

## Replacing Capitalism?

### **Socialism: what, and why?**

The key decisions in capitalism are made by private investors who try to maximize the profitability of their businesses. In this regard, the whole system is driven by private greed. Good things can happen in the course of that pursuit – sometimes by design, sometimes by accident, sometimes through political pressure. But the core motive force driving the system is not a desire to improve the human condition. It is a desire to fatten someone's pocketbook.

Yet just a cursory look at the often-sorry state of our planet indicates vast unmet needs crying out for attention: the desperate plight of billions of people in the global South, the needless deprivation of hundreds of millions more in the North, and the ongoing degradation of the environment everywhere. Surely it is possible to devote economic resources directly to tackling those crises – rather than crossing our fingers that all will be solved through the trickle-down effects of business-led growth. Imagine if we took the economic resources at our disposal (our technology, our capital equipment, our skills, our work ethic) and devoted them directly to eliminating poverty, to expanding human services (like health care and education), to protecting the environment – instead of video games, glossy advertising, and laser-guided weaponry.

This hope has led economists, and others, to imagine alternative, more humane economic systems, right from the early, dirtiest days of capitalism. The main alternative to capitalism in modern times is **SOCIALISM**. Under socialism, economic decisions are supposed to be guided directly by the public interest, rather than the interests of private owners.

There have been many different theories about why socialism might be necessary, and just as many different ideas about how it would work. The earliest socialists were idealistic European reformers who wanted to build cooperative communities to improve humans' physical and moral condition. Karl Marx predicted that socialism would inevitably arise due to endless class conflict between workers

and capitalists, and perhaps also because of technological changes. John Maynard Keynes argued that socialism would eventually be required in order to ensure that the economy generated enough investment to keep everyone employed. His contemporary, Michal Kalecki, argued that only under socialism could full employment be combined with efficient work effort and discipline.

Common to all of these visions for explicitly managing the economy in the interest of human needs is some combination of the following two features:

- **Widespread public or non-profit ownership of enterprises** Companies under socialism might be owned directly by the state. Or they might be owned through other non-profit or collective structures – like worker or consumer cooperatives, community-owned enterprises, or non-profit agencies. In every case, the enterprises must be publicly accountable, and they must be managed to meet specified public goals (rather than just maximizing their own profit). Simply taking over private companies in the name of the public interest is not enough, in this regard. Publicly-owned enterprises must learn to effectively fulfil the same central economic roles currently performed by private firms: initiating investment, setting economic resources into motion, organizing production, and overseeing the efficiency and discipline of work. But now the *motive* for that activity has changed: to maximize public well-being, rather than private profit.
- **A larger role for economic planning** In most visions of socialism, some key economic decisions are made centrally by governments, rather than being dispersed to individual enterprises. This allows the economy to be directed toward the fulfilment of human or social goals at the macroeconomic level (not just at the level of individual firms). Exercising some collective, deliberate control over key aggregate variables (like investment, credit, key industrial developments, income distribution, inflation, and foreign trade and investment) would help to ensure that the economy meets specified social goals and targets. In light of capitalism's ongoing boom-and-bust instability, it might also help to guide the economy toward more efficient aggregate performance – reducing unemployment and ensuring that available resources are fully utilized.

Within each of these categories, differing “degrees” of socialism can be imagined. For example, public ownership could be expanded to take in virtually all companies, or it might be limited to just the largest, most important enterprises in key industries. Similarly, central planners could determine detailed production plans and price schedules right down to the level of individual industries or companies. Or planning might be limited to broad economic aggregates (setting targets for total investment, consumer spending, wage increases, foreign trade, and other key variables), with detailed decisions left to individual firms. In some versions of socialism, enterprises are publicly owned, but markets (not planning) continue to set the economy’s overall direction. This system is called **MARKET SOCIALISM**; it was tried in a few countries, including the former Yugoslavia.

### **Socialism in practice: what happened?**

The idea of socialism dates back two centuries. And many attempts have been made to implement that vision. Unfortunately, practical experience with socialism so far has not been very successful.

Two broad approaches have been tried in practice. First, a few countries operating within the tradition of **SOCIAL DEMOCRACY** explicitly aimed to transform capitalism – not just reform it. Examples of social-democratic movements with a longer-run, transformative vision include the early postwar Labour governments in Britain (which nationalized large segments of British industry), the French socialist government of the early 1980s (which nationalized most banks and many other large companies), Sweden (where a clever scheme, called the “Meidner Plan,” was devised to gradually take over private business in the 1970s), and Australia (where the competitive labour market was replaced, for a while, with a centrally planned system of wage determination). In all of these cases, intense opposition from business interests, combined with difficulties encountered in the performance of publicly-owned enterprises, led these governments to abandon their more ambitious, socialist visions. Today there are no major social-democratic parties in the developed countries still committed to transforming capitalism; their only goal now is trying to *improve* capitalism (which is, needless to say, an important and legitimate task).

The second broad experiment with socialism was undertaken by various communist-led governments, which implemented widespread

state and collective ownership and CENTRAL PLANNING. There was a surprising diversity of experience within this category – ranging from all-encompassing central planning (carried out under very repressive political structures) to more flexible, market-oriented systems. In every one of these countries, socialism came about in a context of war and violent upheaval, and this held back subsequent economic and democratic development. Nevertheless, central planning showed some initial promise and vitality, especially for poor countries trying to industrialize under difficult conditions. As late as the 1960s, when the USSR beat the US to put the first astronaut in space, central planning could credibly claim to pose a genuine challenge to the success of capitalism. Subsequently, however, the planned communist economies gradually lost steam.

The collapse of the Soviet Union in 1991, and the explicit adoption of pro-capitalist policies in China at about the same time, signalled the end for this version of socialism. Its failure resulted from several weaknesses, including the anti-democratic nature of the communist political system, and difficulties in designing management and incentive structures to effectively guide the actions of state-owned enterprises. On the other hand, human conditions in several former communist countries (including Russia) have visibly deteriorated since the restoration of capitalism (with declining life expectancy, growing poverty, and other negative indicators), disproving any claim that capitalism is inherently “superior.”

Today there are only a handful of countries left in the world that can be called socialist – and even in those countries (like Cuba and Vietnam) the economic space occupied by private ownership and for-profit production is growing. Cuba’s admirable social achievements (its education, health, and cultural indicators outrank most developing countries, and even many developed countries) demonstrate the potential of socialism to leverage the maximum possible well-being from a given amount of material production. On the other hand, Cuba continues to grapple with the failure of state-run firms to develop adequate dynamism and productivity (the 45-year US economic blockade of the island obviously hasn’t helped) and concerns over democratic rights. The governments of Venezuela and Bolivia claim to be building new forms of socialism, based on the nationalization of key industries (especially natural resources and utilities) and the intense involvement of poor people in economic decision-making.

These will be interesting experiments to watch and support – all the more so because they are occurring within a mostly peaceful, democratic political context. The waning of global US influence will hopefully give these and other countries more space to pursue their efforts, free from the political and military interference which undermined past efforts to build socialism. Some equally interesting, smaller-scale experiments in non-profit economic management and development have occurred at the regional level – for example, in the Basque region of Spain or the Indian state of Kerala, where extensive networks of collectively owned enterprises (including non-profit financial institutions) have demonstrated impressive productivity, innovation, and effectiveness.

### **Corporations: socialists in disguise?**

Contrary to the common stereotype, capitalism is not actually an *individualistic* system. A capitalist economy is not composed of economic “Lone Rangers”: profit-hungry individuals making the most of their particular talents and energies, inventing, producing, and selling exciting new products. By far the most important players in the economy are large, bureaucratic institutions (namely, global corporations) – not individual entrepreneurs. Corporate actions and decision-making dominate economic affairs. Moreover, their operations are carefully *planned*. Indeed, if communist central planners could have organized the economy with as much detail, precision, and flexibility as a modern-day Toyota or Wal-Mart, communism would probably still exist! Corporations are also the major source of modern innovation. Most new ideas (for both products and processes) come from corporate-funded laboratories and research programs – where scientists and engineers work for salary (not for profit).

Curiously, therefore, corporations are actually *social* institutions. They are established to allow large numbers of people to work together, mostly cooperatively, in the pursuit of a clearly-defined goal. The problem with corporate behaviour is rooted in the nature of that goal – to maximize shareholder wealth – rather than with the institution itself.

Executives, shareholders, accountants, and economists have devoted incredible attention in recent years to the challenge of corporate governance. How do shareholders ensure that these large bureaucracies act reliably and effectively on behalf of the people

who own them? And corporate governance structures continue to evolve, enhancing what is already a fairly impressive record (from the perspective of shareholders, anyway). Corporations are a highly successful, flexible, and focused institutional invention, allowing their owners to pursue the goal of private profit with unparalleled success. Unfortunately, the successful pursuit of that private goal does not translate reliably into social progress – which is why we need to think about other ways of organizing economic activity.

**Table 27.1 Ten Examples of Successful Public and Non-Profit Enterprise**

Who says that only the private sector can manage a business efficiently? Here are ten examples of public or non-profit companies which are efficient, well-managed, and guided by social and environmental goals (not just their own profit).

<i>Company</i>	<i>Country</i>	<i>Details</i>
Rabobank	Netherlands	Cooperative bank with 55,000 staff and €600 billion in assets; has focused recent lending on clean energy technologies.
Metsähallitus	Finland	State-owned company; engages in commercial forestry and tourism services, as well as managing public forests; has explicit conservation mandate.
Toronto Community Housing Corp.	Canada	City-owned corporation which leverages private financial resources to provide low-cost housing to 160,000 people.
Statoil	Norway	State-owned oil company; profits flow to public social investment fund; pioneered greenhouse gas reduction technologies.
Temasek Holdings	Singapore	Profitable state agency with holdings in over 50 companies in Singapore (and others abroad); has goal to qualitatively develop Singapore's economy.
Mountain Equipment Co-op	Canada	Consumer-owned co-op; largest supplier of outdoor sports equipment; commitment to environmental and labour standards.
Mondragón Cooperative Corp.	Spain	Worker-owned co-op that operates over 150 manufacturing, finance, and retail enterprises, employing over 80,000 people.
Grameen Bank	Bangladesh	Cooperative bank owned by its borrowers; provides small, low-interest loans, largely to women.
"Recovered companies"	Argentina	About 200 factories, with total employment of 10,000, seized by workers following the 2001 economic crisis, now operating on a non-profit basis.
Legacoop	Italy	Network of (mostly consumer) cooperatives across Italy, with 5 million members and 250,000 employees; also operates a cooperative financial network.

In this regard, it is my belief that socialists need to do some important research and experimentation of their own in the field of institutional governance. Publicly-owned enterprises have a bad reputation (deserved in some cases, not deserved in others) for operating in inefficient, uncreative, and even corrupt ways. Imagining ways to define clear goals, create effective incentives, impose checks and balances, and enforce accountability from public managers, constitutes in my view the central problem holding back the successful expansion of public and non-profit enterprise. Studying the experience of successful and efficient public enterprises (like those listed in Table 27.1), learning from the experience of corporate governance, and experimenting with new forms of social and non-profit entrepreneurship, is an important priority for those who still believe that the economy can indeed be run for the collective good.

These experiments will probably have to start small – in community agencies, local and regional economic development initiatives, innovative public services, and other specialized niches. We need to gradually build a culture of public and social entrepreneurship, in which the crucial role of the private investor (setting economic resources into motion, and organizing production) is supplemented and eventually replaced by the actions of publicly-motivated agencies and leaders. As these experiments succeed in resuscitating the notion that public and non-profit organizations can indeed operate in innovative, efficient, and accountable ways, then the political space for further experimentation will grow.

Corporations are large bureaucracies which ruthlessly and efficiently pursue a narrow private goal: maximum shareholder

### **All for One, or One for All?**

**"The first principle of economics is that every agent  
is actuated only by self-interest."**

F.Y. Edgeworth, Irish economist, and a founder of neoclassical economics (1881).

**"In no other species but *Homo sapiens* do thousands of unrelated  
individuals work together to accomplish a common project."**

Samuel Bowles, Richard Edwards, and Frank Roosevelt,  
radical American economists (2005).

wealth. Can we also organize large bureaucracies which pursue (with equal determination and efficiency) some different, but clearly specified, *public* goal? Once we are able to answer that question in the affirmative, then I believe that socialists will have overcome one of the crucial problems which bedevilled both the social-democratic and communist versions of socialism.

### **Capitalism and human nature**

There's one common objection to socialism that can more easily be disposed of, compared to these deeper challenges of governance and accountability – and that is the knee-jerk claim that since human beings are inherently “selfish,” any system rooted in “sharing” is doomed to failure. Indeed, this assumption that people are motivated solely by greed is a starting assumption of neoclassical economics. Unfortunately for neoclassical economic theory, however, it is not remotely true.

There are many plausible cases in which competition and self-interest can leave all sides worse off (see box overleaf). In fact, anthropologists have discovered that the evolution of cooperative behaviour was essential to the successful emergence of early human society. And using new experimental techniques, modern economists have replicated that finding by showing that cooperative economic strategies (in which social behaviour is reciprocated, but selfish behaviour is punished) overwhelm purely competitive strategies in evolutionary competition.

Simply looking around society reveals that some of the most important and powerful human actions are motivated by something very different than greed. The firefighter entering a burning building is not doing it “for the money.” Neither are the dirt-poor grandmothers in Africa who have taken on raising a whole extra generation: orphans who lost their parents to AIDS. The salaried scientists spending 60-hour weeks seeking a cure for cancer are not motivated by stock options; they are driven by a desire to improve the human condition. Even the quiet, hidden heroism of people devoting uncounted hours to caring for children and elders, after performing a full day's work in the paid labour market, is motivated by love, not money.

To be sure, economic incentives are important (even under socialism). But if everyone you encountered in your daily economic routine was truly and solely out to maximize their immediate self-



### Code of Silence

**Table 27.2 The Prisoners' Dilemma**

		Prisoner A	
Prisoner B		Betrays	Doesn't Betray
	Betrays	A: 5 years B: 5 years	A: 10 years B: 0 years
	Doesn't Betray	A: 0 years B: 10 years	A: 1 year B: 1 year

A famous logic puzzle called the "Prisoners' dilemma" demonstrates that selfishness can actually be *irrational*. Imagine that two criminals (named Albert and Bernard, or A and B for short) are captured by the police, and interrogated separately. The police don't have enough evidence to convict the pair for the full crime. So they offer a deal to each one: if they betray their accomplice, they'll receive a lighter sentence.

There are four possible scenarios: A betrays B, B betrays A, they both betray each other, or they both keep their mouths shut. If A betrays B but B stays silent, then B gets a full ten-year prison sentence, and A gets off free. The reverse occurs if B betrays A, and A remains silent. If the criminals betray each other, they each get five years. But if both remain silent, the police have no evidence, and each receives only one year in prison on a lesser charge. These combinations are illustrated in Table 27.2.

Now the irrationality of selfishness becomes clear. A is better off to betray B (that is, to act selfishly), whether or not B betrays A. Likewise, B is better off to betray A, whether or not A does the same to B. There is thus an apparent incentive for each prisoner to betray the other. Yet if both prisoners, following this selfish logic, do betray each other, they each get five years in prison. If they had both remained silent (an act which requires solidarity, not selfishness), they get only one year in prison. This is why hardened criminals learn quickly to keep their mouths shut during interrogation. So long as they *all* follow this rule, they *all* receive lighter sentences.

This imaginary example has many real-world (and non-criminal!) applications, explaining everything from washing your hands after using the toilet, to paying your monthly union dues. In the real world, individuals follow cooperative rules, rather than acting blindly in their immediate self-interest. Why? Because humans have learned over centuries that everyone is better off under certain forms of cooperation.

interest (at your expense), life would probably resemble occupied Iraq more than civilized society. Every person would be perpetually “on guard” against risk, theft, and danger; and the simplest economic transaction would be immensely complicated by a mutual fear that the other party was planning to exploit, steal, or assault. In reality, any practical, efficient economic system requires a level of mutual trust, safety, honesty, and morality that cannot be explained by the neoclassical vision of overarching selfishness.

At any rate, the economic case for socialism is not based on a commitment to “sharing” or “selflessness” in the first place. The idea of socialism is not that rich people should share with poor people. Rather, the goal of socialism is to consciously manage economic activity with an eye to maximizing collective economic well-being, rather than individual profit. Socialism would thus allow people to work together, to better achieve production and employment opportunities that leave virtually all of them (with the exception of the capitalists!) better off. That’s a collective vision of self-interest – not a call for charity.

### **Keeping our options open**

At this point in history, socialists have no obvious road map to guide their quest for a fundamentally more just and democratic economy. On one hand, the continuing, scandalous failure of capitalism to meet basic human needs for so many (despite the fantastic potential of modern technology) inspires the ongoing search for a better alternative. On the other hand, there is an absence of compelling real-world evidence that any other system, given our current knowledge, would reliably do better.

At any rate, socialism cannot emerge out of abstract, idealistic dreaming, imposed on society by someone who has finally discovered the “true” plan. Rather, socialism will have to arise in response to concrete human problems, and our grass-roots efforts to solve those problems. As long as those problems are there, and as long as capitalism remains unable or unwilling to address them, then socialism will exist as a potential solution. And as long as exploitation and poverty exist, then people will fight for a better economic deal.

So whether you are motivated by a bread-and-butter commitment to incrementally reforming capitalism, or by a more fiery-eyed determination to do away with it altogether, the course of action

is more-or-less the same: go out and fight for that better deal. If capitalism can't or won't give it to you, consider the alternatives.

Therefore, struggles to improve capitalism in concrete, important ways must carry on. Capitalism, and capitalist governments, can well afford to undertake important reforms: redistributing income, enhancing social security, protecting the environment, promoting genuine development in the South, and addressing the other challenges that face humanity. Those reforms would make a huge difference to the lives of billions of people, and the future of the planet. And as we fight for those reforms, we can simultaneously push the envelope of the profit-led system with new forms of non-profit ownership, public entrepreneurship, and economic accountability. In short, we can keep our options open.