

Socialism after Hayek: A Post Keynesian Contribution to Burczak's Theory of Social Justice

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Abstract The paper presents a brief overview of the basic premise of the Burczak's *Socialism after Hayek*, and shows that Burczak's "applied epistemological postmodernism" presents a unique unifying ground for heterodox economics, breaking down traditional barriers between right and left. This new approach allows us to revisit the Marx-Keynes-Hayek debates in a more constructive way for a unified theory of social justice. However, we argue that Burczak's system does not automatically guarantee full employment, so it cannot be considered an ideal theory of social justice. A Post Keynesian contribution is presented in the form of the Employer of Last Resort (ELR) program which we argue is compatible and complementary to Burczak's theory of social justice. Finally, we argue that an adequate system design of the magnitude proposed here must be informed by the principles of institutional adjustment as outlined by J. Fagg Foster.

Keywords: Post Keynesian economics, full employment, employer of last resort, institutional adjustment

INTRODUCTION

Nearly two decades after the collapse of the Soviet Union, people still argue about the possibility of an alternative economic system that could have the advantages of both capitalism and socialism, and yet avoid their shortcomings. Many consider such endeavors just senseless utopias and argue that "there is no alternative" to global capitalism. In *Socialism after Hayek*, Theodore Burczak sketches the basic foundations of a society with private property, social justice, no labor exploitation and no central planning.

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Burczak’s “applied epistemological postmodernism” presents a distinctive unifying ground for heterodox economics, breaking down traditional barriers between right and left. This new approach gives the economics profession new grounds to revisit the Keynes–Hayek–Marx debates in more constructive ways that can lead to the creation of a new unified social justice theory. This book is a thought-provoking fresh perspective on economic systems, economic thought, and social justice. It is an eclectic, coherent, and non-dogmatic critical analysis of several heterodox traditions. This is pluralism in economics at its best. Skeptics and critics will find *Socialism after Hayek* an open-ended project that can be accommodating to other economic traditions. In this contribution, I shall present an overview of the basic premise of the book, provide a Post Keynesian critique of Burczak’s proposal, and close with some concluding remarks on system design and the importance of institutional adjustment.

THE ESSENCE OF *SOCIALISM AFTER HAYEK*

Burczak identifies unique features in the Marxian and Austrian traditions that remain incomplete when taken separately, but when put together *à la* Burczak, they can provide a powerful analytical foundation for a new socio-economic system. Burczak ventures to reunite Marxist and Austrian economics in a new blend of socioeconomic system; perhaps one that may be called “socio-capitalism”, not to be confused with “market socialism”. It combines:

- (a) Marxian surplus labor creation, appropriation and distribution;
- (b) Aristotelian capability theory developed by Amartya Sen and Martha Nussbaum; and
- (c) Hayekian nuanced market theory and epistemological critique (knowledge problems).

Burczak presents a “libertarian Marxist” notion of socialism. He convincingly shows that there can be a meaningful notion of socialism that addresses Hayek’s epistemological critique (the knowledge problems that central planners face). Consequently, Burczak demonstrates that the goals of classical socialism (abolition of exploitation, social justice, and the satisfaction of human needs) are achievable without the abolition of private property and without central planning, hence the possibility of socialism after Hayek. Hayek (1989) thought that the socialist project was overly optimistic and doomed to fail because it assumed that policymakers and economists can fully and objectively control all the variables. He argued that

central planners and economists, like all economic actors, have “knowledge problems” associated with uncertainty, judgment errors, social prejudice, and the subjective perceptions that characterize human nature and the decision making process; all of which strike at the core of the problems of socialist economies: lack of incentives, information dissemination and coordination.

Burczak correctly argues that many heterodox economists dismiss Hayek’s work on political grounds and don’t seriously consider his epistemological critique. Indeed, Hayek’s critique of the neoclassical vision of the market remains an unexplored territory for many heterodox traditions, with the exception of Austrian economics. Even Post Keynesians who emphasize the role of uncertainty in capitalism and the non-ergodic nature of economic events fall into the same epistemological trap as Marxists by assuming that the benevolent state would make the right decisions and would ensure social justice (Wray and Forstater 2004). Granted that the Post Keynesian project for social justice is less ambitious than the Marxist one; but it still aims at achieving full employment and less unequal income distribution, which lead to equal opportunity and social justice under capitalism. The more radical Post Keynesians who emphasize social justice as the primary policy goal would be more inclined to share the Marxist vision of the state as a progressive social force, and thus, de facto, would ignore Hayek’s critique.

Burczak envisions socialism after Hayek as a set of institutions securing democratic, worker-managed firms in a private-property and market-based economy where “workplace democracy ends exploitation by enabling workers to be the initial appropriators of the product of their labor” (Burczak 2006: 15). For Burczak, democratic self-management achieves well-being through participation and dignity. Here, one might take issue with Burczak’s definition of exploitation being a byproduct of production rather than market exchange (Burczak 2006: 107). Hence, self-employed workers would not be exploited since they own the output they produce and are the last owners of their labor time. This definition, however, does not recognize that workers in general are exploited by (global) competitive market structures regardless of employers. It also implies that a self-employed individual working 16-hour days because he/she has to pay landowners, capital owners, and credit providers is not exploited since this is necessary to have access to the means of production. If we reject this statement, then, for Burczak, we are implying that such unjust payments constitute exploitation or social theft, in which case private property would be deemed unjust and undeserving of payment (Burczak 2006: 106).

Now, if we accept Burczak's definition of exploitation, and his proposal to rid society of it, then we will find a very insightful critique of Roemer's (1994) coupon stock market. He also discusses Ackermann and Alstott's (1999) "stakeholder society" proposal to redistribute wealth. Burczak concludes that wealth redistribution is more effective than income redistribution because it enhances social justice by promoting the viability of worker-managed firms. He admits, however, that the market-based worker-managed post-Hayekian society with private property and Burczakian wealth redistribution mechanisms, when left to its own devices, does not necessarily create and maintain full employment. This begs the question: can there be social justice in a society with systematic involuntarily unemployment? This is where the Post Keynesian insights on full employment can be complementary to Burczak's proposal.

SOCIALISM AFTER HAYEK AND KEYNES

Burczak's system eliminates "exploitation" and redistributes wealth, but does not guarantee full employment. Keynes, like Hayek, did not believe that socialism can end exploitation. He believed that capitalist societies are inherently prone to recessions, and would not naturally converge to full employment unless when systematically being managed through fiscal and monetary policy. A more sophisticated version of Keynes's insights has been developed by Post Keynesians working in the tradition of Minsky's Employer of Last Resort (ELR). Here, I argue that post-Hayekian socialism can greatly benefit from a friendly Post Keynesian contribution, and by the same token I shall invite Post Keynesians to study seriously Burczak's proposal.

ELR is compatible with Burczak's proposal. It is a market-based system featuring: private property, competition, freedom of choice, and self-interest (Wray 1998). It recognizes the failure of free markets to deliver full employment and to provide adequate income and wealth distribution. For Post Keynesians, the government should be the employer of last resort by providing employment opportunities for those who are ready, willing, and able to work at a socially established living wage. As proposed by Wray (1998), the government will fund ELR projects but will not decide what the projects ought to be. ELR funding is centralized, but its management is decentralized. NGOs, non-profit organizations, and local community groups would apply for ELR grants and receive funding from the federal government. This enhances capabilities, civic engagement, and democratic institutions. NGOs may subcontract work to privately-owned

(worker-managed) firms. By design, ELR jobs will not compete with private sector jobs since ELR projects are non-profit projects that the private sector would not normally undertake (environmental projects, local community development, arts and culture, etc.). ELR also abolishes labor exploitation by giving workers the option to work in ELR projects, thus setting a floor to wages, living standards, and working conditions. The ELR employment pool and the ELR budget would expand during a recession to absorb workers who cannot find employment in the private sector. Conversely, the program will shrink when the private sector is booming. Private sector employers can hire workers from the ELR pool at a premium over the ELR wage and benefit package. ELR is about setting the wage rate and creating an infinitely elastic demand for labor, whereas in capitalism and post-Hayekian socialism the quantity of labor demanded is fixed while wages are made flexible.

Even Hayek would not reject ELR on the grounds that it is a cumbersome system of central planning. It is citizen-managed at the local community level. Hayek and advocates of sound finance, however, would question the ability of the government to finance such a program without causing rapidly rising inflation. This is where functional finance theory comes into play. A sovereign government that acts as the monopoly issuer of currency and as the sole entity that can levy taxes, can always finance its spending by printing money (Lerner 1947). Money is created when the government spends, and is destroyed when it collects taxes or sells bonds. Neither taxes nor bonds finance government spending. The purpose of levying taxes is to create a demand for the government's currency and to enhance its general acceptability. The purpose of issuing bonds is to give the general public an opportunity to hold a safe interest-bearing asset as an alternative to cash. Inflation occurs when there is too much money in the system, hence the crucial role that the central bank plays through its interest rate targeting policy. If inflation is on the rise, the central bank can sell bonds to withdraw cash from the system (and to prevent short-term interest rates from diving), and/or the government can increase certain tax rates. And when the financial system is short on reserves, the central bank can buy bonds (to keep short-term interest rates from rising), and/or the government can increase its spending (to inject more money into the economy). This is the art of stabilizing an inherently unstable economy. Post-Hayekian socialism would still face endogenous business cycles and unemployment, hence ELR's contribution.

In functional finance theory, ELR can be financed through deficit spending. The deficit and the national debt simply symbolize the private sector's net savings. What matters is not how large the deficit and national

debt are, but rather their *function*. In functional finance theory, the *function* of the deficit and national debt is to secure full employment, price stability, and sustainable economic growth. As long as the national debt is denominated in a currency that the government controls, then full employment and price stability are a matter of fiscal and monetary policy management (Wray 1998). The only kind of “planning” that is required in ELR is done at the local community level. It is planning for the needs of the community and the kind of skills that are available in the local unemployment pool so that ELR jobs are useful, rewarding, and dignifying. This adds a key component of Burczak’s capability enhancement proposal in post-Hayekian socialism. The proposed outcome is an ELR system with a Burczakian wealth redistribution mechanism: a mixed economy of worker-managed and non-worker-managed firms with private property and upward mobility opportunities, and with the option of having a decent quality of life by having access to gainful employment to fuel prosperity. These are the prerequisites of the new unified theory of social justice.

SOCIALISM AFTER HAYEK AND VEBLÉN

Burczak’s book is a grand utopian plan for a superior socio-economic system, but how do we get there, and how will it actually work? One cannot venture into mega-institutional design without addressing the big questions about *institutions* (in the Veblenian sense), their origins and evolution, and the process of institutional change. Unfortunately, Burczak makes no explicit reference to Veblen or institutional economics. In a post-Hayekian society, habits of thought and routines of behavior (i.e. institutions) would be dramatically altered. The institution of “private property” would have a new meaning and purpose. The workings of the business enterprise will be altered by worker-managed structures. Consumer culture may be different. Technological innovation will proceed through new mechanisms. Trade unions, politics, and the government’s role in society will also take new shapes. How will these new interwoven institutions interact? This is where J. Fagg Foster’s principles of institutional adjustment (Foster 1981; Kaboub 2007) represent a powerful analytical tool to think about the transition to and the workings of a Burczakian society.

For Foster, institutional change is rooted in *technological determination*, meaning that the pre-existing stock of knowledge and technology within capitalism must be used in the transition toward a fully functional post-Hayekian socialism. The present technological base enables us to do certain things, while preventing us from doing others. Institutional adjustment also

must be consistent with the principle of *minimal dislocation*; a gradual adaptation rather than a shock therapy approach. Finally, institutional adjustment can only be adequate with a *recognized interdependence*. Any action taken in a given segment of society will change the structure of the entire social fabric. In conclusion, both Post Keynesian and Institutional economics are valuable partners in Burczak's proposal to transition to a post-Hayekian socialism.

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