A Future for Socialism

By John E. Roemer

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The collapse of communism is often taken to have shown that socialism is impossible and that the free market is the only viable basis for a modern economy. The most important economic arguments to this effect have emanated from the neoclassical school, and most influentially from the work of Friedrich Hayek. Roemer is both a neoclassical economist and a philosopher of the closely related `rational-choice' variety. Using these approaches, his purpose in this book is to argue that there is a future for socialism.

The book consists in large part of summaries of the author's more specialised economic and philosophical work, aimed at a more general academic audience. The result hovers uneasily between these levels, and shows signs of having been put together in haste. The philosophy in it is sometimes little more than assertion.   The economic arguments are an unhappy, though symptomatic, mix of neoclassical theorising, which Roemer does his best to render into an approximation to ordinary language, and everyday observation of the current economic scene.

The socialism for which Roemer believes there is a future is "market socialism". He rejects the Soviet model as unviable. "Socialists have made a fetish of public ownership" (p. 20) and issues of property rights, we are told. The property system should be regarded purely instrumentally, according to whether or not it leads to greater equality. "What socialists want", he argues, is "equality of opportunity" (p. 11) and that is all.   Other goals — such as the elimination of exploitation, the abolition of class differences, the fostering of community, etc. — are either reduced to economic equality, or dismissed as "utopian".

Roemer is aware that such a minimal conception of socialism seems indistinguishable from equalitarian liberalism. Indeed, by this criterion virtually every liberal politician and economist apart from a handful of free market fundamentalists qualify as `socialists'. But this does not worry Roemer. For his main purpose is to rebut the neoclassical arguments that even a commitment to equality is impractical, and argue that a more equalitarian system is possible.

He presents his work as a continuation of the `socialist calculation' debates of the thirties, whose main protagonists were Oskar Lange and Hayek. After the Russian Revolution, the Bolsheviks had intended to abolish the market altogether and introduce a fully planned economy. By the thirties, however, doubts about the practicality of this aim were growing, even among socialists. Some, like Lange, argued that prices are necessary for economic calculation and planning. Hayek's argument went much further. He claimed to demonstrate that central planning cannot replace the market in a modern economy, since the planners will lack the information and feedback provided to producers automatically through the mechanism of the market. Roemer gives a useful brief summary of these debates.

Roemer accepts much of Hayek's argument. A free market in labour is necessary to maintain incentives, he insists (moral incentives are rejected as `utopian'); and competition between enterprises is required to ensure technical innovation. However, a stock market is not essential for a modern economy. State direction of investment and a considerable measure of equality in the distribution of profits is possible without impairing economic efficiency. Roemer argues for a managerial, as opposed to workers-control, form of market socialism, in which investment is controlled and profits distributed in an equalitarian way.

He spells out this picture partly by means of a micro-economic model constructed according to neoclassical principles. Like all such models it is abstract and artificial. What is striking, however, is that it plays no significant role in his arguments for the possibility of a more equalitarian market economy. As he disarmingly admits, there is no satisfactory economic theory of the effects of markets (p. 2). For the market does not operate on its own: "it is supported by a myriad cast of institutional characters that have evolved painstakingly over time" (p. 4), and which lie beyond the range of the micro methods of neoclassicism and rational choice theory. So much for these theories in this area.

The real weight of Roemer's arguments against Hayekian liberalism is carried by his reflections on the lessons of recent economic history. These are informed, perceptive and intelligent; but they owe nothing directly to neoclassicism or rational-choice theory. For Hayek's theory, Roemer argues, is based on a picture of the capitalist firm as an individual entrepreneurial enterprise which is now dated. Ownership of the modern corporation is distributed among a large number of shareholders, and profits are similarly diffused. Management of the enterprise is in the hands of hired agents. Similar mechanisms, Roemer argues, could be used for a more equalitarian distribution of profits in a market socialist economy. To the argument that a commitment to economic equality is bound to lead to a loss of efficiency, Roemer cites the example of the Scandinavian countries. They have been successful capitalist economies, yet with a strong commitment to equalitarian redistribution — stronger indeed than Roemer believes would be possible in other countries with less united labour movements (p. 119).

Moreover, Roemer argues, the stock market is often dominated by the search for short-term capital gains. The economies which most rely on it, such as the United States and Britain, have not been the most dynamic in recent years. Countries like Japan, Taiwan and other emerging economies of Asia have done much better with a more interventionist and planned approach to investment. There is good reason to doubt that the free market is the most efficient way of allocating investment. It is quite possible to combine a competitive and efficient economy with extensive government direction of investment.

In other words, the experience of modern capitalism refutes the free market philosophy. State intervention in investment, and considerable redistribution of profits in the interests of equality, are possible without inhibiting economic efficiency. Given the influence that the free-market philosophy has had in recent years, these are important and timely arguments. Roemer's version of them demands particular attention since he is making them on the basis of the same neoclassical assumptions as those he is criticising. But can't these arguments be taken further? Roemer accepts Hayek's view that economic incentives and a competitive labour market are essential to a modern economy. Although he acknowledges the effectiveness of `moral incentives' in the early stages of the Russian and Chinese regimes, this cannot last he argues. The Japanese example again casts doubt on this. Japanese management methods, which foster group solidarity and loyalty to the firm, have been highly effective. Likewise, Roemer accepts the neoclassical faith that competition between firms is necessary. As he observes, however, the Soviet economy grew at a very respectable rate right up until the sixties without it. Perhaps he is right to suggest that it then stagnated because it could not innovate sufficiently rapidly. This is the current free-market wisdom. But if, as Roemer admits, neoclassicism has no theory of market dynamism, one should surely be cautious about accepting these views on the say so of this theory alone.

In short, Roemer's arguments threaten prove rather more than he wishes. For ultimately they call in question not only the free market philosophy, but the neoclassical approach itself.

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