

Centralization Tendencies in Participatory Planning

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Abstract: In the new debate about economic planning, the question of whether new forms of comprehensive planning might inadvertently encourage a relapse into authoritarianism must be central. The article analyzes the proposal of a “Participatory Economy” because it is the most sophisticated model for comprehensive planning without the need for centralized institutions. Planning is carried out in a participatory manner, enabling worker and consumer councils to coordinate their interrelated economic activities themselves. The danger of a relapse into authoritarianism appears to be averted. However, the paper argues that the Participatory Economy doesn’t live up to the goal it set for itself to a satisfying degree, because it requires more centralized institutions than it initially suggests. Centralization tendencies arise for strong normative reasons and are therefore difficult to avoid. Even worse, council-democratic remedies to centralization tendencies don’t offer an easy answer, as these remedies come with their own set of problems.

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JEL Classification: A13, B51, D21, D70, D83, E27, E37, P21, P41

Economic planning has become a vibrant topic of debate again.¹ In the 20th century, economic planning occurred almost exclusively in authoritarian regimes, in which single ‘vanguard’ parties seized power and planning was executed through centralized, top-down command structures. If the new debate wants to be taken seriously, it should be wary of ignoring or downplaying this historical burden, for example, by dismissing references to the dismal track record of central planning simply as ideologically motivated fearmongering by market fundamentalists. The new debate about economic planning must foreground the question of whether

¹ Sorg (2023) provides an impressively broad overview of the recent debate.

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any given new proposal for comprehensive planning might give rise, even against the best intentions of its proponents, to new forms of authoritarianism. Ruling out this risk with reasonable certainty is the decisive task.

It is no exaggeration to claim that this task was always the driving force behind Robin Hahnel and Michael Albert's model of a 'Participatory Economy' (PE) (Albert and Hahnel 1991). Its fundamental goal is to show that economic planning can be done in a participatory way, without the need for detours through centralized institutions. The model aims to strike at the heart of the widely held assumption that economic planning can only mean central planning, which builds on a "system of binding instructions from planning offices", as Alec Nove (1983, 43) put it.² Hahnel and Albert share the distrust of central planning, but they reject the presupposition that economic planning *necessarily* implies central planning. Comprehensive planning can mean participatory planning, and its fundamental aim is to enable local worker and consumer councils themselves "to coordinate their interrelated economic activities, rather than relegate coordination to market forces or a central planning bureau" (Hahnel 2021, hereafter: DEP, 217).

In what follows, I interrogate the PE-model, particularly Hahnel's version of it, which is somewhat more realistic and feasible than Albert's.³ The focus is on Hahnel's most recent study *Democratic Economic Planning*. For the purposes of the paper, I largely agree with Hahnel's set of basic normative principles, including efficiency, economic democracy, economic justice and sustainability (DEP, 11-26), and I broadly support his critique of the market (DEP, 27-48). My focus is on the institutional framework. The key question is whether a PE delivers on its promise of enabling participatory planning without centralization. I argue that, unfortunately, participatory planning doesn't live up to the goal it set for itself to a satisfying degree. Participatory planning inherently tends toward strong forms of centralization, which is especially concerning since the centralization tendencies that I will outline do not primarily arise from bad people corrupting good institutions, nor from institutions inadvertently taking on a life of their own. Rather, centralization tendencies arise for strong normative reasons. And this renders them much more difficult to avoid than would otherwise be possible.

² The basic idea largely traces back to Hayek ([1944] 2014).

³ Among other things, this is evident from the fact that Albert's proposal sets itself the difficult task of taking qualitative assessments of work and consumer experiences into account (see Albert 2004, ch. 8), from which Hahnel deliberately abstains in his proposal.

Until now, the debate about participatory planning has largely focused on the perceived inconvenience of the planning process (Ackerman 2012; Hahnel and Wright 2016, ch. 2) and on potentially insufficient incentives to engage in socially productive efforts (Weisskopf 1992). To my knowledge, centralization tendencies in participatory planning have been neglected so far. Given that decentralization is for good reasons the major goal of participatory planning, these tendencies warrant our greatest attention.

The paper is divided into seven sections. Section 1 reconstructs Hahnel's critique of central planning, which targets the best-case version of it. Section 2 outlines how a PE aims to render a central planning authority redundant. The following three sections turn to centralization tendencies under participatory planning: I begin by detailing how Hahnel himself, reluctantly but decisively, attaches institutional primacy to centralized institutions (section 3). Next, I uncover the hidden significance of centralized institutions in other areas of a PE, partially veiled in Hahnel's extensive considerations (section 4). Finally, I argue that there are also unacknowledged reasons why a PE likely requires even more centralization (section 5). Section 6 reaches a preliminary conclusion and puts council-democratic remedies to centralization to the test. The final section summarizes the basic problem under the term 'Centralization Dilemma' and concludes with a side glance to market socialism.

1. WHAT'S WRONG WITH CENTRAL PLANNING?

Hahnel emphasizes the critical question of whether any new proposal for comprehensive planning could inadvertently give rise to new authoritarian tendencies (DEP, 187). His claim is that as soon as comprehensive planning is centralized, the risk of authoritarianism can hardly be contained, even when central planning is carried out democratically. Central planning means that there is a central planning authority, vested with the power to devise the details of a comprehensive production plan and to implement it. Now, in principle, nothing speaks against organizing central planning democratically. It is entirely possible to embed central planning within a democratic political system, where decisions about the value people place on different goods and services, as well as decisions about how to produce and provide these goods and services, are made democratically by the electorate. Based on these democratically chosen goals, a Central Planning Bureau (CPB) is then assigned the task of specifying the details of the plan and of implementing it. This is what Hahnel calls "best

case central planning” (DEP, 53). Hahnel provides three systematic reasons why even central planning in its best possible form is likely to relapse into authoritarianism. We must get a clear picture of these reasons to fully understand the problem posed by centralized planning, especially if it turns out that Hahnel’s model of participatory planning gives rise to centralization tendencies as well.

(i) *The ‘cat-and-mouse game’ problem*: According to Hahnel, the CPB faces the difficulty of uncovering the tacit knowledge of the production capabilities of the countless local production units, known best by these units themselves. Eliciting information about production capabilities is necessary for the CPB to calculate a comprehensive production plan that is sufficiently efficient. But the CPB cannot simply rely on the local production units to report their capabilities truthfully because the latter “stand to benefit from making the CPB believe they are capable of less than they truly are” (DEP, 72). This is because there are numerous reasons for conflicts of interest: For example, the CPB is interested in maximum effort at work, while the members of production units will likely prefer a slower pace of work; likewise, the CPB wants a maximally efficient use of resources, while the production units may prefer some leeway with additional resources, often simply because they want to have a safety buffer readily available (DEP, 73). To counteract the danger of production units underreporting their capabilities, the CPB will likely see the need to send in unit managers to supervise the effort of the production units to reach the plan-targets on the ground: “In this way, the hierarchy spreads downward in a centrally planned economy, as plant managers appoint assistant managers and supervisors, creating an authoritarian hierarchy with ordinary workers at the bottom” (DEP, 76). One might think that the chain of command from top to bottom is justified because the CPB is merely executing the democratically chosen production plan. While this is to some extent true, it should not serve as an excuse to turn a blind eye to the authoritarian nature of the centralized command structure this creates, which will affect the everyday work-life of society at all levels. Hahnel concedes that there might be smarter, less overtly authoritarian ways to “trick production units into revealing their capabilities” (DEP, 75), but he insists that the underlying problem can only be “ameliorated but not eliminated” (DEP, 78).

(ii) *The bias against worker autonomy*: A more fundamental objection against central planning arises from Hahnel’s normative commitment to worker autonomy. He argues that workers have a legitimate claim to have

a greater say over their workplace than other members of society. This follows from Hahnel's conception of economic democracy, which, according to him, should not simply mean majority rule over what and how to produce, because an equal say for everyone could lead to individuals significantly affected by an important economic decision being overruled by those less affected. Economic democracy should be defined "as decision-making power in proportion to the degree one is affected by any economic decision" (DEP, 11). In the context of economic planning, this conception demands empowering workers to have a greater say about what and how they produce than others, because they are affected more than others. Certainly, others should have *some influence* over production decisions as well, because they are also affected, but typically to a lesser extent (DEP, 76-77). In central planning, however, there is an inherent "bias against self-management" (DEP, 76), because workers' legitimate claim to have a greater say over their workplace cannot be taken into account.

(iii) *The problem of ripple effects*: This problem addresses the broader repercussions likely to arise from the two previous issues. The bias against worker autonomy under central planning and the centralized command structures will tend to engender unintended consequences that snowball over time, thus exacerbating the initial problems. This can be expected when preferences are endogenous, that is, when attitudes and personalities are shaped internally by the practices in which individuals routinely partake (DEP, 78). According to Hahnel, one important ripple effect of centralized planning is a "snowballing apathy" (DEP, 78) among workers: "Apathy among the ranks of subordinates is the flip side of the authoritarian coin" (DEP, 76). But then, once apathy spreads among ordinary workers, top-down governance by managers and supervisors becomes even more pressing, which in turn feeds into ever greater tendencies towards apathy. At the top end of the planning hierarchy, things aren't better: One of the ripple effects of centralized democratic planning is that it likely leads to the "self-serving rule by a *class of coordinators* comprising central planning bureaucrats and plant managers" (DEP, 81). Similar to conditions in authoritarian central planning, this ascent of a planning elite is prone to generate various issues of "illegitimate power" and "corruption" (DEP, 187).

Hahnel's critique of central planning appears to be compelling—at least that's what I will assume for the present purposes. I will later use Hahnel's own critical standards to evaluate his constructive proposal,

confronting centralization tendencies in a PE with Hahnel's own critique of centralization.

2. THE OUTLINES OF PARTICIPATORY PLANNING

If democratic central planning requires a central planning authority, how could participatory planning function without it? Under central planning, the CPB is entrusted with the authority to "protect the social interest" (DEP, 130), ensuring that resources are put to their most beneficial use, and it does so by drawing up an efficient plan and overseeing its implementation. Hahnel's participatory planning procedure is designed to achieve the same, but without a central planning authority. Its animating question is how to "give workers and consumers in their councils the autonomy necessary to stimulate them to become and remain active participants in economic decision-making, while ensuring that worker and consumer councils do not make choices that are socially irresponsible" (DEP, 93).

The participatory planning procedure is designed to generate a comprehensive plan for the entire economy for the upcoming year. Its first and foremost goal is to enable participants to determine for themselves whether the products and services they offer are meaningful and useful to society, i.e., genuinely needed, and to consider the costs and burdens their production decisions impose on others (DEP, 92-93). At the outset, individuals are empowered to freely formulate production proposals and consumption requests as they wish. In the subsequent planning rounds, the process allows participants to adjust their proposals and requests in response to the proposals and requests of others. How do participants respond to one another? At this point, Hahnel and Albert's model offers an ingenious institutional innovation: In a certain way, it makes use of a Walrasian auctioneer, assigning a practical role to this well-known theoretical construct of economic theory, which is typically used to illustrate the process of reaching equilibrium between supply and demand by adjusting prices.⁴ While a PE firmly belongs to the council-democratic paradigm, this is the distinguishing feature that sets it apart from other approaches in that framework. In Hahnel and Albert's model it is the Iteration Facilitation Board (IFB) that functions roughly like a Walrasian auctioneer insofar as it calculates indicative prices based on supply and demand expressed during the planning procedure. These prices help align

⁴ "Because our IFB announces 'indicative prices,' and adjusts 'indicative prices' to reduce excess supplies and demands, one might call our IFB a Walrasian auctioneer." (DEP, 158)

supply and demand across multiple iterations.⁵ Initially, there might easily be an excess demand for goods and services, and too few production offers, particularly in undesirable fields of work. Indicative prices signal these imbalances, aiding in balancing overall supply and demand. By calculating indicative prices, freely determined by supply and demand, the IFB makes decentralized coordination between councils possible—without any detour through higher-levels councils, let alone a central planning authority. Other than calculating indicative prices, the IFB has no function or power; its role is supposed to be “completely perfunctory” (DEP, 157). Next to worker and consumer councils, the IFB is the only other fundamental institution of a PE.

It becomes evident that prices play a crucial role in a PE. In participatory planning, they essentially reflect so-called opportunity costs, serving the participants “as a shorthand way of discerning the relative value and cost of various choices” (Albert 2004, 124). In a complex society with a widely ramified division of labor, interconnected consumption and production choices present a significant challenge, because any particular use of labor, land, and capital goods raises the question of what other opportunities were foregone. For example, when producing certain goods requires scarce resources, opportunity costs are high because those resources could have been used to produce other goods that also have high value. The indicative prices emerging during the planning iterations convey this information; this eliminates the need for a central planning authority to instruct workers as to where their efforts are most needed.

Based on the indicative prices calculated by the IFB, the merits of the production proposals can be easily assessed: “Production proposals from worker councils are evaluated by comparing the estimated social benefits of outputs to the estimated social cost of inputs” (DEP, 95). The costs of proposals are calculated by summing the prices of inputs times their quantities, and social benefits by summing the prices of outputs times their quantities, both measured using their indicative prices. Costs are adjusted for their true social costs, internalizing unaccounted negative externalities, for example, from pollution.⁶ The result is the ratio of social

⁵ ‘Calculating prices’ carries a very narrow meaning in this context. The IFB has no substantive or consequential decision-making power, such as forecasting demand or setting economic priorities. For the IFB, calculating prices simply means adding up the demands for each good and adjusting estimates for the costs in proportion to the percentage excess demand or supply (DEP, 94).

⁶ In a nutshell, accounting for negative externalities is basically achieved by giving voice to “Communities of Affected Parties”, empowered to make the polluters pay (DEP, 139–149).

benefits to social costs, or “SB/SC ratio” (DEP, 131–132). If SB/SC is greater than one, the worker council’s proposal presumably benefits everyone else; if less than one, it likely harms society. The higher the ratio of benefits to costs, the better for society. So, a PE does not need a central planning authority to find out where resources are put to their most efficient use. The planning procedure itself generates that information, expressed by the indicative prices. There are several additional reasons why a PE renders a central planning authority superfluous:

(i) *Rejection of proposals*: The procedure enables participants themselves to reject “irresponsible proposals” (DEP, 132), no CPB is needed to “protect the social interest” (DEP, 130). The participants mutually grant one another the right to reject proposals and requests, and they do so as co-participants on equal terms. The social benefit-to-cost ratio serves as a transparent and reasonable standard for rejection: If SB/SC is lower than one, other councils “have the power to ‘say no’” (DEP, 131).

(ii) *Autonomy in adjustment*: If a proposal is rejected because it is not sufficiently beneficial or too costly, “worker councils are forced to either increase their efforts, shift toward producing a more desirable mix of outputs, or shift to a less socially costly mix of inputs” (DEP, 95). However, no worker council receives binding instructions about where to redirect its productive activities. Instead, all participants remain fully autonomous in their decisions, as “*all revisions* of proposals” remain “entirely up to each worker and consumer council itself” throughout the procedure (DEP, 96).

(iii) *Avoiding false incentives*: Whereas under central planning the production units benefit from underreporting their productive capabilities to the central planning authority, Hahnel argues that participatory planning creates sufficient incentives for worker councils to reveal their true capabilities—“because pretending they can do less than they can, only lowers the likelihood of being allocated the productive resources they want” (DEP, 131).

(iv) *No supervision required*: Finally, a central planning authority not only seems superfluous for generating a comprehensive plan, it is also not needed for implementing it: No state-appointed managers are necessary to oversee worker councils, and, again, this is because worker councils are incentivized to perform well. While plan approval is based on *projected* SB/SC, worker councils are credited at the end of the year for the *actual* ratios of their delivered outputs and used inputs (DEP, 166). Discrepancies between estimated and actual SB/SC result in a penalty: “It is

last year's actual social benefit-to-cost ratio that serves as a cap" on rewards in the current year (DEP, 167).

In summary, Hahnel's model of participatory planning appears to fulfill its promise: It enables decentralized coordination between worker councils and consumers through indicative prices, while a central planning authority is neither necessary for generating nor for implementing the comprehensive plan. Prices are calculated by the IFB, which should not be mistaken for a central planning bureau; it is simply a kind of data-processing center, a subservient tool of society, without authority over anyone. While responding to indicative prices, worker councils and consumers remain fully autonomous and they are enabled to decide responsibly.⁷

3. THE EXPLICIT PRIMACY OF CENTRALIZED INSTITUTIONS

Up to this point, it appears as though participatory planning could meet its avowed goal. However, at some point, Hahnel reluctantly reveals that this is not the full picture, admitting that there is a fundamental juncture where significant power must be granted to centralized institutions. This admission comes quite late in *Democratic Economic Planning*, in the fourth of five parts, creating the misleading impression that it pertains to a peripheral issue. But the opposite is true. Investment decisions are the area where Hahnel sees the need for centralization, and as we shall see, the question of investment is of paramount significance. I will now explain why and how decision-making power in investment planning is centralized in Hahnel's model, and I will show that Hahnel partially underestimates (or ignores) the concentration of power that results from this centralization.

Due both to space constraints and the importance of investment planning, I confine myself to this area of planning. It bears mentioning that Hahnel acknowledges the primacy of centralized institutions in other economic domains as well—among others, in the area of public goods, where, at the national level, national federations function as the key decision-making body (DEP, 90–91, 128–129). National federations are also at work, alongside the respective ministries, in long-term development planning,

⁷ One might question whether worker autonomy is sufficiently satisfied, since the planning procedure ultimately requires participants to simply react to numbers, specifically the SB/SC ratio. Although each participant's response is autonomously chosen, everyone still has to adhere to the dictates of bare figures. However, it is clear that under participatory planning, workers have much greater autonomy than in capitalist markets or central planning.

which concerns education planning, environmental planning, and international economic planning (DEP, 249-293).

The question of investment is of utmost importance. Investment means “producing capital goods instead of consumption goods in order to be able to produce even more goods in the future” (DEP, 217). In other words, investment concerns the question of how much to save now in terms of consumption in order to be able to consume even more later. We might have the opportunity to build a new machine that multiplies output many times over, but this would require cutting back on the production of consumer goods in the short term. However, once the machine is completed, it promises a significant increase in consumption, or alternatively, it would allow for much less work while maintaining initial consumption levels. So, obviously, decisions about investment are of crucial significance. But it can be easily seen that decisions about investment are difficult, most of all because of the deep tension between consumption and saving, as well as between consumption now and more consumption later (or less work). There is also a deep tension between generations, since “older generations benefit from more consumption now, while future generations benefit when we save and invest more” (DEP, 246). What makes things even more difficult is the problem of uncertainty: It is inherently unclear how much investments will increase production in the future. There is no way around the reality that investment fundamentally depends on “*guesses* about the future” (DEP, 223).

If I understand Hahnel’s line of thinking correctly, this already hints at the fundamental argument for centralizing investment planning: Decisions about investment are inherently difficult and contested, because they must balance the interests of older, younger, and future generations, and they must be made under conditions of uncertainty. Moreover, since the annual planning procedure covers only one year, the temporal horizon of worker councils is structurally limited, inherently excluding consideration of longer-term investment decisions. Finally, since Hahnel explicitly allows workers and consumers “to maximize their well-being” (DEP, 153) in the annual planning process, they might be disposed to disregard the interests of future generations who have no voice in the annual process. Therefore, investment decisions cannot be left to single, local councils deciding here and how. They must be decided on a higher, centralized level. So, Hahnel concludes that for normative reasons, in the domain of investment, centralized planning institutions must hold normative primacy over local councils and ordinary citizens.

Which are the centralized institutions responsible for investment planning? The most important task is assigned to national federations, both the national federation of worker councils and the national federation of consumer councils. The national federations are responsible for estimating future benefits from new technologies and new products and services. Hahnel is unequivocal about the crucial role of federations and its delegates: “Under our proposal aggregate investment planning relies heavily on *delegates* to national federations” (DEP, 248), and these delegates will be few in number, while representing millions of ordinary consumers and workers. Delegates to these federations are elected “from all neighborhood consumer councils and from worker councils in all industries” (DEP, 224). Additionally, there is an “investment planning agency” (DEP, 247), whose task is “to calculate an efficient *aggregate* investment plan” (DEP, 248), based on the estimates provided by the national federations. Hahnel also suggests integrating a “generational equity constraint” (DEP, 225–227) into the planning procedure, ensuring that current generations fairly consider the interests of future generations. The electorate is invited to vote on the generational equity constraint, and final approval for the investment plan comes from the “political legislature or a national referendum” (DEP, 248).

So, the power to make decisions about investment is dispersed. But national federations clearly do the heavy lifting, which also means they are vested with the greatest authority. Estimating “future benefits from consumption and increases in the aggregate capital stock” (DEP, 247) is the crux of investment decisions, and this crucial aspect of investment planning is entrusted to the national federations. Why? The obvious answer is that both federations represent the citizenry in their two crucial roles as members of consumer and worker councils. There’s an additional argument: “Who better to estimate likely improvements in technology than the national federation of worker councils, NFWC? Since the NFWC oversees a large R&D department researching new technologies, this federation is best situated to provide the best guess in this regard” (DEP, 224). The same applies to the national federation of consumer councils regarding future changes in consumer preferences, as they control an R&D department focused on “activity concerning new products and services” (DEP, 224).

That argument is somewhat puzzling. I see Hahnel’s point that having the ability to draw on the knowledge of large R&D departments entails significant capabilities in estimating future innovations. Yet Hahnel’s

answer still seems to raise more questions than it resolves. The question was how it can be justified to hand over a great deal of decision-making power to national federations, and Hahnel responds almost as if to say: because I have already given them even greater power—since this is what it means to control large resources in R&D activities. The R&D efforts, which under capitalism are typically dispersed among thousands upon thousands of capitalist companies and their R&D departments, are now largely concentrated within two centralized institutions. In effect, the national federations will wield control over enormous material resources.

But let's assume that national federations are the appropriate centralized decision-making body to guide investment by estimating future benefits from new technologies and new products and services. What are the implications for the annual planning process? Since, according to Hahnel, investment planning should take precedence over the yearly decisions of worker councils and consumers as a normative principle, the outcomes of investment planning must *precede* the annual participatory process. This is also necessary because investment planning covers many more years than annual planning. So, centralized planning sets the stage and prescribes the framework within which worker councils gain access to capital goods and consumers learn the labor involved in fulfilling their consumption demands.

Hahnel puts it this way: “The investment plan decides how much of each capital good to produce each year. So when we begin the participatory annual planning process, we already know how much of each capital good must be produced during the year” (DEP, 133). The way this is stated seems innocuous, but consider its practical implications: As reconstructed, it means that national federations effectively dictate “how much capital goods must be produced” (DEP, 133) by worker councils, since the investment plan stipulates the planned target for capital goods. Of course, Hahnel doesn't draw on top-down directives from the IFB; as always, he relies on price signals. But the crucial point here is that he must resort to price dictates set from above; worker councils “respond to a price signal quoted by the IFB” (DEP, 248), whereby the IFB, as explained earlier, derives the appropriate price level from the aggregate investment plan. Worker councils are incentivized to prioritize the production of capital goods over immediate consumer goods due to the higher prices they

are allowed to charge.⁸ This setup gives a small number of federation delegates and planning agency staff the authority to prompt local workers councils to produce capital goods by dictating prices.

To be sure, Hahnel argues that the power of the two national federations is limited for several reasons. They are partly held in check by each other (DEP, 228); they are obligated to consider verifiable historical trends (DEP, 223); and they must ultimately find approval from the “political legislature or a national referendum” (DEP, 248). I do not see, however, that these checks on the power of national federations are sufficiently far-reaching. Additionally, Hahnel takes pains to find procedures during annual planning to reveal “how investment planners initially erred because their estimates of certain parameters was off the mark” (DEP, 229). He considers potential penalties for delegates in case their misestimation of future changes lead to over- or underinvestment, such as replacing them, barring them from serving again, or even punishing them personally (DEP, 229). But surely, the hurdle for imposing sanctions of any kind must be high because it requires proving “deliberate deception” (DEP, 229), while also taking seriously the possibility of innocent mistakes. Yet if anything is prone to innocent error, it is guesses about the future, which is at the heart of investment planning. Thus, it seems this can only mean granting federation delegates significant discretion in estimating future changes regarding product innovation, technological innovation, and changing consumer preferences.

In short, in Hahnel’s model, delegates of national federations are vested with broad powers in steering investment planning, wielding control over significant material resources, while at the same time they must be granted wide latitude in their decision-making. A ministry of planning or an investment planning agency holds extensive power as well. Hahnel is candid enough to point out that all this means that “*delegates* to federations, *officials* in ministries, and *staffs* of different [...] planning agencies” will have a lot of power—“which, to be frank, worries us!” (DEP, 291).

What about autonomy at the bottom of the planning hierarchy? What about ordinary workers who “want to start up a new operation to try and do things their own way” (DEP, 120)? Innovative proposals for new products and technologies might come from “a group of disgruntled members of an existing worker council who have been consistently outvoted about

⁸ This is a highly abbreviated and simplified version of Hahnel’s detailed construction of price-setting during investment planning, which is quite difficult to understand. For the relevant passages, see DEP (241–244, 247–248).

how to do things” (DEP, 120). Or they might come from maverick types whose ideas are frequently dismissed as outlandish. Hahnel is confident that in a PE it’s easy “for a new, innovative group to put their idea into motion” (DEP, 120). He intends them to submit their proposal “during the planning procedure” (DEP, 120), where he believes that truly innovative proposals have a good chance of finding approval—since anyone with a proposal whose “social benefit-to-cost ratio is at least one will receive the inputs it requests” (DEP, 120). Yet, as we’ve seen above, Hahnel himself provided numerous reasons why the future benefits of innovation are difficult to estimate and are therefore likely highly contested. In any case, the annual planning procedure seems unsuitable from the outset for decisions about innovative proposals, and this is because the break-even period for many new products and technologies is quite extended: It often takes several years before the investment yields social benefits that match its social costs. Therefore, decisions based on a yearly time frame will lead to the rejection of many useful innovations. Assuming the annual planning procedure is indeed often unsuitable for the decision-making process, then presumably the national federations must decide. But this brings us back to square one, to the top end of the planning hierarchy. This is not only problematic due to the already existing degree of power monopolization, it also poses the risk that national federations might be too conservative and stifle innovation. One of the difficulties in estimating future benefits from innovation is that new products and technologies are often met with initial reluctance, only to become indispensable later on. National federations might be unduly influenced by this widespread reluctance.⁹

4. THE HIDDEN SIGNIFICANCE OF FEDERATIONS

Hahnel mentions the importance of higher-level federations in other contexts as well, but more or less in passing, which seems to suggest that they play only a negligible role. But in truth, federations recur time and again at crucial junctures in his argument, testifying even further to their normative importance. In systematic terms, three important roles of

⁹ Hahnel briefly mentions a remedy, which relies on a numerical solution: It would effectively mean tolerating “some specified percentage” of firms turning out to be “crack-pots” (DEP, 121)—as an indirect means of creating wiggle room for desirable mavericks. Hahnel’s remark is almost too brief to allow for a qualified judgment on this important issue, and simple numerical solutions tend to raise my suspicion.

higher-level federations can be found in Hahnel's model: They are gatekeepers, appellate bodies, and adjustment agencies.

(a) *Gatekeepers*: Industry federations function as “gatekeepers” (DEP, 121), and in this capacity their task is to “judge whether or not a group that has proposed to form a new worker council are ‘credible’” (DEP, 105). While the final decision about the allocation of scarce resources to worker councils only emerges through the iterative planning process, industry federations preselect among the contenders for new worker councils to narrow the number of councils eligible to submit production proposals during the planning procedure. The task of gatekeeping is hugely important, because without it the planning procedure would likely be swamped by far too many proposals. How to judge whether or not a proposal for a new worker council is credible? Hahnel recommends that the industry federation base their judgment of credibility on training and experience in the given industry. He discusses additional measures such as using “crowdsourcing support” (DEP, 121) as a form of credibility check, that is, obtaining “testimony from credible witnesses supporting the group’s seriousness and promise” (DEP, 129).

I want to highlight a pressing concern that Hahnel seems to underestimate: The various industry federations will quite likely be inundated by an enormous quantity of proposals. Why? Because requesting the formation of a new worker council comes at no cost, since no one has to put up capital of their own (DEP, 105). As industry federations are overwhelmed by proposals, they are likely compelled into a dismissive attitude of routinely rejecting the vast majority of proposals. Hence, as gatekeepers, industry federations could create a “bureaucratic maze” (DEP, 212), against which Hahnel explicitly warns, all the while workers desperately need the federation’s permission, because there is no other way to gain access to vital resources. Hahnel contemplates ways to counterbalance the power of federations as gatekeepers: He recommends a “review board”, independent of all the industry federations, “where groups who were turned down for accreditation by their industry federation can appeal for approval” (DEP, 121). But the basic problem largely remains: It is difficult to imagine how the review board could avoid being overwhelmed with appeals to a similar extent that industry associations were previously overwhelmed with proposals. The source of the problem, largely underestimated by Hahnel, is the fact that proposing a new worker council could be done quite casually, at no cost.

(b) *Appellate bodies*: In a PE, industry federations themselves are also assigned the function of appellate bodies. This is somewhat confusing since, in the previous point, it was the industry federations whose decisions could be overridden by the review boards functioning as appellate bodies. But now we are a step further into the planning procedure: After industry federations, in their role as gatekeepers, have allowed a certain number of worker councils into the planning procedure, the actual planning process begins; during that process, industry federations themselves are tasked with functioning as appellate bodies. Worker councils submit their proposals and the IFB begins its work, calculating indicative prices based on supply and demand. This will affect the chances of worker councils have their proposals meet approval. But then disputes may arise concerning the calculations of the IFB, and in this case, the industry federations assume the role of appellate bodies.

The background is that the IFB's calculations of benefit-to-cost ratios build the basis for approval or rejection of production proposals. Now, it is likely that a crucial problem occurs: What about a situation where a worker council believes the IFB misjudges the SB/SC ratio of its proposal? It might have good reasons for this suspicion, since estimated social benefits are hard to assess, and this potential for perceived inaccuracies requires a robust mechanism for contestation. Hahnel concurs, stressing the necessity "to design appeals procedures federations can use to handle unusual cases where 'the numbers lie'" (Hahnel 2012, 99). So, in Hahnel's view, industry federations are the appropriate institution assigned with task of handling contestations: Appeals "should ordinarily be conducted by the industry federation a worker council belongs to" (DEP, 104).

(c) *Adjustment agencies*: In a PE, the planning procedure is supposed to generate a comprehensive production plan for the following year. However, during the year, mismatches between the plan and actual developments are likely to occur, and in that case, Hahnel assigns national federations the role of adjustment agencies. To be sure, in an important respect the planning process significantly *decreases* the risk of mismatches between supply and demand significantly. This is because it enables ex ante coordination of economic action in the first place, which is legally prohibited in market economies, most prominently by competition law. In market economies, this leads to recurring disparities between what is anticipated in terms of estimated demand and actual demand, adding up to major "dis-equilibrating forces" (DEP, 165). Nonetheless, in a PE too,

there will inevitably be disparities between estimated demand and actual demand.

Disparities might result, for example, from sudden changes in production methods or external shocks. Another source for disparities originates internally from the structure of the planning procedure itself: The procedure effectively requires participants to ‘pre-order’ all the products they intend to acquire over the course of a whole year, and this is obviously very difficult to know in advance. Sure, one can simply re-enter the consumption choices of the previous year, yet still, pre-ordering one’s consumption for a whole year remains considerable challenge, and the likely consequence are mismatches between plan and actual demand.

The likelihood of mismatches is exacerbated even further by a peculiar tension in the design of the planning procedure. Hahnel attaches great importance to staving off the frequent objection that the participatory procedure is too cumbersome:

Submitting personal consumption requests during planning is not impossibly burdensome because the form would only need to have an entry called ‘shoes’ for one to put a number after, not an entry called ‘size 6 purple women’s high-heeled shoes with a yellow toe!’ Those kinds of details are revealed by actual purchases as the year proceeds. (DEP, 166)

However, attempting to minimize the inconvenience of the procedure in this way is at odds with reducing the risk of mismatches: When the categories available for selection during the planning process are coarse, and therefore less burdensome, the risk of discrepancies after implementing the plan *increases*, because real demand is simply much less known. So, minimizing the burden of the pre-ordering process comes at the price of greater mismatches.

This means there are several reasons for significant mismatches between various supplies and demands. Sometimes they cancel each other out, but sometimes not. In that case, the industry and consumer federations at the national level play a crucial role: They are assigned the role of “clearing houses for adjustments” (DEP, 126). When mismatches remain, “how to increase or decrease production of shoes because consumers have changed their minds must be negotiated between the shoe industry federation and the national consumer federation” (DEP, 167). At this point, it becomes evident that the highest level of federations might not even be sufficiently high, due to the serious conflict of interest between industry and consumer federations: “To what extent will the shoe

producers and shoe industry or consumers bear the burden of adjustments?” (DEP, 168). What happens if consumer and worker federations fail to reach an agreement? Given the substantial conflict of interest at stake, this scenario is not implausible. Thus, there are good reasons to think that the highest level of federations may still not be sufficiently high. Which higher level institution could be entrusted to resolve these conflicts of interests? One could think of courts adjudicating the conflict, or a dispute board, composed of randomly chosen citizens. However, since decisions about these conflicts are highly consequential, they require strong political legitimacy, thus the political body with the highest authority would probably have to step in. Thus, it appears that intervention from the “national legislature” (DEP, 290) becomes necessary, or more likely, intervention from its governing body, as its executive branch. So, at this point it seems that a centralized government appears on the scene, and quite likely, this would imply something like a Ministry of Planning—a ‘MinPlan’ in Hahnel’s style of abbreviation.

5. UNACKNOWLEDGED REASONS FOR CENTRALIZATION

There are additional reasons, unacknowledged by Hahnel, why a PE might require even more centralized institutions. The participatory planning procedure could internally create “perverse incentives” (DEP, 130–131) for worker councils, and to counteract these problematic incentives, correctives measures enacted by a centralized institution will likely become even more important. In fact, as we shall see, the false incentives created by the planning procedure might be so serious that the viability of the whole arrangement is at stake.

The background of the argument is this: As shown in section 1, Hahnel argues that central planning suffers from perverse incentives where production units benefit from underreporting their capabilities to the CBP to secure easier targets and more resources. In contrast, a PE, according to Hahnel, avoids this problem as worker councils have no incentive to hide their capabilities since it reduces their chances of receiving desired resources during the planning process. This might be true, but contrary to Hahnel’s claim, I will argue that the planning procedure might give rise to new forms of false, or ‘perverse,’ incentives: First, participatory planning incentivizes worker councils to attempt to simply hold out longer than others, and second, it incentivizes them to make empty promises.

(a) *Holding out*: The participatory procedure could tempt worker councils to try to hold out the longest among competing proposals, without

changing their production proposal in a meaningful way. The background of this temptation is connected to the importance of opportunity costs within the planning procedure. If there is an oversupply of proposals for a particular product, each worker council incurs high opportunity costs because their labor power and resources could be put to more valuable uses. Crucially, when the number of competing worker councils decreases in the next planning round, the social benefit-to-cost ratio of the remaining worker councils *automatically increases*, because their opportunity costs decrease—even if their proposals do not change at all. This, in turn, clearly creates the temptation for worker councils to bet that competing worker councils withdraw to other sectors first. Effectively, this establishes a significant incentive for worker councils to hold out the longest among the councils, for example by only superficially modifying their original proposal in the next planning rounds. Obviously, this would gravely undermine the whole purpose of the iterative procedure, which is to “whittle down” (DEP, 156) excess proposals and force them to shift toward a more desirable output. It is certainly laudable that the PE aims to eschew the coercive forces of market competition. Yet the adverse effects could be serious: When the iterative procedure fails to reduce excess proposals, the procedure as a whole risks becoming pointless. But who should monitor whether proposals are modified in a meaningful way or only cosmetically? This appears to be a qualitative task that cannot be accomplished by looking at numbers alone and it must, presumably, involve the authority to sanction cheating worker councils.

(b) *Empty promises*: Hahnel claims that in participatory planning, worker councils have an incentive to reveal their capabilities because this increases the likelihood of being allocated the resources they requested. The background is that participating in the planning procedure means competing with other worker councils of the same branch for resources. Demonstrating outstanding capabilities increases the chance of winning the bid. However, in a telling footnote, Hahnel remarks that in a PE it is in the “interest of workers councils to reveal, or even exaggerate, their capabilities” (DEP, 79). Why are worker councils led to exaggerate? Only those worker councils with the best (estimated) social benefit-to-cost ratios will eventually gain approval. Yet this clearly creates an incentive to make empty promises by exaggerating their capabilities to boost their estimated benefit for society.

Hahnel is aware of the problem of empty promises and the PE seems to provide a countermeasure: Recall that if there is discrepancy between

estimated SB/SC at the beginning of the year and actual SB/SC at the end of the year, the latter serves as a cap on rewards in the next year. However, it is questionable whether this penalty is a sufficient deterrent. Why not cap rewards in proportion to the extent of the discrepancies? After all, the goal of the penalty is to address the degree of misestimated cost-to-benefit ratios. At the same time, the threshold for imposing penalties must be high, as it must be granted that worker councils might make innocent mistakes in estimating SB/SC. However, this in turn weakens the deterrent effect of the penalties, which might tempt worker councils to try to get away with making empty promises.

6. PRELIMINARY CONCLUSION AND AN OUTLOOK ON COUNCIL-DEMOCRACY

It has become clear that a PE requires more centralized institutions than Hahnel initially suggests, and this requirement is grounded in strong normative reasons. It's not hard to see now that both industry and national federations assume, at least partly, the role of central planning authorities in disguise. National federations are the key decision makers entrusted with planning investment, effectively predetermining the pace and direction of growth while wielding control over enormous R&D resources. They are also the most powerful voice in planning long-term development and society-wide public goods. Something similar applies to the power of industry federations: As gatekeepers, they can refuse worker councils access to the planning process; as appellate bodies, they can reject appeals; and as adjustment agencies, they have the power to steer production directly and swiftly. While these powers are at least partially acknowledged by Hahnel, though somewhat downplayed for strategic reasons, there are additional, unacknowledged reasons that suggest a PE would require even more centralized institutions: They are probably needed to counteract the false incentives created by the planning procedure, presumably through the imposition of disciplinary measures. These various centralized institutions wield significant decision-making power, with a small number of delegates and officials exerting authority over large numbers of ordinary citizens. In addition, it became evident that to adjudicate conflicts between different federations, intervention from the "national legislature" (DEP, 290) becomes necessary, or more likely, intervention from its governing body, which quite possibly must include an entity akin to a MinPlan—a Ministry of Planning staffed with powerful officials.

Now, let's suppose there is no way around a significant degree of centralization in participatory planning. Perhaps we can hope to find ways to democratize these centralized institutions and facilitate participation sufficiently. As always, Hahnel's analysis is commendable for tackling the task directly, though I have reservations about the details of his proposals. He largely rehashes old council-democratic recipes, but they come with their own set of problems.

Hahnel's major idea is to make delegates of federations 'recallable'.¹⁰ In council democracy, recall procedures empower constituents to remove elected delegates before the end of their term, which serves to ensure that delegates remain responsive to the constituencies' needs and concerns. But are recall procedures really desirable? Industry federations as well as national federations are responsible for negotiating agreements on a very general level, which often makes it hard to reach agreements. Suppose it took delegates of national federations a long time to garner enough support for a decision to pass before it is finally put to a vote. This might be due to serious conflicts of interest between the various stakeholders the delegates represent, such as workers or consumers. The consensus is fragile, the majority barely secured, when, shortly before the agreement is put to a vote, some delegates are recalled and the decision is foiled. Delegates have to start negotiating all over again. This is a serious drawback, as federations often need to reach decisions quickly, for example, during adjustment processes throughout the year.

There is a broader issue behind this problem: The normative function of higher-level collective decision-making within federations is to consider the interests of all affected groups, beyond just those of the particular constituency of individual delegates. Sometimes, higher-level federations may need to come to decisions that prioritize fairness and broader social responsibilities over the interests of local councils and specific groups. Recall procedures stand in tension with this requirement because they potentially encourage the pursuit of particular interests at the expense of other affected groups. These considerations certainly also speak against the flagship measure of council democracy, the idea of an "imperative mandate" (Wollner 2018, 81), briefly alluded to by Hahnel with the possibility for delegates to "receive instructions from those they represent" (DEP, 291). Ultimately, I'm not claiming that council-democratic

¹⁰ DEP, 224; for lengthier remarks on the governance of federations see DEP, 128, 291–292.

remedies are a lost cause, I merely suggest that they don't offer an easy answer.¹¹

7. THE CENTRALIZATION DILEMMA

I have argued that Hahnel rightly emphasizes the question of whether any new proposal for comprehensive planning could inadvertently lead to new forms of authoritarianism. Proposals for comprehensive planning must pass the test to rule out this risk with sufficient certainty. I have shown that Hahnel's model of participatory planning is close to failing the test. Dispensing with centralization is the animating goal of a PE, yet centralization is either smuggled in through the back door or it almost imposes itself on us because the internal problems of participatory planning call for it. I do not deny that participatory planning makes planning less centralized than planning by means of a Central Planning Bureau, but it remains significantly more centralized than Hahnel tries to make us believe. It appears that participatory planning puts us in a bind: Centralization is deeply problematic for normative reasons, yet it is precisely also for normative reasons that centralization turns out to be unavoidable. The dilemma can be summed up as follows:

THE CENTRALIZATION DILEMMA

Centralization Wariness: There are strong normative reasons to be wary of centralized planning.

Centralization Necessity: There are strong normative reasons for centralizing planning.

Starting with the latter part of the dilemma, *Centralization Necessity* emphasizes the numerous normative reasons encountered thus far that support centralizing participatory planning more strongly. These reasons have emerged from Hahnel's own arguments. As we've seen, these necessities, or normative demands, encompass ensuring reasonable efficiency, social responsibility, fairness, and even the fundamental integrity and viability of the planning procedure as such. Yet, even if these are justified normative reasons for centralized institutions, this does not make them

¹¹ A closer examination of the council-democratic toolkit might reveal better solutions, for example securing "resemblance in socio-economic characteristics between represented and representatives" (Wollner 2018, 81). Strict term limits or lottocratic sortition procedures might also be potential avenues. But the burden of proof lies with the proponents of democratic planning.

harmless. This leads to the other part of the dilemma, *Centralization Wariness*, which also follows from the reasons Hahnel himself outlined: Centralized planning institutions are inherently biased against worker autonomy and entail top-down decision-making power vested in a small number of delegates and officials. If we follow Hahnel's analysis of the ripple effects of centralized planning, as reconstructed in section 1, we should be concerned about a "snowballing apathy" (DEP, 78) among ordinary workers and consumers. Meanwhile, at the upper echelons of the planning hierarchy, a planning elite might emerge, bent on usurping more and more power and awarding themselves "ever more perks and material rewards" (DEP, 78). To make matters worse, it also became evident that well-trodden council-democratic recipes offer no simple solution, as they are often impractical due to their time-consuming nature or unfair because they tend to prioritize particular interests over broader social responsibilities.

Does all this imply a categorical rejection of a PE? Certainly not. We should definitely hold fast to the fundamental idea of participatory planning—to enable democratic planning through decentralized coordination between workers and consumers, without overreliance on centralized institutions. Any future efforts to advance this project will largely build on the groundbreaking work Hahnel and Albert have created with unmatched rigor and steadfastness.

However, when considering which economic system to promote in the medium run and where to put our efforts in advancing theoretical models, I believe market socialism is preferable. The risks posed by centralization under participatory planning simply seem too dangerous. Curiously, there is an important argument for market socialism that applies *even if* one sides with participatory planning. Hahnel argues that transitioning from capitalism to a PE through a sudden and total rupture is both unfeasible and unwarranted; the path to participatory planning "travels through a transition period" (DEP, 33). He recommends starting by gradually universalizing cooperative ownership while introducing participatory budgeting programs at the local level, along with planning investment, long-term development, and public goods at the national level.¹² What does such an institutional arrangement amount to? Well, obviously this looks quite a lot like market socialism. In the end, it seems that Hahnel, to some extent, is a market socialist as well.

¹² See Hahnel (2012, 133–143) and DEP (xviii, 32–33).

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