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Maximizing Social Welfare or Institutionalizing Democratic Ideals? Commentary on Adam Przeworski's Article

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INTRODUCTION

Adam Przeworski's article is entitled "Could We Feed Everyone?" Since his discussion of this question is very sketchy and my knowledge of the relevant issues is even sketchier, I will not consider it here. The article is subtitled "The Irrationality of Capitalism and the Infeasibility of Socialism." Przeworski's analysis of this issue is deep and illuminating, and in my commentary I will concentrate on this analysis. There is much in it that I agree with, in particular the discussions of market socialism and social democracy in the section entitled "What Can Be Reformed?" and the concluding remarks about the importance of politics. (p. 25)¹ But since explorations of these points of agreement would not make for interesting debate, I will focus here on four points of disagreement.

First, Przeworski's discussion is confined to a comparison of the *welfare* consequences of alternative political-economic constitutions where "welfare" is understood subjectively as the satisfaction of *de facto* preferences. He appears, that is, to rely on the "subjective welfarist" view that the only information relevant to evaluating social states is information about the consequences of those states for the satisfaction of preferences. I do not think that subjective welfarism is a reasonable normative political conception, nor do I agree that the fundamental values in the socialist tradition are best understood in these terms.² A more reasonable view, and one that better captures those values, draws on a "demo-

cratic" conception of the ideals of liberty, equality, and community. In the next section, I will sketch such a conception.

Second, Przeworski's discussion of alternative political-economic arrangements is organized around a contrast between the *rationality* of systems and their *feasibility*. I do not find the distinction illuminating in part because I think the contrast itself is artificial and in part because the account of rationality inherits the weaknesses of the subjective welfarist normative framework. I explore these issues in my section entitled "Rationality and Feasibility."

Third, Przeworski suggests that what he calls the "socialist blueprint" provides an attractive ideal that is unattainable because people are self-interested. In my section entitled "Attractions of the Blueprint: The Administration of Things," I suggest that there are flaws in the blueprint that do not arise from the fact of self-interest but instead reflect tensions between the ideal of a "*rational administration* of things to satisfy human needs" that is embodied in the blueprint and the inevitable *disagreements* among reasonable people in an ideally democratic society.

Finally, I think that an assessment of the compatibility of markets with the democratic ideals that underlie the socialist tradition is more complicated than at least parts (in particular the earlier parts) of Przeworski's discussion suggest and that it depends both on the institutional/organizational setting in which markets exist and on the motivational implications of that setting.³ In my section entitled "The Limits of Markets," I elaborate on this final point.

PRINCIPLES AND PRACTICES

A Free Community of Equals

Consider a society whose members all have equal access to the advantages of social cooperation, regardless of their natural differences or the social backgrounds into which they are born. Knowing whether they are born male or female; black, white, or brown; or musically gifted or sympathetically endowed does not help us to predict their rights or the resources they will have to use those rights over the course of their lives. While resources may differ, such differences can be traced to decisions that reflect their diverse understandings of what is valuable in life.

Suppose, too, that those diverse understandings are endorsed under free conditions. Secure in their person, citizens are confident that they can reflect without constraint and express without censorship and that they have a fair chance of participating along with others in setting the basic terms of their common social and political life. Exercising these liberties of conscience and association, expression and political participation, they act sometimes alone and sometimes in concert with others in pursuit of their conceptions of a good human life.

Assume further that the members of the society recognize that such pluralism about matters of value comes with the human territory.⁴ They accept the premise that reasonable people disagree about what is good, while at the same time affirming in common and with mutual respect, the values of liberty and equality that define their society. While their precise interpretations of the values of liberty and equality differ, their shared convictions are sufficiently strong that they willingly support the political and economic arrangements that advance these values, and they agree to pursue their disagreements within the framework defined by those arrangements. In particular, they willingly act in ways that contribute to the common advantage without demanding rewards for their contributions that conflict with it. And because of those willing contributions, the egalitarian distribution of advantage is consistent with a reasonable level of advantage for all.

Here we have a (breezy and abstract) statement of one interpretation of the ideals of equality, liberty, and community and of the connections between those ideals and material prosperity. Equality is achieved in that the distribution of social advantage does not reflect social and natural differences but rather differences of aspiration affirmed under free conditions. Conditions are free because people can—substantively and not just as a matter of right—reflect and deliberate about what is valuable, associate with others in pursuit of those values, and participate in the political life of their community. There is community because, disagreements and diversity of values notwithstanding, a moral consensus exists on the principles of freedom and equality that define the terms of social order. And these conditions contribute to material prosperity because the common allegiance to the principles leads citizens to “exert effort independently of reward.”⁵ (p. 12).

Some Implications?

This democratic ideal of a free community of equals is featured in, even if not peculiar to, the socialist tradition or at least in the democratic strand of that tradition. By the “democratic strand,” I mean that line of socialist thought that embraces the values of liberty and equality associated with modern democratic thought; acknowledges the pluralism of values that follows on the protection of fundamental liberties of conscience, expression, and association; and endorses the importance of democratic political institutions as essential conditions for the realization of those values.

What distinguishes the socialist strand within the democratic tradition is not its embracing of the ideal of a free community of equals, but its contention that private property and markets provide fundamental constraints on the realization of that ideal.⁶ The connections between the values of liberty, equality, and

community and the sources of hostility to private ownership and markets can be summarized roughly as follows:

1. Private ownership and markets inevitably tie material compensation to ownership or contribution and in so doing generate an unjustifiably *unequal* distribution of advantage.
2. Private ownership and markets constrain politics to adapt to the decisions of owners or market actors so a wide range of decisions of fundamental social importance—what is produced, where enterprises are located, how present and future benefits are traded off—are made by private individuals, and collective choices must accommodate themselves to those decisions. This imposes unjustifiable constraints on popular sovereignty and so on *political liberty*.
3. Private ownership and markets structure individual choice in a way that encourages individuals to attend to their own advantage without explicit attention to the implications of their actions for others. Thus they discourage the widespread allegiance to norms of substantive equality and liberty that defines a pluralistic, democratic *community*.

But “[i]f something is wrong with one system because it is wrong with all conceivable systems, little of interest follows.” (pp. 2–3) So the force of these three criticisms depends on the availability of an alternative form of political-economic order that can address the defects of private property and market allocation without working serious damage of its own. The classic socialist alternative is a system of public ownership and economic planning. Such a system would, so the argument goes, redress the inegalitarian implications of capitalism by socializing the right to benefit from the use of productive resources. Furthermore it would eliminate constraints on liberty imposed by capitalism by socializing the right to determine the allocation of productive resources. And it would address the motivational implications of capitalism by transforming the process of resource allocation into a public process in which issues of the common good would provide the explicit theme in economic decisions.

Welfarism?

This sketch of a route from the abstract ideal of a free community of equals to a socialist implementation of that ideal is, to be sure, overdrawn and depends on an exaggerated set of contrasts—between market and plan, between private and public ownership. I offer it here simply as a reminder of the role of that ideal in familiar arguments for socialism. And I offer the reminder because the ideal of a free community of equals is a fundamental and attractive social ideal which is both more plausible than, and captures the underlying values of, the socialist tradition better than does the narrowly welfarist normative position that

Przeworski draws on. While I cannot discuss either of these points in detail here, I will say a few words about each.

Much of Przeworski's discussion proceeds on the assumption that the proper way to evaluate political-economic arrangements is to ask which is best able to maximize social welfare.⁷ Moreover he understands welfare subjectively, as the satisfaction of preferences.⁸ But subjective welfarism is, I think, not a reasonable foundation for such evaluations. Given the malleability of preferences and their commonly unreflective character, it is not at all clear that preference satisfaction is a plausible account of welfare. Furthermore given the fact that some preferences are unreasonable, there are difficulties in defending preference satisfaction as a suitable basis for collective choice. And given the ethical importance of the human capacity to regulate and to revise preferences on reflection, a suitable foundation for evaluating alternative political-economic constitutions needs to take into consideration—as the democratic ideal does—the implications of different constitutions for the development and exercise of this capacity and not simply for subjective welfare.

As to the connections to the socialist tradition, I take it to be a central part of the case for socialism that socialism can provide conditions in which individuals, groups, and the people collectively can freely deliberate about what is worth preferring and doing and act on the basis of those deliberations and not simply pursue the satisfaction of *de facto* preferences, which may themselves be transformed through deliberation. So, for example, the case for public ownership—as I indicated earlier—is not simply that it enables the optimal satisfaction of preferences or that it permits the allocation of welfare that the people would choose if they were to pick the allocation but that it frees people to consider how best to use resources without subjecting their reflection to the constraints imposed by the private control of resources.

This difference in interpretations of the fundamental values has important consequences when we move from matters of value to questions of comparative institutional evaluation and institutional design. In particular, we cannot settle these questions by deciding which arrangements would best promote the satisfaction of *de facto* preferences. Instead we need to consider as well how a proposed set of arrangements would assure fundamental liberties, how they accommodate the pluralism that inevitably follows on the protection of those liberties, and whether they can be expected to encourage an allegiance to the ideal of free association among equals that is sufficiently strong to preserve the stability of institutions that conform to that ideal. The implications of this point will become more clear as we proceed.

RATIONALITY AND FEASIBILITY

According to Przeworski, capitalism is irrational, and socialism is not feasible. After outlining his argument for those conclusions, I want to raise three objections to it.

Main Argument

Przeworski's argument is built on, inter alia, the following three claims:

Capitalist obstruction thesis: There are technically feasible, efficient allocations of welfare that cannot be achieved as equilibria of a capitalist economy

Socialist blueprint thesis: There is a characterization of a socialist economy—a socialist blueprint—from which we can derive that all technically feasible, efficient allocations can be achieved by a socialist economy.

Socialist obstruction thesis: Given realistic assumptions about human motivations, a socialist economy cannot achieve all technically feasible, efficient allocations.

Przeworski's defense of the *capitalist obstruction thesis* appears to depend on a general skepticism about the possibility of separating the allocative and distributive functions of prices without damaging consequences (see, for example, p. 25). If an economy uses prices to allocate resources but then fixes the rewards for different factors of production through redistributive transfers or a social dividend, it will suffer from deadweight losses. That is, it will not make full use of productive potential since people will not be drawn to the highest-priced use of their resources in the way that they would be if the price specified the terms of their reward for the use of their resources.⁹ If this is true, it is not a necessary truth or a fact about the "logic" of markets. A price (when markets are working perfectly) indicates the value of a good as determined by people's willingness to pay for it. It is certainly possible for a person to put goods that he or she owns or controls to their highest-price use even though the person does not expect to be rewarded by being paid that price.¹⁰

I will return to this issue later. What matters here is that, since Przeworski assumes that allocative and distributive uses of prices need to go together on pain of deadweight losses, the *capitalist obstruction thesis* really states a point not just about capitalism but about markets generally:

Market obstruction thesis: There are technically feasible, efficient allocations of welfare that cannot be achieved as equilibria of a market economy.¹¹

Set against this background, Przeworski's argument about the irrationality of capitalism comes to this: The conjunction of the *market obstruction* and *socialist blueprint* theses shows that capitalism is irrational because it prevents the achieve-

ment of desirable allocations. The rationality of socialism, by contrast, follows from *socialist blueprint*, which tells us that socialism itself does not obstruct any allocations. But at the same time *socialist blueprint* and *socialist obstruction* together support the conclusion that socialism is not feasible. For *socialist blueprint* tells us that the ideal blueprint is workable while *socialist obstruction* implies that it is unreasonable, given realistic assumptions about people, to expect socialism to work according to its ideal blueprint.

Three Objections

I find the account of rationality and feasibility unhelpful for three reasons. The first two have to do with methods of comparison while the third makes a more substantive point about the foundations of the charge against capitalism.

First it is a platitude about rationality that the rational choice is the best *feasible* choice. I do not see why then we should conclude from *market obstruction* and *socialist blueprint* that capitalism is irrational instead of concluding from the former and *socialist obstruction* that it may or may not be, depending on how far short of the blueprint a realistic socialism falls. Nor do I see why *socialist blueprint* implies that socialism *is* rational. Why not conclude from *market obstruction* and *socialist obstruction* that blueprints do not decide the issue of rationality?¹²

Przeworski appears to assume that the charge of irrationality depends *only* the availability of an alternative blueprint¹³ regardless of judgments about how that blueprint is likely to work. While I agree with him that blueprints matter to us as “political beings,” (p. 4) I do not think it is rational for them to matter this way. It makes no sense to condemn an arrangement as irrational when we have a blueprint for a better arrangement but believe that the blueprint is sufficiently unlikely to work that the “better arrangement” will work less well in practice.

Putting aside the platitudinous connection between rationality and feasibility, think of the problem as a matter of the choice of a political-economic constitution by “the people.” They know from *market obstruction* and *socialist obstruction* that, whichever system they choose, they will not be able to achieve *all* the technically feasible allocations. While the explanation of that inability may differ between the two cases, the fact remains that no system in the choice set makes available the full complement of technically feasible allocations. If this is so, then the choice of capitalism cannot be condemned as irrational merely because capitalism (like all the other systems) closes off alternatives. The fact that it is less desirable than a system that does not exclude any allocations but that is infeasible and so not in the choice set may be a matter of regret. But it does not condemn the choice of capitalism as *irrational*.

Second I am perplexed by the discussion of the feasibility of socialism. Przeworski has, I think, adopted a rather special use of the term “feasibility,”

according to which a system is infeasible just in case a realistic appraisal of it shows that it lacks the virtues attributed to it by its proponents. So, for example, if we cannot realistically expect markets to achieve efficient equilibria, then capitalism is infeasible. (p. 12) At the same time, since the classical defense of capitalism does not promise that it *can* be used to achieve the efficient allocation of welfare preferred by the people, the feasibility of capitalism is not challenged—as is the feasibility of socialism—by the fact that it cannot.

My quarrel here is not with the terminology—though I do think it is a little misleading—but rather with the relevance of assessments of feasibility understood this way. The questions of central relevance in the comparative evaluation of political-economic systems are: (1) What are reasonable norms for the evaluation of social systems, and (2) which system best conforms to these norms? If achieving an egalitarian allocation of welfare is a reasonable requirement, then it is not really relevant to an evaluation of capitalism that classical blueprints of capitalism did not argue that capitalism could achieve such an allocation. The fact that they did not may tell us something about the limited moral vision of those who formulated the blueprints. But the limits of their vision are irrelevant in deciding about the reasonableness of capitalism itself. Unless our purposes are polemical, what we want to know is what different systems are capable of delivering and not simply whether they can deliver on the promises of their proponents.

Third according to Przeworski, capitalism is irrational because it obstructs the allocation that is preferred by “‘the people,’ in its eighteenth-century singular.” (p. 11) That allocation fully employs productive resources while differing from the market allocation in being more egalitarian. I agree that natural interpretations of the claim that the people have distributive preferences make those distributive preferences egalitarian. But I have two problems with Przeworski’s account of the democratic foundations of egalitarianism.

First the “natural” interpretations of the people’s distributive preferences that I have just alluded to deploy either veil of ignorance constructions or a deliberative conception of rationality to set constraints on the kinds of reasons that citizens can use in defending fundamental distributive norms—for example, that the reasons have to be consistent with the moral equality of citizens—and argue that the acceptable reasons have egalitarian implications.¹⁴ In keeping with subjective welfarism, Przeworski, as I understand him, proposes that the egalitarianism of the people’s preferences can be derived even *without* such constraints on reasons. In particular, he takes it to be an implication of the fact that the people’s preferred allocation *is* that allocation that would be chosen in a democratic procedure for the aggregation of de facto preferences. The intuition is that a democratic procedure assigns equal weight to the preferences of each and so would generate

a more egalitarian allocation than a market procedure that weights preferences by wealth.

Intuition, however, is not a reliable guide here for majority rule assigns equal weight to the preferences of each. But if “democratically chosen” is interpreted as “chosen through majority rule,” the argument for the egalitarianism of the people’s preferences runs into trouble because of the instability of majority rule. Majority rule is said to be unstable because there is virtually never a majority rule winner from a set of alternatives, and when there is not a majority rule winner, majority rule cycles cover the entire space of possible outcomes.¹⁵ So majority rule does not even guarantee that productive resources will be fully employed, much less that welfare will be roughly equally allocated.

The analysis of structure-induced equilibria—of majority-rule equilibria that emerge from institutional constraints within majority rule institutions—has brought determinateness back to the study of majority rule.¹⁶ But, putting aside the complicated issue of the relationship between a structure-induced equilibrium and what the people prefer, there is in general no reason to expect that the institutional constraints that lead to equilibrium also will lead the majority to choose to fully employ productive resources.

Second suppose that there *were* a determinate allocation, different from the market allocation, that the people would choose if they were evaluating allocations in abstraction from the institutions that might generate them. Suppose, too, that the preferred allocation would be inaccessible given a market system of resource allocation. Still it would not follow that the people ought to reject markets. Indeed the fact that markets prevent certain otherwise-desirable outcomes might actually be a *desirable* feature of them. For example, the people might, in a constitutional convention, choose to adopt a market scheme knowing that a byproduct of that system is the exclusion of certain allocations that the people find desirable but believing at the same time that the adoption of an alternative system that would permit the choice of those allocations would have other damaging consequences. For example, it is commonly said that private property or markets are necessary for the protection of noneconomic liberties, including the liberties associated with political democracy. Suppose then that private property or market allocation mechanisms inevitably exclude relatively equal distributions of income and welfare or more minimally do not guarantee such distributions even when it is widely agreed that they would be a good thing. Even if one thought that such distributions were good, one might still rationally adopt a scheme of private property in order to preserve democratic liberties.

I do not find this familiar argument compelling. The point of mentioning it is only to underscore that a reasonable assessment of the virtues of alternative political-economic constitutions must meet it. But, to return to my main theme, meeting it requires attention to matters that extend beyond the welfare conse-

quences of alternative systems and depends in particular on showing that there is a workable system that protects fundamental liberties and has egalitarian distributive implications.

Attractions of the Blueprint: The Administration of Things

According to Przeworski, the socialist blueprint provides an attractive ideal that is not workable because people are self-interested. I want to propose some doubts about the ideal that do not derive from the fact of self-interest.

I want to emphasize that the doubts I will discuss do *not* have definite implications for the virtues of public ownership or planning themselves since they are not the only components of the blueprint. Instead the blueprint also includes three behavioral norms whose satisfaction is required if an economy with public ownership and planning is to “generate all the wonderful effects its proponents advertise” (p. 12)—a combination of the optimal utilization of resources and an egalitarian distribution of welfare. The norms are: (1) that citizens truthfully reveal all relevant private information about talents, technologies, and tastes to the planner; (2) that planners conscientiously work out a plan that maximizes social welfare; and (3) that managers comply with the commands of planners and workers comply with the commands of managers. These three assumptions give content to the idea that socialism is the “rational administration of things to satisfy human needs,” where the model of the rational administration of things is a single agent who musters all of his/her powers in pursuit of a goal.¹⁷ My doubts about the blueprint arise from doubts about this “single agent” model of social rationality.

Two Foundations for the Blueprint

What, then, are the problems with the blueprint? To answer this question, let us consider what it would take for the three behavioral norms to be satisfied. There are two possibilities here the first of which is associated with a “mechanism design” analysis of socialism.

In the mechanism design framework, socialism is modeled as a system with a planner who seeks to maximize social welfare and with utility-maximizing citizens who have private information that the planner must elicit in order to develop a welfare-maximizing plan. The planner’s problem is to design an incentive scheme such that each citizen maximizes utility by truthfully revealing the private information relevant to picking the welfare-maximizing allocation. Przeworski expresses some (well-founded) skepticism about solving the incentive problem within this framework, and I want to supplement his doubts.

Assume, then, that a welfare-maximizing planner could devise a set of incentives that would elicit the information needed to maximize social welfare. Still there would remain the question: What incentive does the planner have for

maximizing social welfare? The mechanism design framework assumes a sharp disparity between the motivations of planners, who seek to maximize social welfare, and the motivations of everyone else who are self-interested utility maximizers. But no serious account of socialism, or any other system, can rest on such an assumption.

Once upon a time, it might have been argued that the assumption of motivational disparity is legitimate because we can assume that the planners belong to *the party* and *the party* can be trusted to do what is right. Dismissing that thought without further comment, one could reject the assumption of motivational disparity, model the planner as a utility maximizer, and then try to solve the problem of motivating a utility-maximizing planner to maximize social welfare. The natural thought would be to subject the planner to democratic control and then to argue that the combination of electoral threats, legislative oversight, and interest group mobilization might work to provide planners with an incentive to maximize social welfare.¹⁸

But in fact this proposal just makes the incentive problem more complicated. For we now need a description of a set of political mechanisms that might support the contention that officials (in particular planners) with no direct interest in maximizing social welfare will be constrained by electoral incentives to act as if they had such an interest. I know of no argument—certainly no robust argument—that supports the contention that in a world of utility maximizers the democratic process would constrain planners to maximize social welfare and to design a mechanism (assuming that there is one) that would implement that requirement.

The second route to providing foundations for the three behavioral norms, then, is to assume that all citizens take a direct interest in maximizing social welfare.¹⁹ On this second strategy, the satisfaction of the behavioral norms would reflect: (1) the fact that it is psychologically possible to separate willingness to perform (to provide information and to comply) from expectations of material compensation²⁰ and (2) the fact that the public ownership and the planned allocation of resources encourages such separation. The (familiar) thought would be that, when ownership is socialized, citizens come to think of themselves as members of a community that owns productive resources, and their motivations reflect that self-conception. As a consequence of these motivational changes, citizens would truthfully reveal private information and would act in conformity to their instructions.

Troubles in Paradise

Przeworski's argument about the rationality-but-infeasibility of socialism rests on his rejection of (2), though parts of his discussion suggests that he finds (1) implausible as well. In particular, public ownership and planning cannot be expected to eliminate self-interest, and in the face of self-interest, the three

behavioral norms are almost certain to be violated. Even on the assumption of a democratic socialism, we cannot expect citizens to subordinate their own advantage to the maximization of social welfare; citizens will distort information, planners will steal, and workers and managers will shirk even if they know that the demands made on them are part of a fair system.

In a discussion of the Soviet economy in the period of *war communism*, Kritsman pointed to the central issue. Criticizing the idea that a "non-commodity economy, i.e. a natural economy, is necessarily a non-anarchical, i.e. planned economy," he noted that "[f]or an economy to be anarchic it is necessary and sufficient for there to be a multiplicity of independent subjects."²¹ Przeworski's argument for the infeasibility of the socialist blueprint emphasizes, to use Kritsman's terms, one way that independence is achieved within a noncommodity economy—namely through the continued presence of self-interest.

But there are other forms of human independence than selfishness and problems for the blueprint that reflect disagreements that are not reducible to selfishness. Even if (1) and (2) were both true and all citizens were quite prepared to act from their judgments of the common advantage, disagreements among them could be expected to remain and those disagreements might suffice to produce violations of the behavioral norms.²²

Suppose, for example, that some citizens think that the planners (perhaps acting in good faith) are pursuing a potentially disastrous strategy of development in some specific domain. Suppose, for example, that they are encouraging automobile production in the face of what some citizens judge to be serious threats of environmental harm with significant implications for future generations. Or suppose that some citizens believe that the encouragement of biotechnology is proceeding without sufficient attention to potential health effects, and as a result, they refuse to provide information or resist acting on the instructions of planners or managers until public hearings have been held to address the dangers.

It is, I think, a serious mistake to suppose that such disagreements and the violations of the behavioral norms that issue from them must in the end be founded on self-interest or class interest. Reasonable people attach different weights to different goods and have different expectations about future consequences and different understandings about our obligations to future generations.²³ Even when people are prepared to give priority to considerations of the common good in matters of collective choice, to "exert effort independently of reward," (p. 12) and even when they agree in general terms about what the common good consists in, they can be expected to disagree about how best to promote the common good.

The problem with the blueprint then is that it stipulates the satisfaction of the three behavioral norms. But their satisfaction requires either that there are no such disagreements or that there are disagreements but that citizens all accept the planners' judgments as authoritative. In either case, the blueprint has problems.

Consider first the possibility that there are no disagreements. How could this be? We are supposing a society in which people are free to reflect on political issues and in which they apply themselves conscientiously to that task. Under these conditions, it seems inevitable that citizens will come to different views about public questions. The only way they could all hold the same view as the planners is if they accept the planners' views as their own—that is, if they lack independence of judgment.

The second alternative is to acknowledge that there are reasonable disagreements but to suppose that citizens fully cooperate (in terms of information and compliance) because they regard the planners as authoritative as a consequence of their democratic authorization. If blueprint socialism is set within a democratic framework—in which planners are appointed by elected legislators with oversight responsibilities and the plans themselves are a subject of open public debate—and if citizens cooperate as a consequence of the legitimacy that framework confers on the planners, there appears to be nothing unattractive about the ideal blueprint. What it requires is not a blind willingness to suppress disagreements but a willingness to resolve them through open public procedures and not to try to thwart the decisions reached through those procedures by withholding information or refusing to comply with legitimate commands.

But this response is unsatisfactory. If citizens comply because of the legitimacy conferred on planners by democratic procedures, they will comply even if they think that the planners are not maximizing social welfare. And that will defeat the argument for the welfare-maximizing consequences of compliance and so defeat the case for planning as Przeworski presents it. On the other hand, if they comply just in case they are confident that the planners are acting to maximize social welfare, then, given reasonable disagreement, they will sometimes not comply.

The problem with the blueprint then does not lie in its unrealistic assumption that people are not selfish—though that may be unrealistic. The problem lies in a tension between two elements of the ideal. On the one hand, the ideal is a *democratized* economy. On the other, the characterization of the ideal assumes away familiar sources of political conflict that cannot be expected to disappear even under ideally democratic conditions. For part of what makes political conditions ideally democratic is the assurance of deliberative liberties for citizens—liberties of conscience, expression, and association required for individual reflection and social deliberation. But given the protection of those liberties, different people, reasoning in good faith, will arrive at different views about what is valuable in life and diverse views about the implications of consensual political principles and values for particular issues of ongoing controversy. And given those differences, it is unreasonable to expect the sorts of behavior stipulated in the blueprint.

In a nutshell, my contention is that the blueprint is unattractive because its ideal functioning depends on the absence of the kinds of disagreement that come with the territory of a well-functioning democratic society.

The Limits of Markets

Finally I come to the remarks about markets that provide the foundation for Przeworski's argument for the irrationality of capitalism. Recall the *market obstruction thesis*:

There are technically feasible, efficient allocations of welfare that cannot be achieved as equilibria of a market economy.

This thesis contradicts the second fundamental theorem of welfare economics. While the first theorem establishes that market equilibria are efficient, the second theorem states roughly that for any Pareto-efficient allocation, there exists a set of prices that support that allocation as a market equilibrium.²⁴ So the second theorem conflicts with the charge against markets that I noted earlier in this article that markets inevitably tie material compensation to ownership or contribution and in so doing generate an unjustifiably *unequal* distribution of advantage.

There is of course no point arguing with a theorem. But it is not clear how much trouble the second theorem actually presents to Przeworski since it is arguably irrelevant to understanding a capitalist economy. The second theorem makes an assertion about existence: that for any final allocation of welfare there exists some initial distribution of resources that will generate the allocation in equilibrium. But, even abstracting from the problems of acquiring the information needed to fix the proper initial distribution of resources, a natural way to achieve some of the efficient allocations would be for the government to redistribute property rights. And such redistribution violates a basic rule of the game of capitalism.

But given that Przeworski's claim about irrationality appears to extend to a point about all market economies (see *market obstruction*), let us not focus on capitalism and consider instead the thesis that markets themselves are irrational because they impose deadweight losses as a cost of ensuring a fair distribution of rewards. So even in a world with only wage income, the people cannot simply pick their favorite distribution because it is necessary to pay according to work in order to motivate contribution according to ability.

The basic line of reasoning that leads to this conclusion is familiar. The state could in principle achieve its desired allocation by imposing lump-sum taxes on potential earnings—for example, on abilities rather than on the income earned by using them. If the taxes are properly set, individuals with abilities that are highly valued by others would have to use those abilities in order to pay their (high) taxes, and others would share the benefits from their use of them. But, putting

aside ethical objections to the use of ability taxes²⁵ as a way of ensuring that each contributes according to ability, in order to fix the proper tax levels the state would need to acquire privately held information about preferences, technologies, and abilities. Because their abilities will be taxed, individuals will typically have incentives to underreport their abilities. And that underreporting will result in underutilization of productive capacity.

On the other hand, if taxes are set on actual rather than potential earnings, the taxes will be distortionary and produce deadweight losses.²⁶ To be sure, the resulting deadweight loss may be “worth the price” in terms of social welfare. But still the result is again an underutilization of productive potential. There exists a way to use that potential to make everyone better off though there is no way to get the information required to achieve the more efficient outcome.²⁷

This is the textbook story from public economics. As Stiglitz summarizes it, “the use of distortionary taxes is an inevitable consequence of our desire to redistribute income in a world in which the government can observe the characteristics of individuals only imperfectly.”²⁸

But three qualifications of the story are necessary in connection with an argument about the irrationality of markets. First as my earlier remarks indicate, contentions about irrationality depend for their support on the availability of alternatives, and it is not clear that there is a reasonable alternative to markets that makes full utilization and fair distribution compatible.

Second neither the extent nor even, strictly speaking, the fact of deadweight losses is a direct consequence of the use of the market as an allocative mechanism. The crucial fact is how people respond to changes in compensation. Does the alteration of market incomes through taxes and transfers lead people to substitute leisure for labor? And if it does, what is the magnitude of this substitution effect? These are complicated empirical questions. But, while there are “elasticity pessimists,” most estimates of the substitution effect put it pretty low. In the United States, for example, the average estimate implies that it would take a 37 percent tax on wage income to generate a deadweight loss amounting to 2 percent of the revenue raised by the tax.²⁹

Third it is not clear that we should suppose that the substitution effect is exogenous and that policy must adjust to it.³⁰ Suppose, for example, that the government pursues active labor-market policies to ensure the best utilization of productive resources, that there are substantial redistributive taxes, and that citizens believe that the taxes are fair because they help to ensure a society in which each citizen has equal access to the advantages of social cooperation. Suppose, too, that work is so organized as to be both interesting and manifestly a contribution to a decent society. And suppose as well that markets are embedded within a framework of relational contracting in which contractual parties expect to have long-term connections and so come to appreciate that their fates are linked.

Then, on the reasonable assumption that norms (including norms of fairness) play an important role in governing economic choices,³¹ it is plausible that citizens would see their exertions as contributing to the general welfare and that their willingness to exert effort might therefore be relatively insensitive to material compensation.

Here we return to one of the components of the ideal of a free community of equals that I noted in the first section of this article, the idea that in such a community people willingly act in ways that contribute to the common advantage without demanding rewards for their contributions that conflict with that advantage. And because of those willing contributions, equality of advantage is consistent with a reasonable level of advantage for all. If the remarks in the last paragraph have force, it is not clear that the existence of markets threaten this aspect of the ideal. As a consequence, it is also not clear that market economies are irrational and certainly not true—here I agree with Przeworski (p. 24)—that the degree of their irrationality is given. As the second welfare theorem asserts, the existence of markets does not itself imply that policies aimed at ensuring a fair distribution must be paid for in deadweight losses. Whether there are such losses at all and if there are losses what their extent is depends on social and political background conditions.

A natural response to these remarks is that it is psychologically unrealistic to expect agents in a market economy to be so unresponsive to income changes. Here we arrive at a question about the use of markets that is as fundamental as it is hard to answer: Just what are the effects of market allocative mechanisms on human self-conceptions and motivations? Socialists have characteristically supposed that markets induce a narrow particularism, generating illusions about human independence, indifference to the interests of (most) others, and an instrumental (commodifying) understanding of human interactions that tends to spill over beyond the market itself.³² Altogether they encourage a set of self-understandings and motivations that are bound to conflict with the substantive conceptions of freedom and equality ingredients in the ideal of a free community of equals.

But as my remarks on the endogenousness of the substitution effect indicated, the motivational effects of markets may not be quite so determinate. That is true in part because of the variety of market systems from more laissez faire systems to contemporary capitalism, in which markets are set within a framework of relational contracts, long-term agreements, subcontracts, joint ventures, quasi-integration, informal understandings, and more formal processes of collaboration achieved through regional and national organizations. Furthermore markets are always embedded in specific social and political arrangements, and it is not clear why we should expect the motivational effects of market interactions to spill over into these other spheres rather than expecting the motivational effects of other

domains to spill over into the economy. From Hegel to Rawls, from discussions of societal corporatism to accounts of social democracy and market socialism, social theorists have speculated about the ways that the proper associative and political setting of markets might provide a way to take advantage of the virtues of markets—allocative efficiency and the decentralization of economic power—while at the same time sustaining the motivations needed to ensure the subordination of the operations of markets to reasonable political ideals.³³

In the end arguments about the vices of markets as such depend on contentions about the formation of motivations that would defeat all such speculations. In the absence of a more compelling case for those contentions, and in the absence of a plausible and well-defined alternative to market coordination, we lack compelling grounds for condemning markets as irrational and as essentially hostile to the ideal of a free community of equals.

NOTES

1. All references to Przeworski's article are included parenthetically in the text.
2. For critical discussions of subjective welfarism, see, among others, Ronald Dworkin, "What is Equality? Part 1: Equality of Welfare," *Philosophy and Public Affairs* 10, no. 3 (Summer 1981): 185–246; John Rawls, "Social Unity and Primary Goods," in *Utilitarianism and Beyond*, Amartya Sen and Bernard Williams, eds. (Cambridge, Eng.: Cambridge University Press, 1982), pp. 159–185; Amartya Sen, "Well-Being, Agency, and Freedom: The Dewey Lectures 1984," *Journal of Philosophy*, 82, no. 4 (April 1985): 169–221; and Cass Sunstein, "Preferences and Politics," *Philosophy and Public Affairs*, forthcoming.
3. The earlier parts of Przeworski's article (the second section) present a classical marxian (and neoliberal) argument that distribution is not a matter of political choice while the discussion of social democracy at pp. 22–24 draws on the Millian and social democratic view that it is (see pp. 23–24 for a brief of discussion of this point). I am somewhat perplexed by this disparity. But if Przeworski means to suggest that it remains an open question which view is right, I agree.
4. Perhaps they regard it as a great value as well. On pluralism and political community, see John Rawls, "The Domain of the Political and Overlapping Consensus," *New York University Law Review* 64, no. 2 (May 1989): 233–255; and Joshua Cohen, "Pluralism and Moral Consensus," forthcoming in the Proceedings of the Davis Conference on Democracy.
5. The idea that effort might be exerted independently of reward provides a common ground in the views of Marx and John Stuart Mill. In Marx, this idea is expressed in the principle "from each according to his ability, to each according to his need." While Mill would never have *predicted* that effort would eventually be severed from reward, he did think that possibility could not be excluded. He thought that "[m]ankind are capable of a far greater amount of public spirit than the present age is accustomed to suppose possible," and that a "communist association" would provide fertile soil for the growth of that spirit. As a result he thought that it might well be a mistake to suppose that "honest and efficient labor is to be had only from those who are themselves individually to reap the benefit of their own exertions." See his *Principles of Political Economy*, Book 2, chapter 1, section

3, in *Collected Works of John Stuart Mill*, vol. 2, J. M. Robson, ed. (Toronto: University of Toronto Press, 1965), pp. 202–210.

6. The socialist conception, of course, is not that private ownership and markets are the only unacceptable constraints currently in force. The organization of the family—the domestic division of labor—and sexual inequality within labor markets also impose unacceptable barriers to equality.

7. In other discussions of normative issues, Przeworski does not confine himself to issues of preference satisfaction. See, for example, the “Postscript” to *Capitalism and Social Democracy* (Cambridge, Eng.: Cambridge University Press, 1985).

8. On different conceptions of welfare, see James Griffin, *Well-Being* (Oxford, Eng.: Oxford University Press, 1986).

9. Thus the irrationality of both social democracy and market socialism, see pp. 22–24.

10. Classical models of market socialism, for example, supposed that managers of firms might act as profit maximizers even if they did not appropriate the profits.

11. Doesn't this assertion flatly contradict the second fundamental theorem of welfare economics? I will discuss this question later.

12. Przeworski of course agrees that we cannot decide which systems are likely to perform best by considering their abstract blueprints (pp. 18–24). My point is that blueprints do not settle issues of rationality.

13. This is suggested by the remarks at p. 4.

14. For veil of ignorance constructions, see John Rawls, *A Theory of Justice* (Cambridge, Mass.: Harvard University Press, 1971); Ronald Dworkin, “What is Equality? Part 2: Equality of Resources,” *Philosophy and Public Affairs*, 10, no. 4 (Fall 1981): 283–345. On deliberative conceptions, see Joshua Cohen, “The Economic Basis of Deliberative Democracy,” *Social Philosophy and Policy* 6, no. 2 (Spring 1989): 25–50; and “Dahl on Democracy,” *Journal of Politics*, forthcoming. In general, see Thomas Scanlon, “Contractualism and Utilitarianism,” in *Utilitarianism and Beyond* (Cambridge, Eng.: Cambridge University Press, 1982.), pp. 103–128.

15. That is, beginning from any outcome, we can arrive at any other outcome through finitely many majority-rule decisions.

16. Beginning with Kenneth Shepsle, “Institutional Arrangements and Equilibrium in Multi-Dimensional Voting Models,” *American Journal of Political Science* 23, no. 2 (February 1979): 27–59.

17. See, for example, the comparison that Marx draws between the case of Robinson Crusoe working alone and the case of a community of free individuals in his discussion of conditions that do not display commodity fetishism. *Capital*, vol. 1, Ben Fowkes, trans. (Harmondsworth, Eng.: Penguin Books, 1976), pp. 171–172.

18. This is Bentham's problem of the “artificial identification of interests.” See the discussion in chapter 5 of Ross Harrison, *Bentham* (London: Routledge and Kegan Paul, 1983).

19. I assume that citizens also have ideals, aspirations, and preferences that are not reflected in the social welfare function; in Rousseau's terms, they have a general and a particular will. What matters here is only that they have a social welfare function (a conception of the common good) and that they are prepared to rest their judgments in contexts of public choice on their social welfare function.

20. It is tempting to say that the blueprint depends on a sharp separation between contribution and reward. But that temptation ought to be resisted since doing something of value to others may have its own intrinsic rewards.

21. Cited in Michael Ellman, *Socialist Planning*, 2nd ed. (Cambridge, Eng.: Cambridge University Press, 1989), pp. 47–48.

22. Przeworski notes this in passing in footnote 43, but pays insufficient attention to the point.

23. In the *Critique of the Gotha Program*, Marx makes a very perplexing remark about intergenerational issues. Rejecting the Lassallean idea that the “undiminished proceeds of labor” should simply be distributed to workers, Marx notes that, for example, some portion of those proceeds needs to be saved for the “expansion of production.” He then says that savings for these and other purposes “are an economic necessity and their magnitude is to be determined according to available means and forces, and partly by computation of probabilities, but they are in no way calculable by equity.” *Marx-Engels Reader*, 2nd ed., Robert Tucker, ed. (New York: Norton, 1978), p. 529. What Marx leaves out here is the role that judgments about the obligations of the current generation to future generations might play in fixing the rate of savings. Perhaps these are not properly understood as matters of equity. But it does not follow that they are simply matters of “available means and forces” and the “computation of probabilities.”

24. The proof of the second theorem, like the proof of the first, assumes among other things that there are no externalities.

25. For discussion, see Dworkin, “What is Equality? Part 2.” Dworkin argues that an ability tax is the moral equivalent of slavery for the talented. Consider Jones, with potential to be a great brain surgeon. Since people place a high value on the skills of brain surgeons, Jones will have to pay a high tax simply by virtue of having that socially valuable skill. But suppose that Jones hates the idea of being a brain surgeon and aspires to be a political philosopher on which others place a much lower value. In order to pay the tax, Jones will face the following choice: (1) Be a brain surgeon, which means doing something that he hates and earning a high salary to pay the high ability tax, or (2) be a political philosopher, which means doing something that he values more, earning a lower salary, and—as a consequence of the ability tax—facing a lower standard of living than other political philosophers who love what he loves and do what he does but do not have to pay such a high ability tax.

26. The only nondistortionary taxes are lump-sum taxes, whose yield is independent of individual behavior. As long as there is some substitution effect from changes in compensation (the compensated elasticity of labor supply is nonzero), other taxes are distortionary. The magnitude of the deadweight losses depends on the compensated elasticity, and there is considerable controversy about its magnitude. See for example J. Pencavel, “Labor Supply of Men,” *Handbook of Labor Economics*, vol. 1, O. Ashenfelter and R. Layard, eds. (Amsterdam: North-Holland, 1986).

27. Marx thought that in a communist society each would contribute according to ability. I assume that he did not think that this contribution would require ability taxes. Rather he supposed, inter alia, that work in a communist society—because of both its social organization and its intrinsic interest—would not be a means to reward but an “end in itself.” I take this claim about work as an end in itself to imply the separation of exertion and material compensation.

28. Joseph Stiglitz, *The Economics of the Public Sector*, 2nd ed. (New York: Norton, 1988), p. 481.

29. Pencavel, "Labor Supply of Men."

30. See for example, the discussion of relational contracting, fairness, and efficiency in Ronald Dore, *Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues* (Stanford, Calif.: Stanford University Press, 1987), chap. 9.

31. See, for example, George A. Akerlof, "Labor Contracts as Partial Gift Exchange," in *Efficiency Wage Models of the Labor Market*, George A. Akerlof and Janet L. Yellen, eds. (Cambridge, Eng.: Cambridge University Press, 1986), pp. 66–92; Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler, "Fairness and the Assumptions of Economics," in *Rational Choice: The Contrast Between Economics and Psychology*, Robin M. Hogarth and Melvin W. Reder, eds. (Chicago: University of Chicago Press, 1987), pp. 101–116. On the complexities of the role of norms in shaping wage bargaining in particular, see Jon Elster, *The Cement of Society: A Study of Social Order* (Cambridge, Eng.: Cambridge University Press, 1989), esp. chap. 6.

32. For helpful discussions of these issues, see Albert O. Hirschman, "Rival Views of Market Society," in *Rival Views of Market Society and Other Recent Essays* (New York: Viking, 1986), pp. 105–141; and Robert Lane, "Market Choice and Human Choice," in *Markets and Justice: Nomos 31*, John W. Chapman and J. Roland Pennock, eds. (New York: New York University Press, 1989), pp. 226–249.

33. See, for example, Rawls's account of the acquisition of an egalitarian sense of justice through participation in a sequence of associations, from the family to the state in *A Theory of Justice*, sections 70–72. Joel Rogers and I are currently writing a book that addresses the role that intermediate associations might play in reconciling markets with democratic ideals. See Joshua Cohen and Joel Rogers, "Secondary Associations in Democratic Governance," unpublished draft.

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