

Participatory Planning Through Negotiated Coordination

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1. Principles

This contribution to *Science & Society's* special issue on socialist economic organisation brings together the basic model proposed in Devine (1988) and subsequent work developing and elaborating that model (Adaman and Devine 1994, 1996, 1997, mimeo; Devine 1992, 1997, forthcoming). It is part of a project which is designed to assist in the revival of the movement for socialism by developing a well-defined model of participatory democratic planning. The aim is to take seriously both the negative experience of the Soviet model of administrative command planning and the positive insights of the Austrian school's recent reworking of the socialist calculation debate.

The principal objective of the model of participatory planning through negotiated coordination is to outline a possible architecture for the institutions and processes through which a self-governing society might operate. I understand a self-governing society to be one in which the diverse voluntary associations constituting civil society exercise control over both the state and the economy. In relation to the economy this means that the freely associated citizens, not just producers, decide on the use to be made of society's productive potential, rather than this being determined by the coercion of the state or the coercion of market forces.

A self-governing society is one in which those who are affected by an activity participate equally in the decision-making relating to that activity, in proportion to the extent to which they are affected by it. For this to be real, rather than just formal, requires equal access to the resources needed for effective participation. In addition to the abolition of the class division between those who own the means of production and those who don't, and of the exploitation and oppression arising from that relationship, the abolition of the social division of labour, 'the antithesis between intellectual and physical labour' (Marx 1974, p. 347), is also necessary.

Generalising from Marx's distinction, we can classify activities, or labour, into different categories. I have suggested five: administering, directing and planning; creative activity; caring and nurturing; skilled activity; unskilled and repetitive activity (Devine 1988, 1997). Within each category there is a wide variety of different functional activities. The first four categories, freed from the relationships of domination and subordination arising from the hierarchy of social power, are in different ways psychologically productive and contribute to the realisation of human potentiality. The fifth category is in general psychologically unproductive and an important social objective should be to reduce the amount of such activity that has to be undertaken.

Abolition of the social division of labour means ending the social stratification that arises when people spend their lives performing primarily just one category of activity, when they are defined by their jobs as skilled or unskilled workers, creative or caring workers, or are members of the establishment who direct and run society in all its aspects. It does not mean ending the functional division of labour. Rather, there would be an expectation that over their lives people would specialise in functional activities within each category, performing their share of the labour that is socially necessary within each category.¹

Socialism, then, may be thought of as the social transformations that are needed if people are to gain control over their lives, to be able to make informed and effective decisions about how they want to live. Self-determination has both an objective and a subjective aspect to it, or, perhaps more accurately, an external and an internal aspect. It involves the ability to make effective decisions about the external framework within which we live. It also involves our being aware of the determinants of our internal lives, our subjectivity, so that we can, collectively and individually, shape the external framework in ways that enable us to develop our human potentialities to the full.

¹ The abolition of the social division of labour is in many ways akin to Albert and Hahnel's (1991) proposal for the creation of 'balanced job complexes', although they envisage this occurring within the workplace over a short time horizon rather than in the course of a lifetime.

A socialist society needs an economic system that promotes the self-activation and self-development of its citizens. The model of participatory democratic planning outline below is consistent with this objective. It is constructed around the concept of negotiated coordination. Unlike coordination through the coercion of either market forces or state direction, negotiated coordination requires people to engage consciously with their interdependence, with the consequences of their actions for others. It encourages people to transcend their sectional or partial interests and take account of the situation of others. It also, I believe, incorporates a dynamic that goes with the grain of abolishing the social division of labour. Indeed, its successful operation probably depends on this.

2. Basic Concepts

Any discussion of socialist economic organisation today must take account of the theoretical work on the nature of knowledge associated with the revival of the socialist calculation debate. The essential point here is not only that key knowledge relevant to economic decision-making is distributed, 'specific to time and place' (Hayek 1945), but also that it is to a large extent tacit, acquired through learning-by-doing by the individual or group. This means that much relevant knowledge cannot be codified and transmitted but must acted on by those who possess it.²

This, then, reinforces the case for social ownership. I define social ownership as ownership by those who are affected by, who have an interest in, the use of the assets involved. Social ownership is not only, in my view, a fundamental socialist principle, it is also more efficient than private, state or workforce ownership. This is because it enables the tacit knowledge of all those affected to be draw upon in the process of negotiating what should be done to further the social interest in any particular context.³

Given this definition, it follows that the social owners will differ according to the scope, the reach, of the activity or decision involved. Thus, the principle of subsidiarity applies: social ownership should be defined and decisions should be made at the most local, decentralised level that is consistent with all, and only, those who are affected by the use of the assets involved participating in the decision-making process with respect to those assets. This means that a process of negotiated coordination would take place at all levels, from the local to the global, according to the characteristics of the activity in question.⁴

Economies that are based on a functional division of labour and are not static, *i.e.*, all modern and foreseeable future economies, require coordination. Change in the size and structure of productive capacity involves investment and disinvestment. A central distinguishing feature of models of socialist economic organisation is the way in which the coordination of interdependent investment and disinvestment decisions occurs. In market socialist models, as in capitalism, such decisions are made atomistically and are coordinated *ex post* by the operation of market forces, by Smith's invisible hand, which Marx called the anarchy of production.

² It follows from this that models of direct planning based on the electronic transmission of 'data' to a central agency which then calculates 'optimal' prices or output targets are at best confined to static contexts and have difficulty in dealing with change and uncertainty. An important area in need of clarification is the extent to which the models of Albert and Hahnel (1991), Cottrell and Cockshot (1993), and Laibman (2000), fall within this category, as *prima facie* they appear to do.

³ A major weakness in the modern Austrian School's emphasis on the need for tacit knowledge to be socially mobilised by entrepreneurs participating in the market process is that participation is restricted to those with access to capital, thus ignoring the tacit knowledge of the majority of people.

⁴ This may be thought of in terms of internalising "externalities". If an activity undertaken in one locality has significant effects on other localities, then the other localities should be represented in the decision-making process.

Until recently socialists believed that in a socialist economy interdependent investments would be coordinated *ex ante*, *i.e.*, planned as an integrated whole in advance of being implemented. This, it was argued, would remove the uncertainty that exists when investment is undertaken in ignorance of other simultaneously undertaken investment that affects the outcome. The structure of productive activity would be planned to satisfy social need, rather than being the unplanned outcome, that no one willed, of atomistic decisions undertaken in the pursuit of private profit.

However, the historical experience of Soviet style command central planning, together with theoretical developments in our understanding of the importance of tacit knowledge and the centrality of uncertainty, are widely assumed to have discredited economic planning interpreted as *ex ante* coordination. The dominant view today is that the market is the only effective form of economic coordination. Thus, the overwhelming majority of socialists working on models of socialist economy now advocate some form of market socialism.⁵

By contrast, my model of participatory planning is specifically designed to enable the *ex ante* coordination of investment to take place through negotiation. It is based on a distinction between market exchange and market forces. Market exchange involves the sale/purchase of the output of existing productive capacity. The operation of market forces is the process through which changes in the structure of productive capacity brought about by investment and disinvestment are coordinated in capitalism (and market socialism). The model outlined below retains market exchange but replaces market forces by negotiated coordination.

3. The Model

The model assumes a democratic political and economic system based on a combination of direct and representative democracy. The abolition of private ownership of the means of production and the social division of labour would create the conditions for generalised participation in both types of democratic decision making. Contrary to what has sometimes been suggested (Blackburn 1991; Hodgson 1998), this would not mean that everyone would be involved in every decision, leaving no time for anything else. It would mean that over the life cycle people would take their turn at being involved in direct democratic decision-making and in acting as representatives in the process of representative decision-making.

Through the political process, making use of alternative economy-wide plan variants, people would decide on the society's priorities for the next planning period. These would cover issues such as the balance between social and economic investment and social and personal consumption, major structural developments in the cultural, environmental, urban and transport infrastructure, the geographical distribution of economic activity, priorities for the use of the resources allocated to R&D and innovation, and so on. The outcome of such strategic decisions would feed into the distribution of purchasing power and expenditure in the economy.

Enterprises would be socially owned by those affected by their activities. The owners would include the enterprise's workers, other enterprises in the same line of production, major suppliers and users (directly or through their trade or consumer associations), the localities and regions in which the enterprise was based, and single issue groups with an interest in, *e.g.*, the environmental or equal opportunities impact of the enterprise. These social owners would be represented on the Board of Directors of the enterprise, negotiate over strategic policy decisions and monitor the activities of the internally self-managed workforce.

There is, of course, the question of how the groups with a legitimate interest in an enterprise's activities, the social owners, would be identified and how the weight that each group should have in the decision-making process would be determined. However, these issues are not specific to the model of negotiated coordination but arise in relation to any attempt to devise institutions in which stakeholders are represented. The advantage of social ownership, compared to worker-owned enterprises operating within a legislative framework designed to safeguard the interests of other groups, is that it enables the tacit knowledge of all the affected groups to be drawn on in the course of negotiating enterprise policy and practice.

⁵ For a discussion of the socialist case against market socialism, see Devine (1992).

Enterprises engage in market exchange, making use of their existing capacity, and in general compete with other enterprises. The degree of capacity utilisation they achieve provides information on the extent to which the resources incorporated in them are being productively used to meet social need. Undercapacity utilisation indicates, either, that users prefer the output of other enterprises, or, that there is excess capacity in that line of production, or both. Full capacity working plus growing order books indicate the opposite. This information is then available to inform decisions on changes in capacity, on investment and disinvestment.

However, unlike in capitalism or market socialism, such decisions are not made at the level of the enterprise, since they affect a wider set of individuals and groups, *i.e.*, the social owners at the level of interdependent investments are different from those at the level of the use of existing capacity. Instead, investment decisions are made by what I have called negotiated coordination bodies, on which are represented the interests affected by the interdependent set of investment decisions under consideration. The social owners at this level include all the enterprises in the industry or sector, the localities in which they are based, and regional, national or international planning commissions, depending on the character of the activity involved, together with any other groups with a legitimate interest in the outcome.

Negotiated coordination bodies have two sorts of information to draw on when negotiating their investment decisions. First, there is quantitative information on (a) the performance of the different enterprises, (b) any planned major new developments arising from the priorities incorporated in the economy-wide plan, and (c) estimates of the impact of significant new technical developments or cultural trends. This enables them to decide whether any enterprises appear to be making inefficient use of the assets incorporated in them, whether aggregate capacity needs to be expanded or contracted, and whether the product specification of the industry or sector needs to be significantly modified.

Second, the representatives of the social owners participating in the negotiating process are able to draw on their tacit knowledge in arguing their case as to why enterprise performance may appear inefficient, what they judge to be possible, and how the social owners they represent would be affected by the alternative distributions of investment and disinvestment under consideration. Thus, enterprise representatives might argue that temporary or special circumstances had resulted in their apparently poor performance, while local or regional representatives might argue that employment opportunities in their areas were less favourable than elsewhere.

The process of negotiated coordination is a process in which those participating have to convince their peers, all of whom have an interest in the outcome and many of whom have specialist knowledge of the activities involved. Thus the danger of successful special pleading would be minimised. It involves give and take and promotes understanding of the legitimate interests of others. It is not a procedure for aggregating pre-existing preferences, but rather a transformatory process in the course of which perceptions and preferences change. It is a continuous process of negotiating what is to be defined as the social interest by those whose interest it is, in the light of the outcome of past decisions and best estimates of future possibilities in an uncertain and changing world.

4. Issues

Three issues that have been raised as criticisms of the model or as requiring further development need to be briefly discussed.

a) Prices, wages, profits and natural resource rentals

Prices would be set by enterprises equal to the social cost of production. At the level of the economy as a whole, the cost of production is the cost of the primary inputs used - labour, capital and natural resources. At the level of the enterprise, costs include these primary costs but also the cost of bought-in intermediate inputs. Primary input prices need to be decided at the level of the economy as a whole, since they influence the use made of society's productive potential, through their impact on the decisions of enterprises, negotiated coordination bodies and consumers, and also the distribution of income.

The social priorities decided on through the process outlined at the beginning of Section 3 would indicate the

scope for any increase in the average real wage. The money wage increase corresponding to this, given the prevailing price level, together with any changes in any wage differentials attaching to different functional occupations, would be negotiated by representatives of those affected. *e.g.*, government, trade unions, enterprises, negotiated coordination bodies. If it were not possible to reach agreement, claims on resources would exceed availability which would mean that agreed priorities could not be fully implemented.

The capital charge or desired rate of return on the use of society's stock of fixed assets would also reflect the overall priorities agreed. Changes in the desired rate of return would reflect the need to generate a surplus equal to the planned allocation of output for social expenditure and economic investment, after making an allowance for estimated personal saving and revenue raised from natural resource use rental. The rental for the use of natural resources, over and above the cost of producing or making use of them, would reflect the socially determined evaluation of their relative scarcity with respect to potential current use and, in the case of non-renewable resources, desired rates of depletion.

Enterprises would then set prices equal to long run cost of production, based on primary input prices, including the economy-wide capital charge or desired rate of return, and the prices of bought-in produced inputs. Prices thus calculated might well differ between enterprises in the same industry or sector, either because of different product specifications or because of different efficiency levels, whether due to objective differences or different internal working practices. Customers would then choose their preferred price/product characteristic combination and enterprises would find themselves operating at or below full capacity working.

The rate of return that enterprises actually obtained would therefore either equal or fall short of the desired rate of return that had been incorporated in their prices. This information, generated by market exchange, would then be available to negotiated coordination bodies when planning the allocation of major investment, as outlined in Section 3. Relative prices determined as set out above would, of course, exist for intermediate inputs as well as for consumer goods. They would therefore, together with qualitative considerations such as the character of the work experience involved, influence choice of technique as well as consumer choice.⁶

b) Entrepreneurship and innovation

A recurring criticism of socialism as an alternative to capitalism has been its alleged lack of dynamism. It is argued that innovation cannot be planned but requires decentralised decision-making enabling entrepreneurs to act on the basis of their tacit knowledge in order to discover what is and what is not possible. Since the outcome of innovative activity is inherently uncertain, emphasis is increasingly placed on the innovation process, through which a variety of innovations is generated and then subjected to a selection process, which in capitalism occurs through the operation of market forces.⁷

Although in capitalist economies many of the ideas and prototypes for innovation originate outside the large corporations, they are almost invariably developed by large corporations, or by small firms that become large corporations. Firms develop social tacit knowledge, or know-how, that enables them to identify promising new possibilities outside the firm and/or to generate them internally. They have the capacity and resources to then develop some of these possibilities into new products, discarding most of them as unviable in the process. Since not all ideas and prototypes can be developed, there is necessarily an internal selection process through which those projects thought most likely to be profitable are chosen.

The innovations thus generated are then launched on the market and subjected to the competitive process, with market forces allocating increasing resources to the firms whose products are profitable and driving out the unsuccessful firms. Thus, both within the capitalist firm and through the operation of market forces, the criterion for selecting across the variety of potential and actual innovations is profitability, expected and

⁶ For a more extensive discussion of prices and related matters, see Devine (1988, chs 8.3 and 10.2).

⁷ For further discussion, see Adaman and Devine (mimeo) and Devine (forthcoming).

eventually realised. The outcome is that, while some innovation in capitalist economies is socially useful, much is socially useless or harmful.

The model of negotiated coordination incorporates the possibility of both the generation of variety, within and between enterprises, and selection across that variety. However, the criteria for selection would be wider than just expected or actual profitability. Individuals, research institutions, small firms, would offer ideas or prototypes to enterprises, to negotiated coordination bodies, to planning commissions at all levels. Enterprises would also develop their own ideas and prototypes internally. Planning commissions are able to establish new negotiated coordination bodies. Negotiated coordination bodies can offer ideas to existing enterprises or establish new ones.

Enterprises then select which projects they want to develop in the light of what the social owners judge to be the social interest. This will, of course, include a judgement as to whether, if the product were offered for sale, enough would be bought for the enterprises to be able to cover the capital charge incurred in its production, to realise the socially desired rate of return. If the innovation is incremental, they then proceed with it. If it requires major new investment, they try to convince their own, or another, negotiated coordination body to finance it. It would also probably be a good idea to establish social venture capital funds to which individuals, groups or enterprises could apply for the finance needed to pursue their ideas.

The process of market exchange then allows users to select which innovations they buy. This affects the extent to which the socially desired rate of return is in fact realised and this information is then available to the negotiated coordination bodies when reviewing past decisions and deciding on future investment. Thus, both in the development stage and in the market exchange stage, a wider set of criteria is used in making decisions on innovation than the narrow private profit criterion of capitalism.

The model of negotiated coordination therefore offers scope for entrepreneurial initiative and promotes the generation of variety. It enables the selection of which innovative possibilities to develop to be made on the basis of socially determined criteria, recognises the inherent uncertainty involved in innovation, and provides a mechanism for feedback, revision and learning. It is more efficient than capitalism in that it is able to draw on the tacit knowledge of everyone rather than just of the class of entrepreneurs with access to capital. It offers the prospect of social control over the direction of innovative activity in place of the runaway juggernaut to which people increasingly feel themselves subject under the sway of ever more global capitalism.

c) Sustainability⁸

The future is likely to be fought out over the historical concerns of the socialist project, social justice and empowerment, thus enabling self-government, and more recent ecological concerns focusing on the concept of sustainability (Red Green Study Group 1995). Ecological issues involve decisions that have to be made in conditions of uncertainty on how to weigh the imperative of the precautionary principle against the benefits or disbenefits of developments that are, potentially, either emancipatory or ecologically destructive and therefore inimical to human well-being. If such decisions are to have legitimacy, they must be taken, in the light of the available scientific knowledge, by those who will be affected by whichever outcome occurs. We may, of course, make the 'wrong' decision, but we can learn from that, as we cannot if the decision is imposed by command planning, or, the greater danger today, by the WTO, multinationals and the coercion of global market forces.

The model of negotiated coordination, although developed without the benefit of the literature on tacit knowledge and before the ecological crisis made itself felt so powerfully, is nevertheless well suited to analysis of these issues. The basic framework is one in which the social owners, those who are affected by the decisions made, are those who make the decisions. Ecological economists argue that the way in which decisions are made matters and propose what they call 'procedural rationality', a process of 'discursive democratic deliberation'.⁹

⁸ This section draws extensively on the work of my MPhil student, Begum Ozkaynak (Ozkaynak 2000).

⁹ For further discussion, see Ozkaynak (2000).

However, they do not discuss the institutional arrangements, the distribution of property rights and of access to the experiences needed for self-development, that would make such a process a working and legitimated reality. The model of negotiated coordination, based on the abolition of private property and the social division of labour, *i.e.*, of the institutions of capitalism, addresses these fundamental questions.

5. Conclusion

In this paper I have outlined a model of participatory economic planning based on a process of negotiated coordination. The model was developed in response to the evident weaknesses of the Soviet model of command central planning and the challenge presented by both capitalist ideologues and market socialists to the very possibility of economic planning. It was deliberately designed as an alternative to state coercion and the coercion of market forces as a means of coordinating economic activity in a complex modern economy.¹⁰ However, the model was initially developed without reference to the socialist calculation debate, ecological concerns or the global dimension, and with insufficient attention to the importance of uncertainty, innovation and entrepreneurial activity.

Subsequent work has sought to remedy these omissions and the underlying principles of the model have proved robust when applied to the issues involved. The central insight to have emerged from the modern Austrian school's reworking of the socialist calculation debate is the importance of tacit knowledge, which is also emphasised in the current literature on innovation. The process of negotiated coordination, based on the principle of generalised participation, is a process in which the tacit knowledge of all the social owners contributes to the outcome, not just that of those with access to capital as in capitalism. Similarly, the process of negotiation engaged in by the social owners at each level is a process of discursive democratic deliberation, as advocated by ecological economists.

The distinction between the use of existing capacity and non-incremental changes in capacity, institutionalised in the model through the distinction between enterprises and negotiated coordination bodies, provides a framework for decision-making across the local-global spectrum. In accordance with the principal of subsidiarity, decisions on the use of existing capacity would be made at the local level by the social owners of the enterprise, whereas decisions on changes in capacity would be made at the lowest level that enabled the effects of the decision to be 'internalised', *i.e.*, would be made by those affected by the decision, the social owners at that level.

Although incomplete, and distorted by unequal power relationships, an analogous structure already exists with respect to political decisions. Jurisdictions range from local government, through regional and national governments, to international and global institutions. Indeed, comparable arrangements also exist to some extent for economic decision-making at all levels. The challenge is to democratise both the polity and the economy at all levels by including in the decision-making process the rightful social owners, those who are affected by the decisions being made. Local movements against workplace closures, global demonstrations against the World Trade Organisation's pro-multinational corporation proposals, need to be complemented by demands for representation in the decision-making process and a corresponding redistribution of power.

Finally, the process of negotiated coordination, the distinction between the use of existing capacity and changes in capacity, and the concept of social ownership defined at different levels according to the characteristics of the activity involved, together provide a decentralised and pluralistic framework within which individual initiative and creativity, entrepreneurial activity and innovation would flourish. However, the framework also enables a self-governing society to exercise conscious social control over the sorts of innovation it wishes to encourage, the direction in which it wants to develop.

¹⁰ The challenge was succinctly captured by Nove: "There are horizontal links (market), there are vertical links (hierarchy). What other dimension is there?" (Nove 1983, p.226).

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