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Comment on John E. Roemer

Egalitarian Political Economy beyond Market Socialism

Abstract: On reflecting about the prospects of advancing the egalitarian cause in the United States, John Roemer makes the case for more traditional strategies than the coupon socialism model he advocated in earlier work. First of all, he suggests, an ethos of solidarity must be developed and the super-rich be subjected to higher taxation. This comment assesses this proposal. On the one hand it is discussed whether the ethos of solidarity Roemer calls for in order to counteract the culture of greed among American elites requires nurturing an undesirable culture of envy among the rest of the population. On the other hand it is considered whether the neoclassical principal-agent model—that Roemer believes must be contested in order to popularize a steep progressive income tax—might be one of the more promising tools to restructure the incentives of economic elites and curb casino capitalism.

1. Introduction

Imagine that all citizens in a political community receive an equal share of total corporate stock valuation when reaching adulthood, and that stocks cannot be cashed out in regular money but only traded for ownership shares of other corporations. Productive capital would still be privately owned, the prices of stock still oscillate according to the market logic of supply and demand, and shareholders still receive higher or lower dividends, depending on their dedication and luck in trading stocks. Yet each adult would receive at least some returns from capital for the duration of his or her lifetime, and what is more, ownership of the means of production would not concentrate in the hands of a small class of citizens but be widely dispersed among the population. This is the coupon socialism model famously developed by John E. Roemer in the early 1990s. It is also considered one of the more promising means to put a property-owning democracy in place (e.g. Williamson 2009, 447; 2012, 237). For David Schweickart, in fact, Roemer's coupon socialism model articulates in congenial and concrete terms what John Rawls envisioned in the abstract as a property-owning democracy (Schweickart 2012, 206). However, in the article provided for this issue of *Analyse & Kritik*, Roemer himself feels obliged to frustrate the hopes of advocates of property-owning democracy by raising substantial doubt as to the feasibility of his model.

According to Roemer, coupon socialism is likely to founder on the practical difficulties of preventing people from having their equity coupons indirectly cashed out, given that they will often prefer quick money over long-term revenues. As a consequence, firms might be brought to sell off their assets and pay high dividends. Also, trade with foreign investors would be likely to offer a way out not easily obstructed by state regulation. In addition to the highly unequal ownership of productive capital that is likely to ensue again, the control of firms would probably fall soon back into the hands of few, for instance, by corporate bond holders growing in importance and adopting the role played by shareholders nowadays. Prudent scholarship may come up with ideas to eliminate one or another of such loopholes in regulation, but Roemer believes that individuals committed to self-enrichment at the expense of others will always find ways to dodge regulation. In the face of this prospect, Roemer argues that the egalitarian cause is better served by relying on the traditional social democratic model and a steep progressive income tax. The essential precondition for the feasibility of either option, however, is the existence of a solidaristic ethos among the population—a precondition that in Roemer's view is not sufficiently given in the US context today.

"Thoughts on arrangements of property rights in productive assets" is a remarkable contribution to the contemporary debate on Political Economy, not least because of Roemer's unwillingness to lend himself to illusions. Given that the potentials and problems of Roemer's coupon socialism model have already been discussed in detail elsewhere (Roemer 1996), I shall elaborate on two central observations that inform Roemer's reorientation from his former proposal in favour of more conventional egalitarian policies. On the one hand, Roemer laments the lack of a solidaristic ethos—or, as he also puts it, the presence of a "culture of greed"—among American elites, which effectively obstructs the implementation of a more egalitarian system of property rights in the US (Roemer, 57–8, 62). On the other hand, Roemer believes that top executives of big corporations are not so much motivated by high salaries than by the "love of the game" (Roemer, 59–61). One might set out to query the validity of either observation individually or question that they are mutually compatible. (Is it possible to be greedy for money and be motivated by the "love of the game" at the same time?) However, in this comment I want to focus on and problematize the implications for egalitarian strategy that Roemer suggests to draw from the two observations.

2. Cultures of Greed and Envy

The starting point of Roemer's first observation concerning the absence of a solidaristic ethos among Americans elites is the fact that top management salaries in the US are even higher than those paid in countries such as Germany or Japan. Roemer conjectures that salaries in corporate management in the US are more competitively—and this means more accurately in micro-economic terms—determined than elsewhere. While many believe that American CEOs' salaries have grown (particularly) exorbitant, Roemer shows with a simple example that calculations among the board of directors of a corporation might perfectly justify multi-million dollar amounts because one candidate's managerial talent may promise to multiply the corporation's sales many times over the brokered salary. The problem with high salaries is not (prima facie) micro-economic inefficiency; the problem consists rather in the negative externality of creating a class of extremely wealthy people as well as in of what the creation of such a class of people brings in its wake. Relatively low salaries of CEOs in countries such as Germany are therefore, as it were, the result of market failure: "Social norms [...] prevent paying them what the market allows." (Roemer, 59)

In accepting this line of argument, we might understand that the carriers of the social norms that artificially truncate top management salaries in Germany are CEOs themselves; that they are less greedy than their American counterparts by bargaining for lower salaries than they could; and we might therefore conclude that American managers should follow German managers' example and content themselves with less for the sake of social harmony. Yet this is probably not what Roemer considers a viable strategy, given that he finds American economic elites to be hopelessly committed to self-enrichment at the expense of others and unwilling to learning a solidaristic ethos (Roemer, 58). Should we, then, understand that Roemer conceptualizes the social norms at work in Germany in terms of social pressure exercised by the rest of the population? Statements by German CEOs who have accepted a reduction of salary render plausibility to this idea. VW's CEO Martin Winterkorn, for instance, recently explained that he was willing to forgo a certain amount of the salary budgeted by the board of directors by pointing out that the public would be decidedly unsympathetic to the idea that a manager can earn 20 million euros a year, no matter how well s/he succeeds in his/her job (Der Spiegel 2013). If so, however, one might wonder whether the social norms at work in Germany and dreadfully missing in the US really testify to a virtuous solidaristic ethos or rather to a culture of envy, with people begrudging top managers their (micro-economically) deserved income. At any rate, the conclusion drawn for egalitarian strategy in the US seems to be that the culture of greed must be fought by means similar in kind. Instead of trying to teach US elites a solidaristic ethos, the poor and the middle classes were to be educated about the limited validity of the American Dream (i.e. the absence of a fair equality of opportunities). After all, the presence of illusionary hopes to become rich one day oneself deflects feelings of envy and undermines the feasibility of policies against the super-rich.

To be sure, there is no doubt that activating a culture of envy can be an effective tool for promoting egalitarian causes. The 2013 referendum 'Against rip-off salaries' in Switzerland is certainly to some extent a recent proof. Not only did the vote pass with a majority of 67.9%; surveys also revealed that most people considered the salaries pocketed in by CEOs as "immoral" without taking into account the benefits or detriments caused by individual managers for their corporation and society at large (Hofstetter 2011). But perhaps we should look for other ways of 'internalizing' the negative externality of exorbitant top management salaries, for instance by trying harder to re-assign the responsibility for economic success *and* failure to managers. Relying on a solidaristic ethos that runs danger of being nourished by a culture of envy as such does not strike as an intrinsically desirable option; it might also channel egalitarian energies in the wrong direction.

3. Explaining the Mechanics or Changing the Rules of the Game?

Roemer's second consideration concerns the functions of markets. Since the early 1970s, neoclassical economists have developed the understanding that a market for labour is conducive to the provision of material incentives. According to this view—the principal-agent model—employees are primarily motivated to take a job by the receipt of financial compensation. Before the early 1970s, in contrast, a different theory was popular among economists according to which markets primarily serve a coordination function. Without doubting the importance of providing material incentives in general, Roemer suggests that they play a greater role for employees in boring and unskilled jobs than for employees in interesting and challenging occupations. The main incentives for economic elites are not, he states, "to earn huge incomes, but rather to be important people" (Roemer, 59). As Roemer perceptively points out, the implications of this hypothesis for economic policy are immense. A reduction in the wage rate of economic elites would not significantly affect labour supply or trigger other negative efficiency consequences; top management salaries could be subjected to higher taxation, and income be redistributed in more egalitarian ways. Could citizens be equipped with a better understanding of the working of markets, they would be likely to enact more extensive welfare state policies.

While Roemer thus provides a plausible justification for wage cuts among the very highly paid as well as a strategy for realization within the framework of democratic procedures, he thus tackles only one of two problems mentioned in his article, and it is hard to say which is the major challenge. Besides the gap between the rich and the poor continuing to grow, Roemer also reminds us that the globalized financial markets often resemble casinos with economic elites taking reckless risks in gambling on the stock exchange. Roemer argues that the failure to truncate the earnings in the financial sector was a significant cause for the recent crises (Roemer, 59). But if CEOs and managers are more interested in increasing their professional and social status than in scrambling for wealth, higher taxation of their incomes will not lead them to undertake less risky actions. Relatedly, popularizing the coordination function of the market will not help much to rein reckless speculation in the financial markets. More likely, casino capitalism can be curbed by restructuring the incentives of economic elites: either by signalling that the accumulation of money is not alone the critical factor for gaining in importance or, if money is difficult to replace as the currency of recognition and prestige in the economic sphere, by linking the provision of material incentives more consequently to long-term business success. Notably, such strategies to restructure the incentives of economic elites can hope to attract support from—and to be partially implemented through—the business sector, given that the sustainable development of business is usually considered to be in the rational self-interest of corporations. In fact, some corporations have already taken first steps in this direction. For instance, UBS and Credit Swiss have started to readjust their compensation systems. In order to discourage investment bankers from aiming for short-run book profits, they have set off good against bad performances and cash out bonuses only after a couple years period (Keoun 2012; UBS 2008). Such amendments are hardly a sufficient solution to the overall problem of course. But in searching for ways to curb casino capitalism, we might learn just as much from the neoclassical principal-agent model as from the theory of the market's coordination function. Whereas the latter might help us to understand better the mechanics of the game, the former might indicate a way to change its rules and redefine what it means to win.

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