning procedure used for the allocation of resources in a participatory economy.

Coordination of economic relations among producers and consumers in a participatory economy is done via a unique democratic planning

10 In *The Political Economy of Participatory Economics*, Princeton University Press, 1991 Michael Albert and Robin Hahnel describe the participatory planning in detail using mathematical expressions and equations for an intended audience of trained economists. For a more accessible but still thorough explanation of participatory planning, see *ZNet 2010: Anarchist Planning for The Twenty First Century*: (www.zcomm.org/znetarticle/anarchist-planning-for-twenty-first-century-economies-a-proposal-by-robin-hahnel/), *the Institute for Anarchist Studies: Anarchist Planning: An Interview with Robin Hahnel* by Chris Spannos. (anarchiststudies.mayfirst.org/node/432), and chapter 14 in *Of the People, by the People: The case for a participatory economy.*

procedure called participatory planning, whereby self-managed worker and consumer councils and federations propose and revise their own production and consumption plans, over a number of iterations which gradually leads to a viable, efficient, and equitable plan. The annual planning procedure takes place in light of a previously approved long term development plan and a five year investment plan. This means that the supply of various categories of productive capital and labour that is available for use, and the amount of different capital goods that must be produced in a particular year are known, or "given," when the annual planning process begins. These long term decisions are handled in separate investment planning and development planning procedures that are described in Chapter 6.

The main participants in the planning procedures are the worker councils and their federations, the consumer councils and their federations, and an iteration facilitation board. The workers in the worker councils formulate and adjust their production proposals for the coming year in much the same way as today's companies prepare budgets. They also elect representatives to industry federations. Members of the neighbourhood consumer councils prepare and adjust their household consumption proposals and submit these to neighbourhood council, where they also participate in discussions about what local public goods they want to ask for, and elect recallable representatives to higher level consumer federations.

The Iteration Facilitation Board (IFB) consists of workers whose job it is to facilitate the flow of information during the planning process. The IFB's main task is to update indicative prices - estimates of opportunity costs of using different kinds of productive capital, natural resources and labour, and the social costs of producing intermediate and final goods and services - based on a set of agreed rules for price adjustments before every new planning iteration until a coherent, or "feasible" plan is reached. The workers at the IFB are not central planning bureaucrats who control or make decisions about production or consumption. Besides disseminating non-quantitative information that may be of interest to councils and federations, the only function of workers at the IFB is to update indicative prices between rounds of the planning procedure, and they could, in principle, be replaced by a calculation algorithm.

The steps in the annual participatory planning procedure are simple: Workers suggest what they want to produce; consumers suggest what they want to consume; indicative prices are updated based on excess supply or demand; and the steps are repeated in a number of iterations until a feasible plan is achieved, i.e. until there no longer exists any excess supply or demand for any product or service in the economy. Each round in the planning process consists of the following steps:

Step 1: *Indicative prices are announced*

The IFB announces "indicative prices" which are simply the current estimates of the opportunity costs of using different categories of capital goods, natural resources, and labour; current estimates of the social costs of producing different intermediate and final goods and services; and current estimates of the damages caused by release of different pollutants. "Indicative prices" are, in other words, estimates of what it costs society when we use different resources, emit different pollutants, and produce various goods and services.

Step 2: *Proposals from workplaces and consumers*

Based on the indicative prices consumer councils and federations prepare suggestions regarding what goods and services - both private and collective - they wish to consume. The worker councils prepare proposals for goods and services that they want to produce, and what natural and labour resources, capital goods, and intermediate goods they plan to use in their production. Note that all of these suggestions from worker and consumer councils and federations only refer to their own activities, not to what other workers and consumers should or should not do.

Step 3: *Indicative prices are updated*

The IFB adjusts the indicative prices up or down in proportion to the degree of excess supply or demand.

These three steps are repeated until excess demands are eliminated and a feasible plan is reached. It has been demonstrated[11] that under standard assumptions about technologies and preferences each iteration will generate more accurate estimates of opportunity and social costs, and eventually excess demands and supplies will be eliminated resulting in a feasible plan.

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11 Michael Albert and Robin Hahnel. *The Political Economy of Participatory Economics*, Princeton University Press 1991.

Who approves the proposals?

Worker councils' production proposals and consumer councils' consumption proposals must be approved by the other councils and federations, which simply vote for or against approving the proposals. But on what basis do councils decide to approve or reject other councils' proposals? The participatory planning procedure is designed with the aim to generate just the information needed in order for workers and consumers to easily be able to assess whether or not other worker councils' production proposals make use of scarce resources in a responsible and efficient manner, and whether or not other consumers' consumption proposals are fair.

In order to evaluate a consumption proposal the total social cost of the proposed consumption is compared with the consumers' consumption points (income). The effort ratings that workers receive in their work places are converted into consumption points which will be explained later in the book. The social cost is calculated simply by multiplying the quantity demanded of each final good and service multiplied by its indicative price, and summing. The consumption points are the points members have earned in their workplaces, been granted because they qualify for consumption rights under programs for youth, retired, and disabled, received in compensation for damages suffered from pollutants, and possibly been granted due to special needs. If the average consumption points of members of a consumer council meet society's average, they will be able to consume goods and services which cost society an

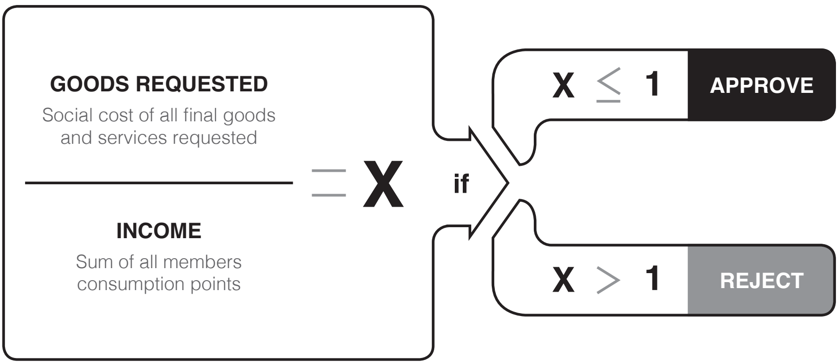

Figure 1.1. Decision making rule for consumption proposals

average amount per person. Consumer councils, whose members have made greater efforts and sacrifices in their workplaces, or have more consumption points from other sources than the average, will be able to consume goods and services whose costs are higher than average, and the councils whose members have less consumption points than average will only be able to consume goods and services that cost society less than the average per person.

On the production side worker councils' production proposals are evaluated by comparing the estimated benefits to society of the goods and services they propose to produce with the opportunity cost of using the capital goods, natural resources, and labour, as well as the social cost of producing the intermediate goods they are asking for. These social benefits and costs are calculated using current indicative prices for all outputs and inputs, including negative indicative prices for proposed emission of pollutants. In this way a social benefit to cost ratio (SB/SC) can be calculated for every worker council proposal. If the SB/SC ratio is greater than one then the proposed use of resources - that belong to everyone in society - is "socially responsible", and all would benefit from approving the proposal. If the ratio is less than one, the proposed use of resources is not efficient because there are other workers who would use the resources more efficiently.

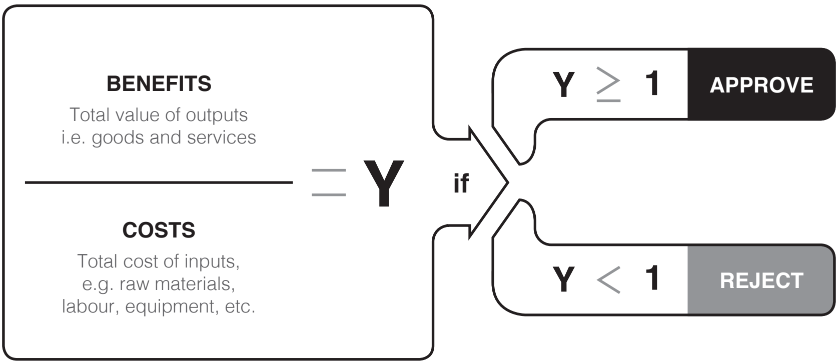

Figure 1.2. Decision making rule for production proposals

The information generated during the planning procedure as described above makes it easy for consumer councils and federations to assess whether their own and others' proposals are fair or not, and for worker