
**POST-LANGE MARKET SOCIALISM:**

AN EVALUATION OF PROFIT-ORIENTED PROPOSALS

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**Introduction**

A possible milestone may have been achieved in 1992 when the American Economic Association published John Roemer and Pranab Bardhan's article "Market Socialism: A Case for Rejuvenation" in the Summer issue of its *Journal of Economic Perspectives*. Aside from a handful of articles on the theory of cooperative production in the *American Economic Review*, the American Economic Association had not published any important work on market socialism since Abram Bergson's article on Oskar Lange's market socialist proposal ("Socialist Economics") in the 1948 *Survey of Contemporary Economics*. Implied in the concept of market socialism are very serious questions concerning the economic and ethical legitimacy of the capitalist status quo. Such questions were more natural during the ravages of the Great Depression of the 1930s, when Lange's proposal was first put forward. By the time Bergson's essay appeared in 1948, these questions were rapidly evaporating. Two factors may have been at work. The Second World War thoroughly eliminated the excess capacity problem of the Great Depression, and Keynesian anticyclical policy has effectively precluded any repetition of the problem in the postwar era. In addition, the rapid postwar rise of the Soviet Union to the status of chief menace to Western civilization greatly inhibited socialistic dissent within the United States and its First World allies.

Now that the Soviet Union has been dissolved and its successor republics and erstwhile satellites are apparently making haste to rejoin the world mainstream of democratic market capitalism, conservatives everywhere are celebrating the "death of socialism" in human affairs. Such celebrations are conceivably premature. For a long time there has been a minority of individuals in the West who have believed that some form of democratic market socialism, as yet unimplemented anywhere in the real world, would provide a superior alternative both to the democratic market capitalism of the contemporary United States and to the oligarchic planned socialism of the ex-Soviet Union. Throughout the Cold War period, interest in democratic market socialism may have been restrained by the association of socialism with a dreaded national enemy. The capitalist economic system has been able to wrap itself up in the flag, to enlist in its own defense the powerful and unreasoning force of patriotism. Now that the Cold War is receding, it may be possible for many people to consider the idea of socialism in a calmer and more objective frame of mind. Thus--however paradoxical it may seem at first glance--it is at least conceivable that the death of Soviet Communism will in fact lead to a renaissance of interest in socialism. The publication of the Roemer-Bardhan article in the *Journal of Economic Perspectives* may be an indication of renewed interest in market socialism within the profession of economics, and renewed professional interest may lead ultimately to a serious real-world reform effort.

This article surveys and evaluates three plans for a profit-oriented system of market socialism which have been put forward in the professional literature during the post-Lange period. The first published reference to my own proposal for "pragmatic market socialism" appeared in a 1974 article in the *Review of Social Economics*; the first published reference to the proposal of Leland Stauber for "municipal ownership market
“socialism” appeared in a 1975 article in Polity; and the first published reference to the proposal of John Roemer and various co-authors for "bank-centric market socialism" appeared in a 1991 article in Dissent. All three proposals have in common the key principle that the publicly owned firms would operate, as a rule, according to a profit-maximization incentive within a competitive environment.

It is probably no accident that all three proposals have been put forward by Americans. There is something peculiarly American in the notion of profit-maximizing market socialism. For one thing, this notion is a natural outgrowth of American pride in the achieved level of economic welfare within the United States (as well as within the other industrial First World nations). For many decades, there has been a dramatic gap between the living standards of the First World population and those of both the Second World and Third World populations. A proper awareness of the relatively high level of economic success in the First World engenders great caution and conservativeness with respect to proposals for a socialist alternative to the contemporary capitalist status quo. Relative to other market socialist proposals, the profit-oriented proposals of myself, Leland Stauber, and John Roemer may be described as very evolutionary, marginalist, and incrementalist. They would involve very limited divergences (given the fact, of course, that they are very clearly and authentically socialist proposals) from the current economic institutions and processes of contemporary capitalism.

At the same time, these proposals manifest a very American intolerance for unjustified economic privilege. There is something fundamentally troubling about the extraordinary level of inequality that has emerged within modern industrial economies in the distributions of capital wealth and property income.[1] This extreme inequality is offensive to American ideals of equality, justice, and fairness. The great majority of economists (and others) have for the moment resigned themselves to extreme inequality in capital wealth ownership on grounds that socialism is worse than the capitalist disease: specifically that any equity gains from greater equality under socialism would be swamped by efficiency losses.

But would a socialist economy necessarily be significantly inefficient relative to a capitalist economy? Even granting that communistic socialism has been irrevocably discredited by the ignominious collapse of the Soviet Union, surely it is conceivable that other socialist economic systems are possible which would achieve better efficiency than the real-world system of communistic socialism. This is an inherently intriguing issue, and it may attract more attention from the economics profession in the future than it has in the past.

The remainder of this article is organized as follows. First, in order to provide proper perspective, there is a brief discussion of three competing concepts of market socialism (Langian, service, and cooperative) in which the publicly owned firms would operate according to criteria other than profitability. Then, the basic institutional features and intended purposes of profit-oriented market socialism are set forth. This is followed by a consideration of the specific proposals of James Yunker (the present author), Leland Stauber, and John Roemer, with attention to the respective special concerns, strengths, and weaknesses of each proposal. Having then specified what is meant by profit-oriented market socialism, we turn to a series of potential criticisms of the concept, together with possible responses to these criticisms. The article is concluded with an overall assessment of the potential relevance of profit-oriented market socialism.

Non-Profit-Oriented Market Socialist Proposals

Langian Market Socialism

Although on a much smaller scale, the impact of Oskar Lange's work on economic thought is indeed comparable to that of the legendary J. M. Keynes. Through their professional stature, both men were able to bestow a measure of acceptability upon notions which previously had been considered veritably heretical.
among mainstream economists. Prior to Keynes, social control of business fluctuations had generally been deemed needless, misguided, and counterproductive. Prior to Lange, the implementation of market forces within a socialist economy had generally been deemed impossible if not nonsensical.

In terms of tangible real-world impact, Keynes has of course been infinitely more successful than Lange. Although real-world implementation of Keynesian anticyclical policy might be described as somewhat half-hearted and haphazard, such policy has long been accepted by most governments as a major ongoing responsibility. On the other hand, there has never been any serious effort to implement Lange's market socialist proposal, not even in Lange's homeland of Poland which was forcibly communized by the Soviet Union in the aftermath of World War II. The predisposition toward Soviet-style central planning imported into Poland at that time precluded even minimal experimentation with Lange's market socialist proposal.

In the West, Lange's marginal cost pricing market socialist proposal has been deemed a theoretical curiosity devoid of any practical significance. This judgment perhaps provides some insight into the indifference of most economists to the very theoretical principles which they themselves propound--when it comes to making practical policy judgments. Generally accepted theory holds that profit maximization by firms is inefficient under conditions of imperfect competition. It scarcely needs much emphasis that the imperfect competition model provides at least as good a fit to apparent realities in the modern industrial economy as does the perfect competition model. From a strictly theoretical point of view, therefore, Lange's proposal that the publicly owned firms under market socialism be operated not according to profit maximization, but rather according to the marginal cost pricing principle, has much to recommend it.

Despite its theoretical attractiveness, Lange's proposal has been shrugged off on the basis of various more or less extemporaneous and off-the-cuff objections such as Bergson's qualm that in the absence of an observable success criterion such as profitability, the monitoring costs necessary to assure adequate compliance with the marginal cost pricing rule would be excessive. Not only is there no recognized economic theory of monitoring costs to compare with the Pareto-Hotelling theory on which the marginal cost pricing principle is based, but in addition there is no substantive basis for assuming that whatever monitoring costs are required under Langian market socialism to enforce this principle would necessarily be greater than the efficiency costs imposed on the economy by profit maximization by firms under imperfect competition. That Bergson considers the weight of this issue to incline against the Langian proposal seems more the result of a basic ideological predisposition in favor of the capitalist status quo than it is a compelling deduction from existing economic theory.[2]

Beyond the predisposition in favor of the status quo, however, and unmentioned by Bergson and other economists who have considered the Langian proposal, there may be qualms about the potential efficacy of a principle taken directly from an economic theory textbook as a guide to real-world decision-making by the executives who manage modern large-scale corporations. These managers, of course, do not employ marginal analysis to any appreciable extent in their work. To begin with, the accurate determination of the marginal cost of any one product in a multi-product environment is a virtually hopeless task. Moreover, the marginal cost of any one product would be constantly in flux as production processes continuously change and evolve. Finally, costs are the relatively predictable input into business decision-making, the more difficult input being market demand conditions and potential product prices. Such considerations as these evoke images of corporation executives being virtually paralyzed, and rendered disastrously ineffective, by a sudden insistence by external government authorities that they guide their thinking and decision-making mainly if not entirely according to the marginal cost pricing principle.

Service Market Socialism
The nonprofit production principle has been widely applied in the real world to public enterprises within economies which remain predominantly capitalistic, and it is a natural extension to consider this principle as a potential general guide to production within a market socialist economy. A descriptive designation for this economic system would be "service market socialism."[3] From the standpoint of economic theory, profit maximization by firms generates inefficiency under conditions of imperfect competition and/or external effects. Although the conventional assumption within modern orthodox economics is that there are relatively few firms which have sufficient market power, and/or whose operations generate such important external effects, as to merit public ownership for purposes of suppressing the natural tendency under private ownership toward profit maximization, the fact remains that there is no significant objective evidence to support this assumption.

In contrast to Langian market socialism, service market socialism would not have to get along without an observable success criterion on which to evaluate corporation executives. Some output-based measure could be utilized, such as sales revenue or physical quantity of production. The typical publicly owned firm could be a constrained optimizer, maximizing the output-based measure subject to a minimum profit constraint (possibly a zero profit constraint if capital is obtained from outside the firm) or a maximum loss constraint (if the firm, owing to external benefits of its operations, is subsidized from the public treasury). Such a firm might in many respects be equivalent to the sales-maximizing firm postulated by William Baumol as a better reflection of reality under modern conditions of separation of ownership and management than the profit-maximizing firm.[4] As a matter of fact, the sales-maximization model might indeed be--as suggested by Baumol--a closer approach to reality under contemporary capitalism than the profit-maximization model. Therefore in reality service market socialism might not be so much different from contemporary capitalism as might be imagined.

Whatever its theoretical virtues under conditions of imperfect competition and/or external effects, the fact is that at the present time, the whole idea of nonprofit public enterprise is very much in retreat all around the world. There has been a remarkable resurgence of laissez faire ideology during the second half of the twentieth century, and as a result, a large proportion of traditional public enterprise either has been or soon will be privatized, and of the remainder, much of it is being operated on a more commercial basis (i.e., public subsidies have been reduced or even eliminated). Any qualms about the desirability of profit maximization by firms based on imperfect competition and/or external effects are increasingly shrugged off. Even if it is conceded that these factors may be theoretically sound and even empirically significant, it is held that government agencies cannot gather and properly process enough information to arrive at rational, efficient, and effective policies toward the publicly owned enterprises.

Cooperative Market Socialism

Interpretation of the labor-management or production-cooperative concept as a potential blueprint for an economy-wide system of market socialism has become common in economics since the seminal theoretical work of Benjamin Ward in the 1950s. Since Ward there has been a truly amazing proliferation of economic analysis of the cooperative enterprise. But it is probably safe to say that the overabundance of theoretical literature on the cooperative has not appreciably revised the consensus viewpoint within mainstream economics on this form. Long before the recent explosion of theoretical work the consensus viewpoint was basically skeptical, and it remains so today. Although there have been a few exceptions (notably Jaroslav Vanek and Alec Nove), in general the many contributors to the theoretical literature tend to follow the lead of Benjamin Ward (with his proposition of a "perverse" downward-sloping supply curve of output) in finding potential problems and flaws with the cooperative enterprise relative to its "capitalist twin."[5]

Prior to the recent mushrooming of theoretical work on the cooperative, mainstream economists generally dismissed the cooperative as inefficient and/or unprogressive--in any case, an unviable competitor in most
economic marketplaces. It was (and remains) the dominant view that any morale advantages of the "employees working for themselves rather than for outside owners" would be swamped by such things as the disincentive effects of excessive egalitarianism in distributing revenue, inadequate investment owing to the short horizons of the workforce, and the sluggishness and inflexibility of business decision-making owing to the democratic control of management by the employees. According to conventional judgments, these factors explain the generally poor track record of success of cooperative enterprises in competition with standard capitalist enterprises.

Proponents of cooperation raise questions as to whether the competition between capitalist and cooperative firms in the past has actually been fair, in light of possible bias against the latter among financial institutions. Aside from these questions, it is clear that the particular set of adopted institutions and procedures under cooperative market socialism would have a great deal to do with the success of the system. Some of the more naive proponents of the idea seem to imagine the entire workforce of the firm voting--after prolonged discussion--on each and every one of the myriad decision issues which emerge in the conduct of business. This approach would quite likely generate paralysis and stagnation in very short order. But if, on the other hand, we more reasonably and realistically envision the workforce of a large firm democratically electing, once every ten years or so, a chief executive with extensive if not absolute powers of management between elections, we would have a legitimately cooperative firm which would probably operate in practice almost identically to any large "capitalist firm" with the usual outside ownership interest.

Of course, one of the more serious impediments to meaningful evaluation of cooperative market socialism is the multiplicity of institutional forms through which it might be realized. How often would management be elected, and under what procedures? How much authority would be delegated to management, and how much would be retained by individual employees and small workgroups? What procedures would be followed in the termination of redundant or otherwise unproductive employees? Would the managers be permitted to hire "non-member employees" who would neither vote nor share in the distribution of net revenue? Would there be a "membership fee" assessed of new employees, and if so, how much? Would the managers be permitted to raise capital from external sources, and if so, would external providers of capital have any direct control over the determination of business decisions? The answers to the above questions and many others would have a great deal to do with the potential performance of cooperative market socialism. But as of the present time there is no appreciable consensus on the answers among proponents of cooperative market socialism.

Profit-Oriented Market Socialist Proposals: Basic Features

While it is clearly the case that the various problems which have been perceived by mainstream economists in the non-profit-oriented market socialist possibilities (Langian, service, and cooperative) are not necessarily theoretically and empirically valid objections to these forms, these perceived problems certainly constitute serious practical impediments to the implementation of any of these possibilities in the real world. In this light, it is an important feature of profit-oriented market socialist proposals that they do not dispute the consensus judgment within mainstream economics that the real-world economy is sufficiently competitive, and external effects in the real-world economy are sufficiently weak, that profit maximization as the predominant operative goal of business decision-making is economically beneficial. The acceptance of this proposition by proponents of profit-oriented proposals for market socialism greatly reduces the distance between these proponents and the typical mainstream economist.

Ever since the monumental codification of socialist thought by Karl Marx in the nineteenth century, socialists have had two central objections to the capitalist economic system: the equity objection and the efficiency objection. The equity objection is based on the proposition of maldistribution of capital property income...
under capitalism, and the efficiency objection is based on the proposition of underutilization of available economic resources under capitalism. In the original thinking of Karl Marx, the equity objection was expressed through the surplus labor theory of exploitation, while the efficiency objection was expressed through the theory of long-term immiseration via recurrent, worsening business depressions.

More than 100 years have passed since the death of Karl Marx, and a great deal of evidence has gradually accumulated during that time. The Marxian proposition of the fall of capitalism in the midst of catastrophic business depression was somewhat revived by the severity of the Great Depression of the 1930s. But the revival was short-lived, as the recurrent recessions of the post-World War II period have been far too mild to precipitate anything approaching a social revolution. It is plausible, if not certain, that a large factor responsible for the relative postwar success of capitalism has been the utilization of Keynesian anticyclical policy by most national governments. The availability of this policy calls into serious question whether business depression need be--or ever will be--responsible for the collapse of capitalism. Of course, while capitalism may not necessarily be doomed by its inherent propensity toward business depression, this is not necessarily to say that the system is optimal--it must still confront Marx's theory of surplus labor exploitation.

The Marxist proposition of surplus labor exploitation, however, must itself confront the marginalist revolution in mainstream economic theory during the latter half of the nineteenth century. The marginalist revolution seriously discredited the labor theory of value, used by Marx as the conceptual basis for the surplus labor theory of exploitation. The marginalist revolution replaced the labor theory of value with the neoclassical theory of marginal factor productivity. Application of the neoclassical theory to the third factor of production (capital) in the traditional triad of factors (land, labor and capital) suggests that capital earns a legitimate economic return just as does labor. The conventional viewpoint is that the neoclassical theory of marginal factor productivity, applied to capital, establishes the economic and ethical legitimacy of the capitalist system.

However, once the physical and philosophical distinction between inanimate capital and its human capital owners is fully recognized and appreciated, the possibility becomes apparent that this conventional viewpoint may be mistaken. Advocates of profit-oriented plans of market socialism do not deny that to attain an acceptable level of economic efficiency, business firms and other organizations which utilize physical capital should pay a market-determined rate of return on the financial capital which they obtain in order to purchase physical capital. What they do deny, however, is the additional proposition that in order for this process to work effectively, private households which own financial wealth must be paid a rate of return on this wealth. All forms of profit-oriented market socialism envision the role of private households in the disposition of financial capital throughout the economy being taken over by representatives of one or more public agencies. These representatives would receive in recompense for their efforts only a small proportion of the capital property income received by capital-owning private households under capitalism, leaving the large majority of this income available for public disposition in one manner or another. This transformation addresses the traditional equity objection of socialists against capitalism.

In contrast to proponents of non-profit-oriented plans of market socialism, proponents of profit-oriented plans weight the equity objection to capitalism far more heavily than the efficiency objection. They are far more concerned to maintain the present level of efficiency than to achieve a higher level of efficiency. Therefore these plans envision an economy that in its various institutions and daily operations would appear very similar to, if not identical to, the capitalist economy of today. Households would confront the same basic economic environment that they do today, except that financial wealth would only represent a store of value and not a source of capital property income. Similarly business enterprises would confront the same basic environment: typically there would be a multiplicity of competing firms producing any given product, managers of these firms would be independently evaluated on the basis of the profits earned by their own firms, and bankruptcy would be the normal mode of exit for those firms whose revenues fail to cover costs. In raising
investment capital, firms would have to rely entirely on retention of earnings or issuance of financial instruments to financial intermediaries: they could no longer issue financial instruments directly to private households.

Beyond these basic principles, considerable flexibility exists in specifying the precise institutions and procedures through which the concept of profit-oriented market socialism might be realized in the real world. The following discusses some key aspects of the respective proposals of James Yunker (the author), Leland Stauber, and John Roemer.

**Pragmatic Market Socialism (James Yunker)**

The institutional crux of my own proposal for pragmatic market socialism is a national government agency to be known as the Bureau of Public Ownership (BPO).[6] This agency would take over all rights inherent in those stocks, bonds, and other financial instruments which are owned by private households under capitalism. Stocks, bonds, and other financial instruments owned by financial intermediaries and other organizations would not be surrendered to the BPO. Institutional investing would proceed much as it does under capitalism, with the major exception that all voting stock held by institutional investors would be converted into an equivalent amount of bonds. It is envisioned that under pragmatic market socialism all voting stock in publicly owned corporations would reside with the BPO.

The proposal is similar to the other profit-oriented market socialist plans in specifying that small businesses in farming, retail trade, and professional proprietorships and partnerships would be exempted from public ownership. In addition, the pragmatic proposal envisions the private ownership of an entrepreneurial business by the founder-owner--whatever the scale or level of financial success achieved by the firm--so long as the founder-owner remains personally active in its management. All privately owned firms, whether in the category of small business or entrepreneurial business, would be subject to a "capital use tax," approximately equal to the normal rate of return on capital in the economy, assessed on the owner's net worth in the business.

The Bureau of Public Ownership would take over the role performed by boards of directors under capitalism, with certain modifications. Under capitalism, boards of directors have the authority in principle to issue detailed operating instructions to the managing executives--although they rarely if ever exercise this authority in practice. Under pragmatic market socialism, the BPO would be explicitly prohibited from issuing any operating instructions whatsoever to the managing executives regarding the microeconomic decision variables of business enterprise: production levels, prices, marketing expenditures, retained earnings, investment expenditures, and so on. Its authority would be confined to approving the compensation plans designed by the executives for themselves, to approving nominations to the position of chief executive officer made by the top executives of a corporation, and to dismissing the chief executive officer of a corporation whose performance is inferior on the basis of objectively observable indicators of long-term profitability.

The BPO's authority under pragmatic market socialism would be importantly decentralized and delegated. The national office of the BPO would be supplemented by a network of local BPO offices located in a large number of cities. Each local office would be staffed by several BPO agents recruited from managerial positions in business. Each BPO agent would be given sole authority over a number of publicly owned corporations operating in different industries. (These provisions are particularly aimed at reducing tendencies toward collusion among imperfectly competitive profit-maximizing publicly owned corporations.) The BPO agent's primary source of income would be a very small fraction of the profits and interest paid over by the corporations within his/her sphere of authority to the national office of the BPO. Decisions by the BPO to dismiss the chief executive of a poorly performing public corporation would be largely determined by that
corporation's BPO agent.

Mainstream economists frequently concede that a socialist economy might be more equitable than the capitalist economy owing to greater equality in the distribution of capital property income, but they immediately add that the equity gain under socialism would almost certainly be outweighed by an efficiency loss. Although proponents of profit-oriented market socialist proposals place a great deal of emphasis upon the operational similarities rather than the differences with the capitalist status quo (in order to highlight the equity issue in and of itself—presumably similar operations would imply similar efficiency), they typically envision at least some supplementary efficiency advantages of their proposals. In my own case, I have particularly emphasized two potential efficiency advantages of pragmatic market socialism over contemporary capitalism: (1) the centralization of the BPO's authority over any given publicly owned firm in one BPO agent might overcome the disincentive effects of the separation of ownership and control under capitalism; (2) the distribution of unearned capital property income as a social dividend supplement to the household's labor income might increase labor and output.

With respect to point (1), the pragmatic market socialist proposal is very explicit about the centralization of the BPO's authority over any given publicly owned corporation in the hands of one single BPO agent, since this might be an effective means of eliminating the perverse incentive effects of the separation of ownership and control under contemporary capitalism.[7] It may be argued that under pragmatic market socialism, the chief executives of poorly performing corporations would be subjected to a significantly higher risk of dismissal than is the case under capitalism, and this will put greater pressure on these individuals to perform effectively in their extremely influential positions. This factor might be important enough to significantly improve the overall performance of the economy.

With respect to point (2), this argument depends on the principle used to distribute social dividend income. Under pragmatic market socialism, this payment would not be an equal flat-rate amount to each household. Rather the amount of social dividend income received by each household would be a given percentage of its regular earned wage and salary income. Under the standard assumption of an upward-sloping supply curve of labor, this would tend to increase the typical household's labor provision, and hence the level of national output. I have recently provided some technical support for this particular efficiency argument via general equilibrium analysis (Yunker, 1993). Results obtained from numerical solution of the model (Table 4.2) indicate the possibility that pragmatic market socialism might achieve a level of national output in the United States 10.5 percent higher than that of capitalism, while at the same time achieving a Gini coefficient of consumption (a standard measure of observable inequality) 13.8 percent less than that of capitalism.[8]

**Municipal Ownership Market Socialism (Leland Stauber)**

The institutional crux of Leland G. Stauber's proposal for municipal ownership market socialism in advanced capitalist nations such as the United States would be a system of several hundred new investment funds (or banks), each one associated with a certain region.[9] Upon socialization, all financial instruments formerly owned by private households under capitalism would be equally distributed over this network of investment funds. Every citizen would become a part owner of one particular investment fund, depending on the location of his/her primary residence. The boards of directors of these investment banks would be appointed by elected local government officials within the regions, or alternatively, they might be directly elected by the eligible voters in the respective regions. In either case, these funds could be described as "locally owned." They would be subject to the same kind of regulatory restraint as the typical financial intermediary under capitalism, but would not be subject to any direct controls by the national government.

The locally owned investment funds would replace private households in the financial markets, but otherwise
these markets would operate very much as they do under capitalism. Just as do the private investors and institutional investors of the present capitalist system, the locally owned investment funds would buy and sell financial instruments including stocks, bonds, and others. Some of these instruments involve voting rights in the corporations they represent, others do not. It would be within the authority of the managers of each local investment fund to decide how to allocate the fund's resources over different investment opportunities—whether to emphasize stocks or bonds, whether to concentrate on certain industries or firms. The property income received by each fund, less administrative and incentive expenses, would be utilized in accordance with the wishes of the board of directors: part of it would be directly distributed to the population of the region, and the remainder would be provided to local government agencies to finance their various projects and activities.

The local investment funds would be very similar to the financial institutions of contemporary capitalism, but not exactly similar. There would be some important additional regulatory constraints on the flexibility of the local investment funds not applicable to other types of financial institutions. For example, each fund would be prohibited from investing in firms with major employment concentrations in the locality represented by that fund. This is to prevent political considerations of local employment maintenance from creating a soft budget constraint for firms in the area. Each local ownership fund would also be prohibited from distributing the proceeds from sales of capital assets directly to the population or to agencies of the local government. All such proceeds would have to be reinvested in other capital assets. This is to forestall any temptations to run down the value of the fund in order to meet current obligations of local government agencies or to finance the current consumption desires of the local population. All distributions from each fund must come from the current property income of that fund.

Over time the fund values and investment incomes of the various locally owned investment funds would probably begin to diverge significantly. To counteract this, the national government would at periodic intervals carry out a redistribution from the more successful funds to the less successful funds. The intention would be to keep the distribution of property income over the entire national population relatively equal over an extended period of time. Whether these redistributions would constitute a significant disincentive to investment analysis effort by the staffs of the funds would depend on whether movements in fund values are more the result of random variation, or more the result of differential skill and effort among the respective staffs of the funds. Pro-socialist preconceptions, of course, hold that random chance is by far the dominant factor, and this implies that the periodic redistributions would not constitute a significant disincentive to productive investment analysis effort.

Stauber argues that entrepreneurial propensities under municipal ownership market socialism would be virtually identical to those under capitalism. The aspiring entrepreneur could not invest his/her own wealth in the enterprise, but Stauber points out that already under capitalism the personal wealth of the entrepreneur normally accounts for only a tiny fraction of the new enterprise's initial capital value, the remainder being raised from outside sources. As far as outside sources for investment capital are concerned, only private households would be eliminated. The aspiring entrepreneur could borrow from the same array of institutional investors as exists currently under capitalism, and/or from the new locally owned investment funds. The aspiring entrepreneur's personal incentive to effort toward the establishment of a profitable new firm would be the potential ability to award himself/herself extremely large salaries and bonuses. Although formally considered labor income, these payments would be essentially equivalent to the large capital gains of the successful entrepreneur under capitalism.

In order to overcome possible excessive risk aversion among investors regarding entrepreneurial firms, Stauber proposes that additional provisions be enacted to support entrepreneurial investment. One such provision would be partial national government insurance against losses sustained by investors with respect to
entrepreneurial investments; another would be the establishment of a national government agency (similar to the National Entrepreneurial Investment Board under pragmatic market socialism) charged with the specific responsibility of establishing viable and profitable new firms.

Leland Stauber is a professor of political science by trade, and he places a great deal of emphasis upon political considerations. To begin with, the subdivision of the public ownership authority over a large number of independent and autonomous local investment funds effectively counters the argument made against traditional socialist proposals (which envision national government ownership of capital) that national government ownership and control of all or most firms would constitute an extreme combination of economic and political power, and such a combination would seriously jeopardize political democracy.[10] Specifically, the argument holds that national government officials under socialism would utilize their control over firms to deny employment opportunities to political dissidents and members of opposition parties, while at the same time government control over the media would be unfairly used to turn public opinion against these dissidents and opponents. This line of argument is effectively nullified by Stauber's proposal for the subdivision of firm ownership over a large number of independent locally owned investment funds.

Beyond the elimination of the political argument against socialism that it might jeopardize democracy, Stauber holds that the implementation of municipal ownership market socialism would significantly improve the quality of democracy in a modern industrialized nation such as the United States. Under contemporary capitalism, a substantial proportion of the total stock of capital wealth is held by extremely wealthy capitalists, and this wealth enables these individuals to exercise a disproportionate influence upon the political process and social decision-making. Equalization of the flow of capital property return under market socialism would tend to equalize the distribution of political power and influence, and thus to make the political process more genuinely democratic.

As a result, some legislative changes might become feasible which could have a beneficial impact upon the efficiency of the economy. One example would be the enactment of restrictions on the amount of earnings which firms are able to allocate to retained earnings. Stauber shares the viewpoint of many economists that the external market for financial capital tends to be more demanding than the internal market, and that investment projects would be more carefully considered by firms if all or most of the capital needed for these projects had to be raised from outside sources. Another example would be the structural disaggregation of many large firms which have grown well beyond the size necessary to take full advantage of economies of scale. Many students of industrial organization in the past have recommended a program of structural disaggregation of large firms as a means of increasing the effective level of competition in the economy, but these recommendations have never been importantly implemented.[11] The failure to implement structural disaggregation Stauber attributes to the political clout of the "power elite" of wealthy capitalists--these individuals are far too comfortable with the status quo to want to see anything done which might seriously impinge on that status quo. Out of their excessive conservatism, they oppose many changes which might actually have worked out to their own benefit. Stauber perceives the political power of a class of ultra-rich conservative capitalists as a sort of dead hand which severely restricts the flexibility and effectiveness of the republic as a whole.

**Bank-Centric Market Socialism (John Roemer)**

The proposal of John Roemer for bank-centric market socialism is the most recent of the three proposals considered in this survey, and as of the time of writing, both the institutional description and evaluative commentary on bank-centric market socialism available in the published literature is still fairly limited.[12] The basic public ownership authority under bank-centric market socialism (equivalent to the Bureau of Public Ownership of pragmatic market socialism, and the network of locally owned investment funds of municipal
ownership market socialism) would be a network of nationally owned but highly decentralized public investment banks. Groups of publicly owned corporations would be clustered around these so-called "main banks." Responsibility for maintaining the profit motivation among each group of publicly owned corporations would reside with the staff of its respective main bank.

Roemer's market socialist proposal is particularly attuned to certain peripheral areas of economic inquiry (such as information, principal-agent, and property rights) which have not as yet been fully integrated into core neoclassical theory. As mentioned above, prior to Lange, it was widely presumed that the marginal productivity theory of factor return, applied to capital, constituted a serious objection to socialism. After Lange, it was more widely appreciated that marginal productivity theory only constitutes an objection to socialism if an unsophisticated view is taken which fails to differentiate capital, in and of itself, from human capital owners. At the present time, certain objections to market socialism are sometimes encountered, based on information theory, principal-agent theory, and so on, which are (arguably) based on a combination of unsophisticated understanding of these areas of theory, together with a distorted perception of actual realities under contemporary capitalism. The Roemer proposal represents a serious, explicit effort to cope with some of these objections. Whether Roemer's explicit effort will be more successful than the implicit efforts already made to cope with these types of objections by myself and Stauber remains to be seen. It will be instructive, in this regard, to compare Roemer's approach to certain key problems of market socialism with those of myself and Stauber.

The first central problem under any profit-oriented plan of market socialism is to adequately motivate executives of publicly owned corporations to maximize profits, in the absence of any direct participation by private households in the financial markets. The second central problem is to maintain an adequate level of competition among the publicly owned corporations, even though all such firms are owned by the unified public. With respect to the second problem, all three profit-oriented market socialist proposals considered here envision the continuation of the present situation under capitalism: the disaggregation of production over a wide range of separate and autonomous firms, the separate and independent performance evaluation of executives of different firms, and the elimination of unprofitable firms through the mechanism of bankruptcy. Another prerequisite for effective competition under market socialism is some degree of disaggregation of the public ownership authority in order to reduce tendencies toward the promotion of collusion among firms by the public ownership authority in the interest of higher profits. Thus my own pragmatic market socialist proposal calls for the delegation of public ownership authority over a large number of BPO agents physically segregated into a large number of local BPO offices, Stauber's proposal for municipal ownership market socialism calls for the division of public ownership authority among a large number of locally owned investment funds, while the Roemer proposal for bank-centric market socialism calls for the subdivision of public ownership authority over a large number of bank-centric groupings. All three proposals, therefore, are explicitly designed to maintain a reasonable level of competition among the publicly owned corporations, and genuine inter-corporate competition would in itself tend to support a profitability incentive among the managers.

While inter-corporate competition puts indirect pressure on managers to maintain firm profitability, we must also consider the direct incentives toward profitability. In nineteenth century economic thinking, owner-management was considered the norm, and the manager's incentive toward profitability proceeded directly from his/her own status as the direct recipient of a large proportion of profits. By the early part of the twentieth century, the separation of ownership and management had developed to a point where owner-management could no longer be taken seriously for the great majority of large-scale firms. Attention shifted to the possibility of dismissal of top managers by the corporate board of directors. As in the case of owner-management, this mechanism has fallen into disrepute as the separation of ownership and management has proceeded. Unfriendly buyouts for purposes of unseating the incumbent management of large corporations via
vote of the board of directors are occasionally observed, but it appears that a truly extraordinary condition of abysmal corporate performance has to transpire before this becomes a serious threat to the incumbent managers. Under anything less than abysmal corporate performance, the board of directors remains an inert group totally dominated by the incumbent managers.

By the second half of the twentieth century, therefore, the primary source of profit incentive among managers was commonly perceived to reside not in the possibility of dismissal by boards of directors, but rather in the operations of financial markets: securities of poorly performing corporations would lose value in these markets, raising the effective cost of capital to the firm, and augmenting the probability of decline and bankruptcy. Clearly this is a rather roundabout and leisurely mechanism whose practical effectiveness might easily be questioned: nevertheless it is now considered to be the single most important mechanism for instilling a profit-maximization incentive in the managers of large corporations. It is important to note, therefore, that all three of the profit-oriented market socialist proposals considered herein do in fact envision the continuation of financial market activity under market socialism, activity which would be highly analogous to that which occurs under capitalism. Participants in these markets would include the various financial intermediaries already observed under capitalism (commercial banks, insurance companies, pension funds, and so on), and possible additional institutions such as my own National Investment Banking System, Stauber's locally owned investment funds, and the public "main banks" envisioned by Roemer. The salient departure from capitalism would be that private households would no longer directly participate in such markets.

The crucial question is whether the elimination of a large number of private households from the financial markets, and their replacement by a much smaller number of representatives of one or more public ownership agencies, would significantly reduce the effectiveness of these markets in evaluating the relative values of corporate securities and thereby placing indirect pressure upon corporate executives to pursue profits diligently. The proponents of the market socialist plans discussed here all adduce various reasons for expecting adequate profit discipline under their respective plans. For example, Stauber points out that the personnel of the locally owned investment funds under the regional ownership market socialist plan would be professional investment analysts who might be expected to do a superior job to that done by "amateur" household investment analysts, for most of whom wages and salaries continue to be the primary source of income. I myself have emphasized that the BPO agents, who would effectively take over the role of private capital-owners under pragmatic market socialism, would possess a very formidable dismissal authority over the corporate managers owing to the concentration of all voting stock rights over any given publicly owned corporation in one single agent. Roemer proposes a system of "bank-centric insider monitoring" which would tend to compensate for any potential weaknesses caused by the elimination of private households from the financial markets.

Inspired by the Japanese keiretsu system of groupings of corporations around a central investment bank, the Roemer proposal is that the public ownership authority be subdivided over a large number of public investment banks located in towns and cities across the nation. Each publicly owned corporation would be permanently assigned to one of these public investment banks (termed its "main bank"), which would operate as its primary source of new capital and also have a majority share of its voting stock. To reduce natural propensities toward anti-competitive collusion in the interest of maintaining profitability, corporations in significant competition with one another would be assigned to different main banks. Minority voting stock amounts would be held by other corporations within the bank-centric grouping, and representatives of these other corporations would be participating members on the board of directors of the first corporation, along with the dominant representatives from the main bank, and additional representatives from the workforce of the corporation and from the general public. The minority stock shares could be sold by the other corporations within the grouping back to the main bank. Such sales would be a signal to the main bank that the corporation whose securities were being sold was quite possibly not operating up to its full potential, and
that pressure in the form of reduced bonuses and/or threats of dismissal may have to be applied to spur better performance.

The advantage of this system, relative to simply looking directly at the profit performance of the corporation, is that it would involve managers of other corporations within the group in the performance evaluation of the first corporation. Under some circumstances, low current profitability may not be a bad omen concerning future profitability (perhaps the firm is investing heavily in a promising new technology). Presumably professional managers of other firms within the group would be better able to judge whether extenuating circumstances exist for poor profitability in the first firm than would the ordinary outsider investment analyst.

Critique and Response

In the history of economic ideas, the notion of profit-oriented market socialism is still fairly recent. Moreover, there exists no perceptible real-world political movement toward such an economic system, even in the ex-communist nations which are at the present time in a process of radical transformation away from their former socioeconomic system. In general, economists tend to orient their interests to what seems to be going on in the real world, and so it is not surprising that there is extremely little evaluative literature on profit-oriented market socialism, and most of what presently exists has in fact been provided by proponents of such systems. Nevertheless, profit-oriented market socialism is an inherently interesting concept, and one possessed of potentially very serious implications for the economic and ethical validity of the capitalist status quo in the advanced industrial nations. In the judgment of this author, of course, it is a topic which deserves much more extensive and serious attention than it has received in the past. In an effort to stimulate thinking on the issue, I will offer here a series of potential objections to the concept that could be offered by a hypothetical skeptic, along with possible responses to be made by a hypothetical proponent.

Objection Based on Prior Experience with Communistic Socialism. Humanity has had prolonged experience with socialist systems of public ownership of capital in the communist nations, and this experience has been profoundly disillusioning. To begin with, there seems to be a very serious potential hazard to democracy inherent in socialism: to date all socialist nations have been extremely undemocratic. Control of business enterprise by the state under socialism combines economic and political power, and presents incumbent government officials with various means for suppressing dissent. In addition, even under a democratic political system, public ownership of business enterprises creates natural tendencies toward political intervention in their operations. The various legal obstacles to such intervention inherent in private ownership are swept away, and government officials, whether for reasons of personal aggrandizement or public pressure, begin to assume responsibility for business enterprises and to issue detailed operational instructions. In the extreme, this leads to Soviet-style central planning, under which the flexibility and responsiveness of firms are totally stifled. Even if this extreme is avoided, public ownership of business tends to produce the soft enterprise budget constraint: the government is politically unable to allow large firms to cease operations no matter how inefficient they become, the threat of bankruptcy is eliminated, and poorly managed firms continue to operate indefinitely supported by public subsidies.[14]

Response. Any effort to condemn profit-oriented market socialism on the basis of the perceived defects of communistic socialism is begging the question because it assumes invalidly that the defects of past experiences with socialism must inevitably apply to future experiences with socialism. But the history of human civilization demonstrates that there can be new things under the sun: that humanity is capable of learning from past mistakes and of devising new social systems which represent tangible improvements over past social systems. More specifically, the lack of democracy under communistic socialism is more plausibly attributed to historical conditions (the absence of democracy in the pre-revolutionary Russian empire, the perception among the communist leaders of being under siege from a hostile capitalist outer world), than it is to the inherent
propensities of public ownership. Profit-oriented market socialism represents a fundamentally new departure in socialist thinking, and it is moreover especially attuned to existent conditions in the advanced industrial nations. Given the past environment, it seems very likely that badly performing corporations under profit-oriented market socialism would in fact be allowed to succumb to bankruptcy despite public ownership, and/or that public corporations would be allowed more or less complete autonomy with respect to business decision-making.

**Objection Based on Impossibility of Authentic Competition under Unified Public Ownership.** The common ownership of all or most business enterprise by society as a whole would inevitably undermine and destroy authentic competition both at the level of the firm, and at the level of capital control and disposition. The firms which should be vying with one another for the favor of consumers and greater market share would become dramatically less competitive with one another. This propensity would be even more pronounced under profit-oriented plans of market socialism because the profitability of business enterprises may certainly be augmented by collusive arrangements among ostensible competitors. The public ownership authorities would have an overpowering incentive to promote such collusive arrangements among corporations in order to augment the profitability by which their success is gauged. As a result, quite possibly the business enterprise sector would show a high rate of profitability under market socialism, but nevertheless the economy would be profoundly stagnant owing to the lack of adequate incentives to managerial effort under imperfectly competitive conditions.

**Response.** The inability to perceive the possibility of authentic competition under public ownership of business enterprise proceeds basically from an invalid perception of governments as totally monolithic and unified, as single-mindedly pursuing the well-defined personal interests of a small group of high government officials (the "antheap" perception). The reality is that governments, like all other social organizations, are amalgamations of large numbers of individuals which endeavor, imperfectly, to correlate the personal interests of each member with overall group interests. In modern democracies, even the highest government officials are divided into legislative, executive and judicial branches. Just as the "separation of powers" may be accomplished in the political sphere, so too it may be accomplished in the economic sphere. No serious proposal for profit-oriented market socialism envisions the public ownership authority being concentrated within a single building in the national capital whose inhabitants would be organized according to the military ideal of total discipline and complete control by one single commander. Proponents of such plans place great emphasis on the subdivision of the public ownership authority over a large number of highly autonomous, independently evaluated individuals or offices. In the case of Stauber's proposal, there would be no formal umbrella authority whatsoever over the various locally owned investment funds, and the likelihood of authentic competition is completely self-evident. In addition, all these proposals also envision subdivision of productive capacity over a large number of independent business enterprises: in some cases (myself and Stauber), it is even explicitly proposed to increase the number of independent business enterprises by means of antitrust structural disaggregations. There are numerous real-world cases of authentic competition among individuals or organizations which are formally unified under some overall authority: examples include different students in the same professor's class, different teams within an athletic association, and the autonomous subsidiaries of a conglomerate business firm. So long as rewards are not pooled, and each individual or group is evaluated independently of the others, competition proceeds despite formal integration.

**Objection Based on Inadequate Incentives to Capital Management Effort.** Under capitalism, the private households which own capital wealth receive the totality of capital property return paid by business enterprises and other organizations (such as government agencies) for the use of capital. These households receive not only the current income on capital but are also able to realize capital gains which embody the expected future return on particular ownership shares (e.g., on a successful entrepreneurial enterprise). Therefore private households under capitalism have a full and undiluted incentive toward a high level of capital
management effort. By capital management effort is understood any and all human effort intended to increase the rate of return on capital wealth: examples include corporate supervision such as undertaken by a member of a board of directors, investment analysis such as undertaken by an individual investor, and entrepreneurship in the foundation and management of new firms. In principle under market socialism, the people as a whole possess a right to capital property return, and hence they have an incentive to capital management effort. But since the people as a whole are so numerous and atomized, and since the amount to be received by each person is so small and insignificant, in practice the people as a whole will not provide any significant amount of capital management effort. In practice all capital management effort is provided by the personnel of the public ownership agencies--but these personnel receive only a very small fraction of the total capital property return taken in by these agencies, since according to socialist ideology, the great majority of it must be disbursed to the general public in some sort of social dividend. Not only do the personnel of the public ownership agencies receive only a small fraction of current property return, but in addition they cannot personally claim any potential increases in the value of particular ownership shares (portfolios) stemming from shrewd investment and/or management decisions. As a consequence, their incentive to capital management effort is minimal, the amount of capital management effort provided to the economy is minimal, and the efficiency of capital usage in the economy is drastically reduced.\[15\]

Response. In my own evaluative writing on pragmatic market socialism, I have identified the capital management issue as the single most plausible economic objection to market socialism. Whether the focus is on the Bureau of Public Ownership, Stauber's locally owned investment funds, or Roemer's public main banks, the same problem exists: personnel of these agencies may retain as personal income only a small fraction of the total capital property income of these agencies, and moreover they are not able to claim as personal income any capital gains on sales of specific financial instruments. This objection is a fully consistent theoretical possibility. However, much argument may be adduced that it is empirically invalid. The "no realized capital gains" aspect of the problem may be met to some extent by institutional arrangements: for example, under Stauber's plan capital gains income on asset sales would in fact accrue to the locally owned investment funds, while under pragmatic market socialism, the individual BPO agents would continue to receive a declining proportion of the capital property income produced by firms within their respective spheres of responsibility (i.e., in their "portfolio") for an extended period of time following their departure from the position. From a theoretical point of view, the most fundamental response to the capital management effort objection is the possibility of a "plateau production function" relating the level of capital management effort of an individual to the rate of return received on the capital within that individual's ownership (under capitalism) or sphere of responsibility (under market socialism). Under this type of function a very small input of capital management effort, involving insignificant disutility to the individual, suffices to achieve virtually the maximum rate of return on capital. In this case, the drastic reduction in the "retention coefficient" as between capitalism and market socialism does not have a significant impact on the level of capital management effort provided to the economy, and hence on the efficiency of the economy. This type of production function is arguably a natural consequence of the historical evolution of modern capitalism (chiefly the technological concentration of production and the separation of ownership and management) which has rendered capital property income, mostly if not completely, a rentier type of income.\[16\]

Objection Based on Inadequate Incentives to Private Saving. Aside from the issue of capital management effort, capital property income is also justifiable as an ethically and economically appropriate return to the disutility of saving. Owing to the inherent time preference of all individuals, saving is a sacrificial act. If this sacrificial act is not compensated by the receipt of property income on savings accumulations (i.e., financial wealth), the level of saving provided by households will be drastically diminished, leading to a shortage of capital investment funds, and consequent economic slowdown, stagnation, and decline. Even if an effort is made to restore saving by means of public saving out of tax revenue, this will entail a sluggish, clumsy, and politically driven investment mechanism. The efficiency of the saving-investment mechanism under capitalism

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will be lost, in that public intervention in this mechanism will eliminate the equality that exists in a pure market situation between the marginal disutility of saving to private households and the marginal productivity of capital investment to firms.[17]

Response. This objection is based on the assumption that there exists an upward-sloping supply curve of saving with respect to the rate of property return--but there is no worthwhile intuitive, theoretical, or statistical evidence that such a function exists. There is considerable evidence, on the other hand, suggesting the dominant effect of income on saving, and in this light it is important to note that the capital property income of capitalism is not "lost" under market socialism, but rather is mostly translated into social dividend income. Thus private household saving under market socialism might well be equivalent to that under capitalism. Beyond this, it is important to emphasize that any economically sensible proposal for market socialism recognizes the possibility that private household saving might be less than it is under capitalism, and that in this event there would be an allocation out of public revenues to capital investment. Under the profit-oriented market socialist proposals of myself, Stauber, and Roemer, this amount would be dispersed throughout the economy by a decentralized investment system guided by profitability criteria. Qualms based on the "microeconomic efficient saving condition" are groundless from a practical point of view, in that already under capitalism there are numerous violations (e.g., progressive income taxation) of various efficiency conditions derived from theoretical economics, which by common consensus do not have quantitatively appreciable impacts on economic performance.

Objection Based on Minimal Equity Improvement. The essential equity objectives of socialism have already been achieved through the natural advance of what has been termed "people's capitalism." An extremely large proportion of capital instruments is already owned by middle class and even working class people in the form of pension rights, employee stock ownership plans, and general stock ownership. Also a large proportion of capital wealth inequality is attributable to life cycle saving, and this source of inequality is inherently unobjectionable. In any event, capitalism is an economic system which provides a fair opportunity to everyone to achieve great capital wealth. The possibility of achieving large fortunes is an essential incentive not only to entrepreneurship but to excellence in a wide range of activity ranging from athletics and popular culture to scientific discovery.[18]

Response. Reference to "pension fund socialism" and the like is merely an attempt to confuse the issue. As far as the proportion of capital wealth which is owned directly by private households is concerned, there is compelling empirical evidence that its distribution has been extremely unequal--and extremely stable--throughout the second half of the twentieth century. What this means in a practical sense is that the great majority of households would receive more social dividend income (or other benefits) under market socialism than they currently receive property income under capitalism. Compelling empirical evidence also exists that this inequality is very modestly affected by life-cycle saving. With respect to wealth as an incentive to entrepreneurship and other worthy activity, it should be noted that profit-oriented market socialist proposals generally make provision for private ownership of entrepreneurial businesses, and at the same time do not necessarily envision highly progressive taxation of legitimately acquired income and wealth. What this means is that successful entrepreneurs, pop culture superstars, and the like, could still amass extremely large personal fortunes to be spent on whatever the owner desired. Such fortunes would not, however, represent sources of capital property income extending off into the remote future--but this will not be considered a moral problem by those with a proper understanding of individual motivations and social realities. The social reality which tends to be ignored by exponents of people's capitalism is that the great majority of large-scale capital fortunes under contemporary capitalism are achieved by means of random appreciation on an inherited base. The inheriting capitalist is featured neither in the business press nor the entertainment press; nevertheless he/she much better represents the "typical capitalist" than successful entrepreneurs and pop culture superstars.
Objection Based on Taxation Alternative to Public Ownership. The equity objectives of socialism might just as easily be met by various forms of taxation, and do not require public ownership. In fact, the exact system envisioned by profit-oriented market socialism could be achieved simply by taxing all current property income at a very high rate (e.g., 90 to 95 percent), and distributing the proceeds from this tax to the public as a social dividend, or perhaps using it to finance the operations of various government agencies as a means of reducing the tax burden on the public. In this way all the serious potential problems and deficiencies of public ownership could be avoided. Alternatively, this could be a means by which the ingrained prejudice of the public against "socialism," considered as a general concept, could be evaded.

Response. This is a disingenuous objection in that, almost certainly, any polity in which public opinion had proceeded to the point where "virtually confiscatory taxation of capital property income" was a political possibility, would also be a polity in which "socialism" was a political possibility. The economically serious arguments against profit-oriented market socialism as embodied in the proposals of myself, Stauber, and Roemer (inadequate incentives to capital management effort and/or private household saving) may also be lodged against "virtually confiscatory taxation." Beyond that, the institutional flexibility of market socialism provides opportunities for the strengthening of profit motivation in real-world business enterprise that would be lacking under "virtually confiscatory taxation." Already under contemporary capitalism, the separation of ownership and management has created a situation in which the managers of large corporations are excessively insulated and protected. The privileged status of these individuals is clearly manifested in the lavish personal remuneration which they are enabled to award themselves, and these disproportionate financial rewards suggest that they may be taking additional rewards in the form of reduced diligence and effort in their daily work. "Virtually confiscatory taxation" would have the effect of significantly furthering the present dysfunctional situation of inadequate accountability of high corporate executives. Properly designed public ownership agencies under market socialism, on the other hand, might well improve on the present situation.

Objection Based on Difficulties of Transition. Whatever might be the hypothetical virtues of a profit-oriented market socialist system once it were fully established and functioning, the existence of formidable transitional difficulties practically guarantees that such a system will never be achieved in the real world. Although capital wealth ownership has become highly concentrated under modern capitalism, it remains the fact that a great many individuals possess small amounts of capital wealth. If this capital wealth is fully compensated (as it would have to be if a socialist transition is to be a serious political possibility), then the financial benefits of socialism to the general population would be postponed for a prolonged period, perhaps indefinitely. Aside from the need for generous financial compensation of former capitalists, the problems confronting a transition from capitalism to socialism have been immensely complicated by the ongoing globalization of economic activity. It cannot be anticipated that all nations in the world would transform themselves into socialist nations at the same time. Those nations remaining capitalistic would become a magnet for wealthy capitalists emigrating from nations planning a shift to socialism. In the modern economy of international investing and multinational corporations, capital ownership relations have become extraordinarily tangled and complex, and as a consequence it would be virtually impossible for any single nation, acting on its own, to achieve a meaningful condition of public ownership of capital.

Response. All sensible plans for socialism presuppose compensation arrangements that would achieve the requisite level of political feasibility. For example, it is a standard component of the profit-oriented market socialist proposals described herein that small-scale capital owners would receive full compensation for their holdings. The financial benefits of socialism to the majority need not be "indefinitely postponed," because compensation need not be in the form of interest-bearing government bonds. Owing to the fact that the socialized capital instruments are regarded by their owners as stores of value and sources of long-term income, compensation in the form of cash would not generate undue inflationary pressure. As for the complications implied by the globalization of the economy, it may be suggested that where there is a will,
there is a way. Underlying financial capital is physical capital, and high mobility of financial capital does not imply equally high mobility of physical capital. Emigrating capitalists cannot take factories and machines with them, and in the final analysis these factories and machines are the source of their capital income. In any event, these kinds of issues become mostly moot if a very large proportion of nations simultaneously shifts from capitalism to socialism. The globalization of economic life suggests that if profit-oriented market socialism is desirable for the population of one nation, it is desirable for the populations of most nations.

Conclusion

Although the basic concept of market socialism acquired a threshold level of acceptability within the First World mainstream economics profession owing to the contribution of Oskar Lange in the 1930s, the consensus appraisal of the specific marginal cost pricing market socialist proposal put forward by Lange has been skeptical and unenthusiastic. More recently, following the seminal theoretical work of Benjamin Ward in the 1950s, the time-honored notion of labor self-management has come to be categorized as cooperative market socialism. Mainstream attitudes toward cooperative market socialism are about the same as those toward Langian market socialism: skeptical and unenthusiastic. In the 1970s, the present author (James Yunker) and Leland Stauber independently published proposals for a third general category of market socialism: a category dubbed herein "profit-oriented market socialism." As of the 1990s, John Roemer has produced a third profit-oriented market socialist proposal.

Profit-oriented market socialism specifies that the success of the managers of any given publicly owned corporation be evaluated on the basis of the same long-term profitability indicators used to evaluate the success of managers of privately owned corporations under capitalism; thus it does not suffer from the "fatal flaw" of Langian market socialism, the absence of an observable success criterion. Profit-oriented market socialism also specifies that the managers of publicly owned corporations will be basically responsible not to the employees of the corporations but rather to outside public ownership agencies themselves responsible to the general public. Thus is avoided a whole suite of perceived problems with cooperative production ranging from Ward's "perverse" downward-sloping supply curve of output to apprehensions about excessive egalitarianism in distributing rewards within a firm democratically controlled by its own employees. Profit-oriented plans of market socialism thus evade some important problems associated with the better-known varieties of market socialism, and as a consequence these plans would presumably be regarded as more promising in a practical sense by the majority of mainstream economists.

This paper has shown that there are numerous possible sub-categories within the general category of profit-oriented market socialism. Three specific institutional proposals have been briefly described, those of myself, Leland Stauber, and John Roemer. Clearly these are only three examples out of a wide array of specific institutional means by which the basic concept and purposes of profit-oriented market socialism might be realized. Moreover, in some respects the three proposals discussed are not mutually exclusive: some of the ideas could be merged to create additional--or simply more elaborate--proposals. As the author of one of these proposals, I should perhaps point out in their defense that one of the reasons why the institutional details provided by their authors are relatively sketchy is that referees and editors apparently possess low levels of toleration for detailed descriptions of hypothetical institutions. Nevertheless, enough institutional details have been specified to present a fair image of the idea, and to allow most economists to arrive at a tentative evaluation of its potential performance.

Evaluative thinking about profit-oriented market socialism among mainstream economists is still severely limited owing to at least two important, interrelated factors: the absence of any appreciable political movement toward market socialism anywhere in the real world; the limited awareness among economists, to date, of the possibility of profit-oriented market socialism. It is certainly well imaginable that even if the
concept of profit-oriented market socialism were to gain greater currency within the discipline of economics in the future, it will simply be picked apart by a host of critics, in much the same way that the idea of cooperative market socialism has been picked apart by the superabundant theoretical literature that has emerged in the wake of Ward. There is no shortage of objections to be made to the idea: the previous section of this paper briefly discussed a few objections, but this discussion represents merely the tip of a large iceberg.

Still, at this point in time it would be presumptuous for anyone to make strong predictions concerning the future fate of profit-oriented market socialism in the history of economic ideas. Just as the concept of market socialism itself deals effectively with the objections to planning-oriented socialism, so too the concept of profit-oriented market socialism deals effectively with the objections to non-profit-oriented forms of market socialism such as the Langian and the cooperative. Profit-oriented market socialism is an attempt to find a genuinely new direction for socialism: to specify a viable, practical socialist economic system that would garner obvious equity benefits without running an appreciable risk of serious efficiency losses.

It goes without saying that a real-world system of profit-oriented market socialism might prove disappointing in practice, and have to be repealed (as was Prohibition in the United States earlier in this century). In that case, the relatively minor differences between profit-oriented market socialism and contemporary capitalism would facilitate the restoration of capitalism. The possibility of experimentation on such a grand scale is not often contemplated, but the fact remains that the relative performance of pragmatic market socialism is fundamentally an empirical issue and not a theoretical issue. The theoretical and empirical evidence currently at hand does not compellingly support either a positive or a negative conclusion on the matter. In principle, economists support the experimental approach to the advance of knowledge. In the final analysis, the experimental approach may be the only possible means of obtaining more or less conclusive evidence on whether profit-oriented market socialism would be better or worse than contemporary capitalism. Until such time as an experiment may be considered, it is the author's hope that this survey paper might inspire some economists to serious reflection on the possibilities that may be inherent in profit-oriented market socialism.

Notes

1. Robert Lampman's 1962 book on U.S. wealth distribution was a major factor in impressing the high level of capital wealth inequality upon the consciousness of the economics profession. The 1974 study by James Smith and Stephen Franklin in the AER further contributed to awareness of the situation. More recently, Edward N. Wolff's 1987 study in the Review of Income and Wealth suggests even more concentration of capital wealth as between the early 1960s and the early 1980s.

2. Bergson added some nuances to his 1948 essay in an article published in 1967 in the JPE. Note should also be taken of Hayek's rather strident 1940 critique of Lange in Economica. Several other authors have commented on Lange over the years, but none of these other comments have found their way into the standardized evaluation of Lange's proposal to be found in most comparative systems textbooks.

3. The term 'service market socialism' was applied in the author's 1975 survey article on market socialist forms.

4. The seminal 1932 book by Adolf A. Berle and Gardiner C. Means, as well as Berle's later 1959 contribution, has inspired a large literature on the separation of ownership and management, and its potential implications concerning the functioning of contemporary capitalism. William Baumol (1967) and Oliver Williamson (1964) have produced the two best-known theoretical "alternatives to profit maximization" inspired by the situation. See Marris (1964) and Wildsmith (1973) for discussion of these and other...
"managerial models." For the case that despite appearances to the contrary, the separation of ownership and management has not appreciably undermined the profit orientation of large firms, see Jensen and Meckling (1976), Fama (1980), Fama and Jensen (1983). Important surveys of this literature include Marris and Mueller (1980) and Williamson (1981).


7. See Yunker (1979) for a detailed elaboration of this argument. This article elicited a comment by Peter Murrell (1981) to which I replied.

8. The estimated social welfare gain from this combined improvement in efficiency and equity, on the basis of the Benthamite sum-of-utilities criterion, is 1.7 percent. This is a modest but significant gain, and the number well reflects the incrementalist objective of profit-oriented market socialism.

9. Leland Stauber's market socialist proposal was initially outlined in a 1975 article in Polity, and much amplified in a 1977 article in the Journal of Comparative Economics. The 1977 article elicited critical comments from Wayne Leeman and Susan Rose-Ackerman (JCE 1978), to which Stauber replied. The large book published by Stauber in 1987 does not add much substantive material to the proposal itself, but contains an elaborate analysis of the postwar Austrian economy, which Stauber regards as providing important evidence suggesting the viability and attractiveness of municipal ownership market socialism. Stauber's most recent contribution on municipal ownership market socialism is an article published in Coexistence (1993).

10. A statement of this argument has been provided by the well-known economist Milton Friedman in Capitalism and Freedom (1962). See Yunker (Polity 1986; and 1992, Chapter 8) for the pro-socialist response to the argument. All of the proponents of profit-oriented market socialist plans discussed here (myself, Stauber, and Roemer) argue that extreme capital wealth inequality under contemporary capitalism undermines authentic democracy, and therefore that considerations of political equity as well as economic equity support the socialist alternative.

11. For example, well-considered recommendations for antitrust structural disaggregations have been put forward by Kaysen and Turner (1959) and Bain (1959). I myself have also discussed the possibility of structural disaggregations of large-scale firms under market socialism to improve competition (see Yunker, 1992, p. 49).

12. To date, the published material available on bank-centric market socialism comprises Roemer (1991, 1994), Roemer and Bardhan (1992), Roemer and Silvestre (1993), and Bardhan (1993).
13. I myself have recently published a lengthy review of possible implications of the peripheral theory areas (principal-agent theory, etc.) with respect to the potential viability and efficiency of profit-oriented market socialism: "Agency Issues and Managerial Incentives: Contemporary Capitalism versus Market Socialism" (Yunker, 1994).

14. This line of argument has recently been thoroughly elaborated in Janos Kornai's magisterial The Socialist System (1992).

15. In the author's judgment, a wide range of criticisms of and objections to market socialism--which never use the term "capital management effort"--nevertheless constitute variations on the capital management effort theme. Examples include Ludwig von Mises's critique of the "artificial market" (1951, pp. 137-142), Peter Murrell's demonstration of the theoretical Pareto inefficiency of market socialism (1984), and Louis Putterman's expressed concerns about the nondecentralizability of public ownership (1993). Relevant published work by the author on some of the many possible rewordings and reworkings of the capital management issue include Yunker (JCE 1988; CES 1990). Precise formulations of and responses to the capital management objection, of steadily increasing levels of detail and technical sophistication, are presented in Yunker (1974; 1988; 1992, Chapter 4; 1993).

16. In a paper co-authored with Timothy Krehbiel, I have adduced empirical evidence from the 1971 Purdue University Survey of the Individual Investor in support of the proposition that the real-world function relating capital management effort to rate of return on capital is in fact of the plateau configuration.

17. See Yunker (1992, Chapter 5) for detailed discussion of the saving issue.


References


1977.


