

Socialist Pensions in Capitalist Society?

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Prefatory note to participants in Pensions conference

Most of the papers at this conference deal with some variant of the question: “Is there an institutional design of pension systems which would enable them to be used to increase social control over corporations?” My paper has a different focus. I ask the question, “Assuming that such an institutional design is feasible and sustainable, how would such a pension system fit into a broader agenda of progressive institutional transformations of capitalism?” I will not discuss the important issues of alternative rules governing the management of pension funds, alternative sources of funding, the problems of balancing fiduciary responsibility with other goals of a proactive pension system, or the possible mechanisms for rendering such proactive funds democratically accountable. I will bracket these issues of institutional design and assume that some kind of satisfactory solution is possible. My concern will be to locate this specific kind of reform in a broad agenda of socialist-inspired transformations. The paper therefore has a somewhat awkward relationship to the conference itself, since nearly all of it is concerned with clarifying what we might mean by “socialist transformation”, and only the last few pages deal directly with the problem of pension funds as a potential vehicle for rendering capital socially accountable.

Much of this paper is derived from a larger piece on which I am working entitled “Taking the ‘Social’ in Socialism Seriously.” The central purpose of that paper is to provide an overarching theoretical framework within which to integrate the various discussions of institutional design in the *Real Utopias Project*. This is very much work in progress, and thus there are a number of places in the exposition which follows which are clearly underdeveloped.

This paper explores the idea that large pools of publicly-controlled capital funds within capitalist societies could function in a socialist manner. The objective of the paper is not to examine any specific institutional proposal for the mechanisms through which this might be stably accomplished, but rather to clarify the sense in which such institutional designs, if they are possible, could be viewed as elements of a socialist project within capitalist societies. Because the idea of “socialism” has lost both intellectual and political credibility in the past two decades, much of the paper of necessity will focus on trying to reconstruct this concept in a more compelling way. I will begin by very briefly presenting the core claims of the socialist critique of capitalism. I will then propose a way of framing the contrast between capitalism and socialism in which it makes sense to talk about building socialist institutions within capitalist society. This will be followed by a brief discussion of a number of institutional proposals that bear on the prospects for social-izing capitalism. This will help to give specificity to the idea of using pension funds for this purpose.

The continuing relevance of a socialist critique of capitalism

At the core of the traditional socialist critique of capitalism are four main claims:

1. *Capitalist class relations perpetuate eliminable forms of human suffering.* While capitalism is an engine of economic growth, it also inherently generates marginalization, poverty, deprivation. In principle, of course, the fruits of growth could be distributed in ways which improve everyone’s material welfare, a point continually made by defenders of capitalism under the slogan “a rising tide lifts all boats”. However, there is no mechanism *internal to capitalism* to generate the redistribution needed to produce these effects. Furthermore, even apart from abject poverty and material deprivations, the strong competitive pressures of capitalism, especially when they generate winner-take-all competitions that result in large inequalities, generate pervasive deficits in human flourishing (understood as the realization of human potentials).
2. *Capitalism violates liberal egalitarian principles of social justice.* The private accumulation of wealth gives some people inherent, unfair advantages over others. Particularly with respect to children this violates principles of equality of opportunity. But even beyond issues of intergenerational transmission of advantages, since the private profit-maximizing logic of capitalist markets means that capitalist firms have an inherent tendency to try to displace costs on others, capitalism imposes unchosen burdens on many people in the form of negative externalities. Negative externalities are not simply a problem of inefficiency – although they are that as well – but of injustice.
3. *Capitalism under-produces public goods.* For well-understood reasons, acknowledged by defenders of capitalism as well as its critics, capitalism inherently generates significant deficits in the production of public goods and in this respect it is inefficient (i.e. the lack of adequate public goods is efficiency reducing).
4. *Capitalism limits democracy.* There are two principle mechanisms at work here. First, the high concentrations of wealth and economic power generated by capitalist dynamics

subvert principles of democratic political equality. People with money have a disproportionate influence on political outcomes. Second, the inability of democratic bodies to control the movement of capital undermines the ability of democracy to set collective priorities.

In short, capitalism creates harms to the lives of many people, it is unjust, in crucial respects it is inefficient, and it constrains democracy. None of these criticisms implies, necessarily, that the only effective remedy is the wholesale destruction of capitalism and its replacement by a comprehensive alternative. It is possible that institutional devices could be constructed within capitalist societies to neutralize these problems to a significant degree. This has certainly been the traditional belief of social democrats. But whether the solution is ruptural anticapitalism or reformist anticapitalism, the effect of institutions which neutralize these negative effects of capitalism is to introduce counter-capitalist mechanisms into the operation of capitalist societies.

Even if one accepts these criticisms, they really only have radical bite if they are combined with an account of a credible alternative which could reduce or eliminate these harms. Marx brilliantly finessed this problem by proposing a theory of capitalist dynamics in which the pivotal idea was that in the long run capitalism destroys its own conditions-of-possibility and thus becomes an unsustainable form of society. If it can be convincingly demonstrated that capitalism is necessarily doomed, then at a minimum one has proven that *some* alternative to capitalism will eventually come to pass. When you add to this Marx's thesis that in the course of capitalist development a powerful collective actor emerges (the working class) whose members would benefit from an alternative in which they controlled the system of production (if such an alternative were feasible), then perhaps it isn't too far-fetched to rely on a theory of "where there is a will there is a way" with a pragmatist experimentalist program of trial-and-error as way of defending the feasibility of this alternative. If, however, the core argument of Marx's theory of the history of capitalism's future is rejected – that is, if one rejects the thesis that capitalist contradictions ultimately destroy the very possibility of capitalism – then it is necessary to build a more positive conceptualization of a socialist alternative if it is to have credibility as a normative vision and goal of political struggle.

Reformulating socialism

Most discussions of socialism build the concept in terms of a binary contrast with capitalism. The standard strategy is to begin with a discussion of different ways of organizing production, and from this to define capitalism as a distinctive type of "mode of production" or "economic structure": an economic structure within which production is oriented towards profit maximization through exchange on the market, the means of production are privately owned, and workers do not own their means of production and thus must sell their labor power on a labor market in order to obtain their livelihoods. Socialism is then defined in terms of the negation of one or more of these conditions. Since the pivot of the concept of capitalism is the *private* ownership of means of production, generally this has meant that socialism is understood as *state* ownership in one form or another.

An alternative approach to specifying the concept of socialism contrasts it to two alternative forms of social organization: *capitalism* and *statism*. Capitalism, statism, and socialism can be thought of as alternative ways in which three broad macro-domains of social interaction -- the state, the economy, and civil society -- are interconnected. The first task in elaborating this concept of socialism, therefore, is clarifying what I mean by these three domains of social interaction.

Defining the state, economy, and civil society

Efforts at formulating rigorous, foundational definitions of the economy, the state, and civil society quickly run into all sorts of difficulties. Should the economy, for example, include all activities in which in any sense goods and services are produced, or only those that are mediated by the market? Should preparing a meal in the home be considered part of the “economy”? Should taking care of one’s own children be viewed as part of the economy, or only childcare services produced outside the home? Should the economy be defined by the *functions* it fulfills within a “social system” (e.g. “adaptation” as in Talcott Parson’s schema), by the *motives* of actors engaged in various activities (e.g. utility maximization under conditions of scarcity, as in neoclassical economics), by the *means* that actors use to pursue their goals (e.g. the use of money and other resources to satisfy interests), or what? Perhaps we should distinguish “economic activity” from “the economy” – the former can take place within any domain of social life, the latter refers to a more specialized arena of activity within which economic activities are dominant. But then, what does “dominant” really mean?

To really nail down all of these kinds of issues is an arduous matter and would, I believe, deflect us from our main task here. So, for present purposes I will define these three domains of social interaction in relatively conventional ways, bracketing these deeper problems of conceptualization:

The State is the cluster of institutions, more or less coherently organized, which imposes binding rules and regulations over territories. Max Weber emphasized the ways in which states are defined by monopolies over the legitimate use of force over territories. I prefer Michael Mann’s alternative emphasis on the state as the organization with an administrative capacity to impose binding rules and regulations over territories.¹ The use of force is one of the ways this is backed up, but it is not necessarily the most important way. The power of the state is then conceived as its effective capacity to impose rules and regulate social relations over territory, a capacity which depends on such things as information and communications infrastructure, the ideological commitments of citizens to obey rules and commands, the practical effectiveness of the regulations to solve problems, as well as coercion.

The Economy is the sphere of social activity in which people interact to produce and distribute goods and services. In capitalist economies, most of this activity

¹ cite to Weber and to Mann.

involves privately owned firms in which most of the distribution is mediated by market exchange. Economic power is based on the kinds of resources different categories of social actors control and deploy within these interactions of production and distribution.

Civil Society is the sphere of social interaction in which people form voluntary associations of different sorts for various purposes. Some of these associations have the character of formal organizations with well-defined membership and objectives. Clubs, political parties, labor unions, churches, neighborhood associations would be examples. Others are looser associations, in the limiting case more like social networks than bounded organizations. The idea of a “community”, when it means something more than simply the aggregation of individuals living in a place, can also be viewed as a kind informal association within civil society. Power in civil society depends on capacities for collective action through such voluntary association.

The state, the economy and civil society are all domains for extended social interaction, cooperation, and conflict among people and each of them involves distinct sources of *power*. Actors within the economy have power through their ownership and control over economically relevant resources. Actors in the state have power through their control over administrative capacity over territory, including coercive capacity. And actors in civil society have power through their ability to mobilize people for collective actions of various sorts. Of course, the power actors can deploy within a given domain of social interaction can be used to affect what happens in other domains. Most strikingly, perhaps, in contemporary capitalism, the economic power of actors in the economy can be deployed to influence actions of the state. But parallel effects occur in all of the relationships among these domains.

Capitalism, Statism and Socialism

One way of thinking about the variations in the types of societies that exist in the world or could exist in the future is to think about variations the relationships among these three domains. Here I will focus on two dimensions of such variation:

(1) *The relative extent to which power rooted in each of these domains affect the allocation and use of the society’s human and material resources for different purposes?* In particular, we can identify one domain as being *dominant* if power from that domain affects these allocations and uses to a greater extent than power rooted in other domains.

(2) *The relative permeability of the boundaries of each domain to power rooted in another domain.* A domain is *relatively autonomous* to the extent that it is insulated from the direct effects of power rooted in other domains; a domain is *relatively permeable* to the extent that power in one domain can directly affect activities in another. Thus, for example, when power rooted in the control of economic wealth is deployed to affect state policies (through such things as

financing electoral campaigns, economic control over the media, and lobbying), then we would say that the state is relatively permeable to economic power.

Using these two dimensions of the variability of interconnections between the state, the economy, and civil society, we can, in a stylized way distinguish capitalism, statism, and socialism as follows:

Capitalism is a social order within which (1) the allocation and use of resources for different social purposes is most strongly shaped by the exercise of economic power (that is, the economy is dominant with respect to the state and civil society), and (2) the boundaries of the state and civil society are more permeable to the exercise of economically-rooted power than the economy is to the exercise of state and social power.²

Statism is a social order within which (1) the allocation and use of resources for different social purposes is most strongly shaped by the exercise of state power (that is, the state is dominant with respect to the economy and civil society), and (2) the boundaries of the economy and civil society are more permeable to the exercise of state power than the state is to the exercise of economic and social power.

Socialism is a social order within which (1) the allocation and use of resources for different social purposes is most strongly shaped by the exercise of civil society rooted power (that is, the civil society is dominant with respect to the economy and the state) and (2) the boundaries of the state and the economy are more permeable to the exercise of power rooted in civil society than civil society is to the exercise of state and economic power.

These three configurations are schematically illustrated in Figure 1.

For each of these three ideal types, one can imagine an extreme form in which the dominant domain does not simply exercise superior power relative to the other two spheres, but completely obliterates their autonomy. In these terms, *totalitarianism* can be viewed as a form of hyper-statism in which the state does not just dominate civil society and the economy, but fully penetrates and controls both of these domains. Voluntary associations and autonomous social networks virtually disappear, and nearly all economic activity is directly organized through and by the state. Pure *laissez-fair capitalism* is a form of society in which the state atrophies to a mere “night watchman state” serving only the purpose of enforcing property rights, and commercial activities penetrate into all corners of civil society, commodifying everything. The exercise of economic power would almost fully explain the allocation and use of resources. Citizens are atomized consumers who make individual choices in a market but exercise no collective power

² For terminological symmetry it would be better to term this configuration something like “*economyism*” rather than capitalism. The word capitalism is being used here both to describe a particular way of organizing the economy and a way of characterizing the overall macro-articulation of economy, state, and civil society.

over the economy through association in civil society. *Communism*, as classically understood in Marxism, is a society in which the state has withered away and the economy is absorbed into civil society as the free, cooperative activity of associated individuals.

None of these extreme forms could exist as a stable, reproducible form of social organization. Totalitarianism never completely eliminated informal social networks as a basis for cooperative social interaction outside of the direct control of the state, and the practical functioning of economic institutions was never fully subordinated to centralized command-and-control planning. Capitalism would be an unreproducible and chaotic social order if the state played the minimalist role specified in the libertarian fantasy, but it would also, as Polanyi argued, function much more erratically if civil society was absorbed into the economy as a fully commodified and atomized arena of social life. Pure communism is also a utopian fantasy, since it is hard to imagine a complex society without some sort of authoritative means of making and enforcing binding rules (a “state”). Feasible, sustainable forms of large-scale social organization, therefore, always involve some kind of reciprocal relations among these three domains of social interaction in which one domain may in some sense or other be “dominant”, but in which the other domains have some level of real differentiation and autonomy.

These are ideal types. We can also think of these configurations as variables: The more fully a society is capitalist, the more the decisions made by actors exercising economic power will determine the allocation and use of resources relative to the decisions by actors exercising power in the other spheres and the more economic power will penetrate the state and civil society; the more fully a society is statist, the more power exercised through the state will be dominant and penetrate the economy and civil society; the more fully a society is socialist, the more power rooted in civil society will be dominant and penetrate the state and economy. This implies that even if it is difficult to unequivocally establish a methodological criterion for dominance, it is still possible to talk about the increasing or decreasing the capitalist, statist, or socialist character of a society. This also opens the possibility of complex mixed cases – cases in which in certain respects a society is capitalist and in others statist, or even socialist. Statist Capitalism, for example, would be a society in which the use of state power to determine the allocation and use of human and material resources significantly modifies the effects of capitalist economic power; capitalist statism would be a case where capitalist economic power significantly modifies the effects of state allocations. Not every logically possible combination and permutation, of course, may be socio-logically possible: some configurations may be highly unstable if they happened to occur, and others could never be constructed. “Capitalist socialism”, for example, may not be a stable equilibrium: the presence of capitalist power sufficient to significantly modify the effects of power rooted in civil society may have an inherent tendency to erode that civil society power to the point that capitalism becomes dominant. It is important, however, not to feel too confident that one knows in advance everything that is possible “under heaven and earth,” for there are always things that happen that are not, in advance, “dreamt of in our philosophy.”

The problem of “dominance”

The pivotal idea in this typology of social forms is the relative “dominance” of different forms of power. What, precisely, does it mean to say that the state is “dominant” relative to the economy and civil society in statism, that the economy is dominant relative to the state and civil society within capitalism, and that – most problematically of all, perhaps – civil society is dominant relative to the economy and the state in socialism? Claims of this sort are always contentious (and often hopelessly vague) in social theory, since in complex causal systems in which in some sense everything affects everything else in one way or another, the precise meaning of one element having greater weight than others or dominating others is not at all obvious.³

A first point of clarification is that in the proposed definitions of capitalism, statism, and socialism, the issue of dominance is specified with respect to power over the allocation and use of human and material resources, not with respect to all social activities and practices. Allocation and use of resources is, of course, quite a broad scope for the exercise of power, but it does not imply some completely open-ended idea of dominance. Thus, for example, the claim that the economy is dominant relative to civil society and the state in capitalism does not imply that power exercised in the economy is the primary determinant of gender identities or sexual norms or child-rearing practices. Of course, economically-rooted power may have significant impacts on these as well, but the claim about economic dominance leaves completely open the degree of such effects.

Furthermore, even within the issue of allocation and use of resources, “dominant” certainly does *not* mean “completely determines”. Thus, in capitalist societies, to say that the economy is dominant in the specified sense does not imply that power within the state and civil society have no effects on the allocation of resources. In all developed capitalist societies somewhere between 25% and 50% of the value of the total social product is taxed by the state and allocated for various purposes through the exercise of state power. Even if a considerable part of the spending is directed towards purposes which make capitalism function more effectively – building infrastructure, for example – the allocation and use of resources is not being organized in a directly capitalistic manner through the exercise of economic power.

The issue of taxation raises an additional problem in the concept of dominance: the distinction between the *direct* and *indirect* effects of power. For example, in the allocation and use of resources, economic power is directly exercised when capitalists make investment decisions and allocate funds for different purposes. The claim that economic power is dominant in a capitalist society is, to a large extent, based on this fact. But capitalist economic power can indirectly affect the allocation and use of resources when it influences state policies for the use of taxes revenues, either because of an instrumental use of economic power to influence the state or, more diffusely, when the necessity of maintaining a “good business climate” constrains the actions of the state. The claim that in capitalism economic power is dominant (with respect to the use and

³ For a discussion of the problem of causal primacy, see Wright, Levine and Sober (1993: chapter)

allocation of resources) is a claim about the net effect of both direct and indirect exercises of power.

To summarize: dominance refers to the direct and indirect ways in which the exercise of power rooted in the economy or the state or civil society will most decisively influence the allocation and use of human and material resources. Even if it is difficult to establish unequivocal operational criteria for assessing such dominance, this general idea provides a way of examining institutional changes in systems and asking if they move a society in a more capitalist, statist, or socialist direction.

For capitalism and statism, because of the rich examples of historically existing societies, we have a pretty good idea of the institutional arrangements which underwrite the configurations in Figure 1. An economic structure built around private ownership of the means of production combined with relatively comprehensive markets is one which supports a configuration of economy/state/civil society in which the economy is dominant and economic power is able to exert considerable influence on state and civil society. A centralized bureaucratic state that directly plans and organizes most large-scale economic activity and which, through the apparatus of a political party, penetrates the associations of civil society is a good design for statism. But what about socialism?

Civil society is the sphere of social life in which people form various kinds of voluntary associations to pursue their goals. To say that civil society is “dominant” is therefore to say that the basic direction of economic activity and of state policies are determined by collective actions organized through such associations within civil society. Another way of saying this is that socialism involves the radical extension and deepening of democracy. “Democracy” is a system of governance in which the state is held accountable to “the people” – i.e. the people in some meaningful sense control the state. This is equivalent to saying that the state is subordinated to civil society, since the mechanisms of accountability, if they are to be robust and effective, necessarily involve forms of collective association and collective action. When it turns out that a great deal of state power is insulated from such accountability to civil society, we say that the state is less democratic. Socialism, then, means extending democracy in this sense to the governance of economic activities, and deepening democracy in ways that render both the state and the economy accountable to citizens associated in civil society.

This conception of socialism, it must be stressed, does not imply that civil society simply replaces the state as the site within which power is effectively exercised. The vision here is not anarchist; the state would continue to play a crucial role. In ideal-type capitalism even though the economy is dominant it is still the case that the state is essential for enforcing the rules of the game, protecting property rights, and providing a variety of complex regulatory frameworks within which capitalist power is exercised. Similarly, any feasible socialism (assuming socialism is feasible) would require a state to enforce rules of the game and regulate the conditions for the exercise of power rooted in civil society.

Why should socialism defined as the empowerment of civil society be desirable?

The reason for proposing a reformulated concept of socialism is because I believe that socialism has the potential for significantly remedying the failings of capitalism. The fundamental thesis of a socialist critique of capitalism is this: the four normative failures of capitalism outlined earlier -- capitalist class relations perpetuate eliminable forms of human suffering, capitalism violates liberal egalitarian principles of social justice, capitalism under-produces public goods, and capitalism limits democracy – have a much greater chance of being significantly ameliorated under socialist conditions than under capitalist conditions. Or, to state the claim in a slightly different way: institutional changes that push capitalism in a socialist direction make it easier to ameliorate these normative deficits. This does not imply that socialism automatically improves things. What is claimed is that the power relations within socialism are more conducive to reducing these normative deficits than the power relations of capitalism.

There are, of course, good reasons to be somewhat skeptical of this claim given the thinness of the definition of socialism as the empowerment of civil society relative to the state and economy and the absence of any systematic specification of its institutional mechanisms. Two issues are particularly salient: first, the fear that empowering civil society could generate new forms of oppression rooted in the dark side of civil society, and second, the possibility that the efficiency losses generated by an empowered civil society would be so great as to overwhelm any positive effects of such empowerment.

The issue of new forms of oppression emanating from civil society should not be dismissed out of hand. “Civil society” is not constituted simply by benign associations rooted in solidaristic communities. Secondary associations can be oppressive and exclusionary and their collective actions directed towards domination. Empowering civil society therefore can mean empowering the Ku Klux Klan or fundamentalist religious associations and not simply the labor movement or environmental associations or other relatively universalistic civic associations. One reading of the Iranian Islamic revolution, for example, is that it involved the empowerment of religious associations in civil society over the state and economy. Socialism defined simply as the empowerment of civil society relative to the economy and the state, therefore, could potentially be quite nasty.

These concerns are essentially the same as those conservatives have always raised against the threats of democracy to individual liberty. Radical democracy, the argument goes, poses the potential of “tyranny of the majority”. To avoid this, democracy must be heavily curtailed by various constitutional protections of individual rights, especially – in the eyes of conservatives – those rights that protect private property from majoritarian appropriation, since in this view private property is the anchor for all other individual liberties.

There are two responses to this fear. First, a democracy rooted in an empowered civil society would also be governed by rights-sensitive rules. Of course, just as in representative democracy in capitalism, there is no guarantee that formal rules to prevent the tyranny of the majority would be effectively implemented, but there is no reason to

believe that this task would be more difficult in a context in which the voluntary associations of civil society were more rather than less empowered. Second, because an empowered civil society would involve a much broader spectrum of active citizen involvement in political life and public deliberation, the processes consensus formation are likely to be more robust than in capitalist democracy, and this too would constitute a brake on the potential for more exclusionary empowerment.

The second source of skepticism about socialism-as-empowered-civil-society is that it would lead to huge efficiency losses through self-defeating forms of interference with the functioning of the market and processes of “rational” capital investment. The arguments here are familiar: whether socialism is understood as state-centered bureaucratic planning of the economy or as the democratic empowerment of civil society over the economy and the state, such displacement of power from actors with personal economic incentives in the results of their choices to broader collectivities will inevitably generate all sorts of perverse consequences: rent-seeking, incentive failures, suboptimal technological choices, NIMBYism, and so on. The result will be stagnation and inferior economic performance at best, and, more likely, serious economic decline at worst.

While the empirical evidence that backs these predictions is mixed, these concerns also should not be dismissed out of hand. In addition to “where there is a will there is a way” we have “the road to hell is paved with good intentions.”⁴ It should thus be of considerable concern to radical critics of capitalism of whatever sort that their institutional proposals give actors a learning capacity to understand negative unintended effects, and an adaptive capacity to counteract such effects. I do not think that these worries can be answered in a general abstract way. It is certainly not sufficient to point out the many ways in which capitalism itself fails on efficiency criteria (especially when the broad array of negative externalities on human lives are included in the efficiency calculus), for however bad capitalism might be in these respects it is always possible for an alternative to be worse. I do believe, broadly, that a vibrant democratically empowered civil society would fare better than capitalism even on the criteria for which capitalism appears most robust – narrowly defined economic efficiency – but this can only be demonstrated in practice.

Socializing Capitalism

So, my proposal is this: socialism should be thought of as a form of society in which power emanating from the capacity of people for associational collective action becomes the dominant form of social power. This means that an empowered civil society provides the basic direction for the allocation and use of human and material resources in society and significantly penetrates both state and economy.

⁴ Marx, of course, pre-empted this problem by trying to show that capitalism in the long-run destroys its own conditions of possibility, and thus some kind of comprehensive alternative would have to be constructed. While this doesn't immediately demonstrate the feasibility of socialism (however defined), it nevertheless means that the problem of unintended consequences did not have to be posed against a model of presumed capitalist efficiency.

There are two broad ways in which we could approach the problem of understanding how to translate this abstract ideal into practice. The first, and most ambitious, would be to try to specify in advance the most salient institutional features of the destination – developing, in effect, a comprehensive institutional design for socialism – and then to chart the steps of transition from capitalism to this destination. The second is to establish principles of transformation of capitalist arrangements which move in the direction of empowering civil society without specifying, in advance, the institutional design of the destination itself (or even knowing if a destination in which civil society would be fully dominant is really possible). This approach is like leaving for a voyage without a map of the journey or a description of the destination, but simply a navigation rule that tells us if we are going in the right direction and how far we have traveled. This is obviously less satisfying than a comprehensive roadmap, but it is better than a map whose destinations are constructed through wishful thinking and which give a false sense of certainty about where we are headed. In the absence of such a comprehensive theory of socialist institutional design, therefore, the second strategy is probably the best we can do.

If we accept these arguments and the characterization of socialism in Figure 1, then in order to move from the capitalist configuration to the socialist configuration, four kinds of changes are needed, as illustrated in Figure 2:

1. *Increasing the autonomy of civil society with respect to the economy* – that is, reducing the extent to which capitalist markets and capitalist power penetrate civil society.
2. *Increasing the autonomy of the state with respect to the economy* – that is, reducing the extent to which economic power gets translated into political power.
3. *Increasing the power of civil society over the state* – that is, deepening the democratic accountability of state policies to civic association.
4. *Increasing the power of civil society over the economy* – that, increasing the ways in which civic based collective action can set the priorities for economic activity.

Reform proposals within capitalism can be considered socialist to the extent that they embody one or more of these logics of transformation.

Pension funds as a site for socialist reforms

Many institutional proposals for progressive reform that we have explored in the Real Utopias Project can be located with respect to these four forms of transformation. To illustrate this idea I will briefly discuss two of these proposals – unconditional basic income and empowered participatory governance – and then discuss the problem of pensions as a vehicle for social empowerment.

*Unconditional Basic Income*⁵

The core idea of unconditional basic income (UBI) is simple: all citizens receive a monthly stipend, unconditional on the performance of any labor or other social contribution, sufficient to live above the socially-defined poverty line. The grant is universal, given to rich and poor alike; it is unconditional; and it provides for an adequate no-frills standard of living.

Most of the arguments defending UBI revolve around normative issues, such as the potential for UBI to move us closer to liberal egalitarian conceptions of justice, or around practical questions, such as the prospects for UBI to solve a range of social problems that plague contemporary capitalist societies, such as poverty traps. Much less discussion has focused on the potential impact of UBI on the power relations that characterize the underlying macro-institutional configuration of capitalism and which might constitute transformations in a socialist direction.

In terms of the typology of socialist transformations in Figure 2, unconditional basic income has potential effects on the first and fourth type of transformation. The first transformation centers on changes that increase the autonomy of civil society with respect to the economy. One of the central issues here is the extent to which the market penetrates civil society and commodifies all aspects of social life. UBI can be considered, in part, a mechanism for transferring part of the social surplus from market-centered capital accumulation to what might be called “social accumulation”. Much of what it takes for actors in civil society to organize decommodified activities of various sorts is labor time.⁶ This is particularly salient for a wide range of care-giving activities, but also for much social production in the arts and also for political activism. By unconditionally guaranteeing everyone an adequate, in minimal, standard of living, UBI frees up labor time from the necessity of being exchanged for wages on a labor market. Labor power is itself thus partially decommodified, and this increases the autonomy of actors in civil society to enlarge the scope of civic activity.

UBI also has likely effects on the empowerment of civil society with respect to the economy and perhaps the state. With respect to the economy, by partially decommodifying labor power, labor unions are likely to have greater bargaining power with respect to capitalist firms. UBI, in effect, functions like an inexhaustible strike fund. Of course, this enhancement of union power could potentially unravel the sustainability of UBI, if unions used the increased bargaining power primarily to increase labor market wages. But if unions realize that the sustainability of UBI – and of the power this confers on unions – depends upon wage restraint, then it is possible that this enhanced power

⁵ The real Utopias Project discussion of basic income can be found in Bruce Ackerman, Anne Allstott, and Philippe van Parijs, *Redesigning Distribution: basic income and stakeholder grants as cornerstones of a more egalitarian capitalism* (Verso: 2005). A pre-publication version of the manuscript is available at: <http://www.ssc.wisc.edu/~wright/Redesigning%20Distribution%20v1.pdf>

⁶ “Decommodified activities” refers to activities that are not oriented towards the production of goods or services for exchange on a market and are thus not subordinated to the requirements of profit-making.

could be used to create new forms of class compromise in which unions agreed to wage moderation in exchange for more active participation regulatory control over production and capital accumulation. In this way UBI might contribute to the fourth type of socialist transformation in Figure 2.⁷ UBI also could have effects on empowering civil society with respect to the state, at least insofar the partial decommodification of labor power allows for higher levels of citizen political activism in all its forms. If the core source of power in civil society is power derived from capacities for collective action by civic associations, and if this capacity depends in part on the capacity of individuals to devote time and energy to the activities needed to forge such collective action, then UBI has the potential of enhancing this capacity.

Empowered participatory governance

The abstract definition of democracy as “rule by the people” covers a very wide range of institutional possibilities. Three of these are especially important: representative democracy, associational democracy, and direct democracy.

Representative Democracy. The first of these is the most familiar. In representative democracy the people rule through elected representatives, typically elected within territorial districts. In most democratic countries, this is by far the most important way by which ordinary people play some role in the exercise of political power.

Associational Democracy. The second general form of democratic governance, associational democracy, is much less familiar to most people, but still important. In associational democracy, various kinds of collective organizations – like labor unions or business associations – are directly engaged in various aspects of political decision-making. This can occur in many ways – through involvement in government commissions, through what is sometimes called “corporatism”, through organizational representation on various kinds of regulatory agencies.⁸

Direct democracy. In direct democracy, ordinary citizens are directly involved in the activities of political governance. One form of this is what is sometimes called “Plebiscitary democracy” in which citizens directly vote on various laws and policies. Another form would be the many ways in which citizens participate in public hearings and testimony over legislation in cities, or, more rarely, directly make decisions in town meetings. An extremely interesting example of direct democracy occurring right now is the process through which the Canadian Province of British Columbia is currently

⁷ For a discussion of the potential impact of UBI on working class power, see Erik Olin Wright, “Basic Income, Stakeholder Grants, and Class Analysis,” in Bruce Ackerman, Anne Allstott, and Philippe van Parijs, *Redesigning Distribution: basic income and stakeholder grants as cornerstones of a more egalitarian capitalism* (Verso: 2005). For a discussion of the possibility for new forms of class compromise rooted in enhanced working class power, see Erik Olin Wright, “Working Class Power, Capitalist Class Interests, and Class Compromise,” *American Journal of Sociology* Volume 105, Number 4 (January 2000): 957-1002

⁸ Associative democracy is discussed in detail in Joshua Cohen and Joel Rogers, *Associations and Democracy*, volume I in the Real Utopias Project (Verso, 1995).

changing its election system. 200 citizens have been randomly selected to participate in a Citizen's Assembly to deliberate about this problem and come up with a specific proposal for a new electoral law. That proposal will then be submitted to a province-wide vote of all citizens.

Each of these forms of democratic governance can be organized in ways that deepen the quality of popular empowerment or which undercut "rule by the people". For example, when electoral democracy relies mainly on private financing of electoral campaigns, particularly when there is a two-party system, this gives enormous influence to rich and powerful actors who are able to strongly influence the selection of viable candidates. On the other hand, certain kinds of public financing of elections, combined with systems of proportional representation, open up electoral competition to broader popular initiatives. In terms of associational democracy, when the organizations involved in democratic governance are themselves internally hierarchical and bureaucratic, and when they are subordinated in various ways to elite interests, centralized corporatism can act in very undemocratic ways. On the other hand, when the associations are robustly democratic, and when their participation in governance involves empowered forms of bargaining and problem-solving, then associative democracy can deepen the democratic accountability of the process of governance. Finally, direct democracy can be very thin, as when citizens are simply given a yes/no vote in referenda on policy choices dictated by elites, or it can become a form of significant popular empowerment when it involves the devolution of real decision-making authority and resources to popular councils of various sorts.

The third socialist transformation in Figure 2 – empowering civil society with respect to the state – revolves around the various ways in which all three of these forms of democracy can be deepened, since a deeper democracy is one in which the state is more effectively subordinated to civil society. There is a sense therefore in which a vibrant, effective, empowering democracy has an inherently socialist quality, since democracy inherently constitutes an exercise of power rooted in collective action in civil society.⁹

Of particular interest for the problem of deepening democracy are instances of what Archon Fung and I have called "empowered participatory governance" (EPG).¹⁰ The hallmark of EPG is an institutional design in which ordinary citizens are directly engaged

⁹ An alternative conception of democracy is that it constitutes a mechanism for aggregating the preferences of separate, atomized individuals. Democracy in that sense would not constitute a real form of collective action, and certainly would not depend upon collective capacities in civil society. It is simply a way of aggregating individualistic choices that bear on collectively binding decisions. It is for this reason that some commentators regard the "free market" ruled by "consumer sovereignty" as itself a kind of "economic democracy", since outcomes in such a market do constitute aggregations of individual choices. The view of democracy I am proposing sees democracy as a collective activity in which people participate in associations for deliberation over matters of collective concern. Political parties are one crucial vehicle for such collective activity, but many other kinds of civic associations also figure in a democratically empowered civil society.

¹⁰ Archon Fung and Erik Olin Wright, *Deepening Democracy: institutional innovations in empowered participatory governance* (Verso: 2003).

in the activities of political decision-making, not simply providing advice or selecting representatives. The most interesting example of this is the participatory budget institution in the city of Porto Alegre, Brazil. To simplify what is a fairly complex system, the institutional design is this: The city of Porto Alegre Brazil (population about one and a half million) is divided into 17 regions, each of which has a citizen's assembly that has the annual task of generating a city budget proposal for that region. Any resident of a region can attend that regional assembly and vote on the proposals. These assemblies choose a standing budget committee which meets regularly throughout the city region over a three month period to formulate this proposal, and at the end of the process the regional popular assembly votes on this proposal and selects delegates to a city-wide budget council to reconcile and integrate all of the proposals from the various regions. The final integrated budget is then submitted to the city council – an ordinary representative institution – which then votes on the budget.

This system of participatory budgeting began in 1989 and has evolved steadily since then. It has generated some quite dramatic results: city spending has been redirected from the wealthy parts of the city to the poorest regions; citizen participation has been generally quite high, involving some 50,000 people a year; corruption has been virtually eliminated from city spending; and tax compliance at the local level appears to have improved.¹¹ Of particular importance in the present context, the participatory budgeting process has led to a significant increase in civic associations of all sorts and their active involvement in the life of the city. In Gianpaolo Baiocchi's evocative expression, this has stimulated a "thickening of civil society." In a direct way these associations have become actively engaged in the deliberations and activities of the participatory budgeting process itself, but more broadly they have enhanced the capacity for collective action over a wider array of social and political issues. EPG at the local level, then, is an institutional design which moves in the direction of empowering civil society with respect to the state.

Socialist pensions

Now let us turn to the specific issue of pension funds and their potential to serve as an element in the empowerment of civil society. The most problematic of the transformations chartered in Figure 2 is the fourth, empowering civil society over the economy. This dimension has always provided the most daunting challenges of institutional design for socialists.

Traditionally socialists have sought solutions to the problem of the social control over the economy primarily through the direct exercise state power, either in the form of state ownership of the principle means of production or wide-ranging forms of top-down state-bureaucratic regulations of economic activity. If it were the case that these forms of state control were themselves effectively subordinated to an empowered civil society, and if

¹¹ There is a growing and interesting literature on the participatory budget experience. See especially, Boaventura Santos, P&S reference; Gianpaolo Baiocchi, chapter in *Deepening Democracy and Radicals in Power: Experiments in Urban Democracy in Brazil* (Zed Press); Rebecca Abers, *Inventing Local Democracy: Grassroots politics in Brazil* (Boulder, CO: Lynne Rider Publishers, 2001).

they effectively controlled the use and allocation of economic resources, then these solutions could reasonably be characterized as instances of statist socialism or socialist statism.¹² In the case of the authoritarian communist regimes of the 20th century, this was certainly not the case. If anything the state effectively dominated civil society, and the overall configuration of macro-power relations was thus much closer to the statist ideal-type in Figure 1. In the case of social democratic regimes, the problem was not that the state dominated civil society; these societies had robust civil societies with functioning democracies within which labor unions in particular exercised considerable collective power. Rather the problem was that the capacity of social democratic states to counter the most salient forms of capitalist power was quite limited. In particular, the state had very limited ability to control the overall patterns of investment and accumulation. Thus, while in certain respects social democratic states do contain socialist elements, especially because of the ways in which labor unions have played a meaningful role in economic regulation, these systems fell quite short of statist socialism (let alone socialism proper) since power derived from the economy (power derived from ownership of capital) remains preeminent.

It is in this context that the idea of using pensions as a device for increasing the capacity of civil society to control capital seems attractive. Pension funds are a prime example of a broader category of institutions: large pools of capital assets that are held by public, quasi-public, and civic associations. University endowments would be another example. The question, then, is whether or not pensions and other such pools of capital could play a role in the fourth type of socializing transformations of capitalism -- empowering civil society over the economy?

Following Albert Hirschman's well-known contrast between "exit" and "voice", there are two broad ways that pension funds might impose constraints on investments. The exit strategy centers on imposing social criteria on potential investments, a strategy that goes under the general rubric "socially responsible investing." These can be relatively weak filters that simply exclude "bad" firms, as when a fund decides to exclude investments in corporations that manufacture arms or tobacco. The divestiture movement in the 1980s to get university endowments to divest of stocks in firms that did business with South Africa would be an example. Or socially responsible funds can adopt quite strong filters, in which case potential investments must satisfy a series of positive criteria that select "good firms." Some green investment funds do this, where investments are directed only at firms that have strong environmental policies in place. In both the strong filter and weak filter case, however, power is exercised strictly through the capacity to enter and exit investment relationships, and in most situations this is likely to generate fairly weak pressures on firms that violate the criteria in question.

The "Voice" strategy is much more demanding. Here the idea is to invest sufficient capital in particular corporations so that the pension fund can actively influence corporate

¹² *Statist socialism* would be a society within which power rooted in civil society was the most important for determining the allocation and use of human and material resources, but the mechanism of this empowerment worked through the state. *Socialist statism* would be a society in which state power was dominant, but constrained by effective forms of collective action within civil society.

policies. In the case of a union pension fund, for example, this would suggest that unions should invest their pension funds in firms that are hostile to unions and in so doing, potentially be able to change those anti-union policies. In the case of environmental pension funds this would imply investing in corporations with poor environmental records. Such proactive investment policies require much greater information and a much more energetic engagement with the actual management practices of corporation than simple filtering forms of socially responsible investment. Other papers in this conference explore a range of issues in the feasibility of such proactive use of pension funds and the kinds of institutional designs which might make such funds effective instruments of social power, especially of unions. But if the proactive strategy is possible, it would impose a greater degree of social accountability on economic power than would be possible simply through an exit-based strategy. And if such funds were closely linked to associations in civil society and not simply a way for individual's to allocate their private retirement savings, then potentially this could figure in a broader agenda of empowering civil society over the economy.

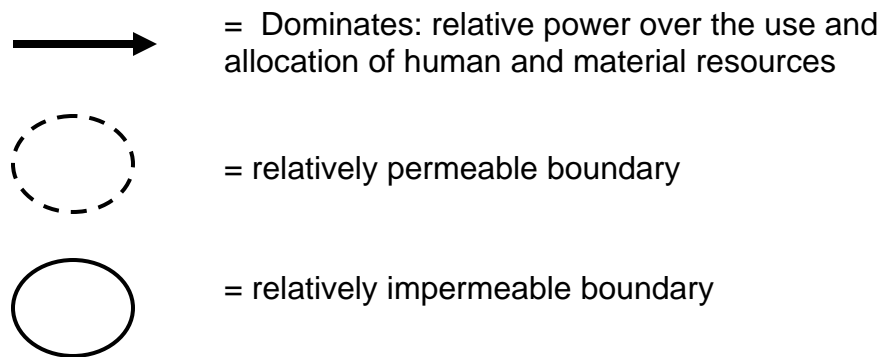
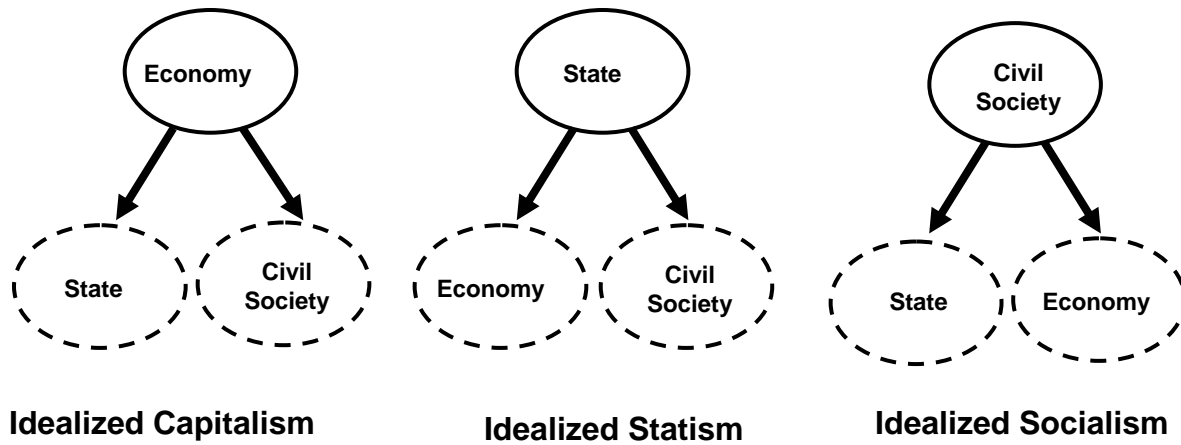


Figure 1. Idealized Representations of Capitalism, Statism and Socialism

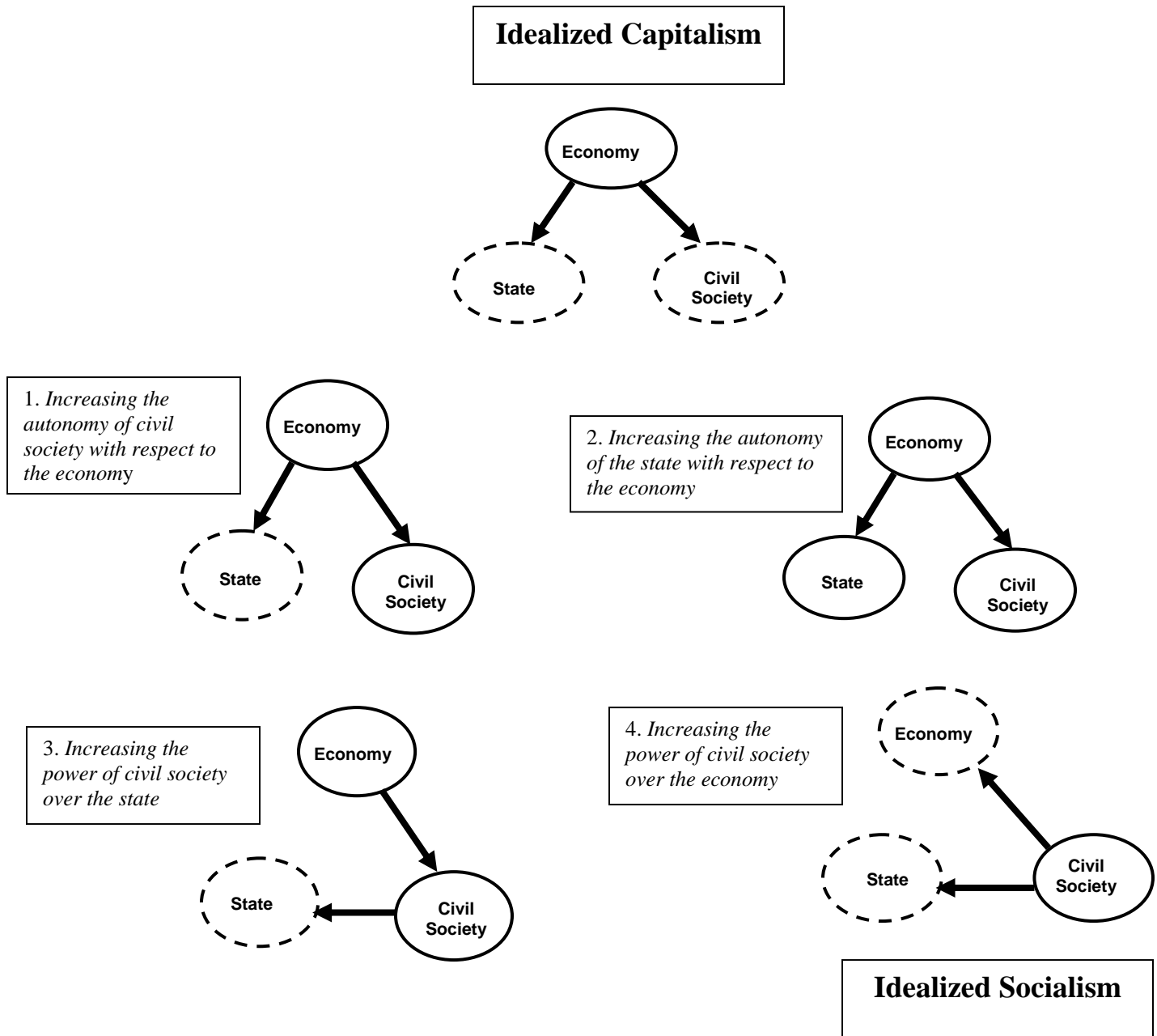


Figure 2. The Complex Logics of Transformation for Social-izing Capitalism