

The Economic Case for Social Ownership

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Abstract

Under an economic system based on social ownership, motivation from material gain is replaced by the satisfaction from work and the desire to contribute. This would be grounded on the increasingly congenial nature of work and the end of capitalist alienation. The results would be superior, in part due to the better price system generated by it, contrary to the prevailing view among economists that social ownership would be quite inferior in this regard.

The argument against social ownership relates to its achievability. Can it emerge from the dross of capitalism? The conditions under advanced capitalism are far more favorable than those encountered in backward and impoverished countries such as Russia and China in the early to middle 20th century burdened as they were by the dross of even more primeval conditions.

Doing without the profit motive

Under capitalism, decisions about what to produce and how are driven by the profit motive of those who own the means of production. Workers are then impelled to make it happen through the threat of unemployment and the lure of wage increases and promotions.

Under social ownership no one would receive a profit. So, what would replace it? Why would those responsible make good decisions on investment, enterprise organization or product choice? And why would we all do our bit to ensure efficient production?

Let's look first at the investment and management decisions. Investment includes incremental expansion and/or improvement to existing operations and totally new projects involving new products or production methods. Proposals need to be put up and funding approved.

Major decisions need to be made about who is responsible for what and who reports to whom. Monitoring systems need to be put in place. The product range needs to be decided on and modified regularly.

None of this strikes me as work that requires the lure of massive profits. It seems like interesting work particularly the more innovative stuff which could be quite exciting. It is not hard to imagine feverish entrepreneurship on a massive scale. It just requires a lot of people who want an interesting life full of challenges. And it does not seem too unrealistic to expect a widespread sense of social responsibility with people keen to

produce what is wanted, use the best methods, and generally not fool around. Of course, the system would have to deal with a certain level of perverse or less than ideal behavior particularly in the early period. In particular, there is the problem of ‘moral hazard’ when people do not have to bear the financial or economic consequences of bad decisions or behavior. These include:

- Corrupt behavior such as appropriating public property for sale or barter and bribing others to conceal such theft; and overpaying oneself and one’s loyal followers;
- Resting on one’s laurels, and doing what is familiar and comfortable;
- Careerist behavior such as: trying to make yourself indispensable; taking credit and deflecting blame; using recruitment and promotion to create a system of patronage; and undermining others; and
- Having one’s judgments or decisions skewed by having a lot personally invested in a particular project or technology. This can apply both to the status quo and to new proposals. Everyone wants to be part of a winning venture and not a losing one.

It is usually argued that moral hazards for “agents” are stronger when the “principle” is society as a whole because there would be greater information asymmetry. While this may indeed be the case for state ownership under capitalism, I think the opposite would be true under social ownership. Society would have many eyes and a clearer view of what was going on by virtue of greater transparency and a whole range of new supervision methods that I will elaborate on shortly.

Enterprises could generally operate in a competitive environment. Funding could be sourced from a multitude of agencies or banks (discussed below); other enterprises and new start-ups could enter an industry; and the performance of similar enterprises in different regions could be compared.

What about work generally? Are workers bound to shirk if not confronted with the full rigors of the capitalist labor market? I do not think so, because of the prospects of workers being motivated by a general enthusiasm for what they are doing and its outcomes. This has legs for two reasons: (1) work is becoming progressively less irksome because of technological change; and (2) work will lose the alienating features that it has under the present system. I will now discuss these in turn and then look at why they actually provide a superior form of motivation.

Taking the work out of work

Our greatest achievement so far in taking the work out of work has been to eliminate a lot of the really hard and dangerous jobs. These include swinging a pick and shovel as they used to do down the mines, and in the construction of buildings, sewers, drains, roads and railways; and also lifting heavy loads in manufacturing and transport.

At the same time there has been a large increase in the proportion of people with professional and managerial jobs. In the US, over 30 per cent of workers belong in this category. This includes teachers, workers in business and financial operations, healthcare professionals and managers who each comprise between 4 and 5 per cent of the workforce. The expansion of this kind of work is also reflected in the increasing levels of education. In the U.S., 29 per cent of people aged between 25 to 29 years in 2004 had a bachelors (4 year) or higher degree.¹ In 2003, 38 per cent of 18 to 24 years olds were enrolled in degree granting institutions² while 57 per cent of 25 to 29 year olds had completed at least some college.³ In the same year just over 40 per cent of Americans in their 30s and 40s had been enrolled in a career or job related part-time or short course.⁴

It is true that a lot of routine and menial work still remains. However, it is not hard to envisage much of it disappearing over the next quarter century. Machines and robots will continue to replace factory labor. There is no factory work they cannot do. It is just matter of time and declining costs. Likewise, most of the unskilled jobs created with the expansion of the retail and hospitality sectors will go. Virtual shopping will be a big job killer in retailing. Web sites will get better at graphically displaying their wares and become easier to use. Customers will be able to make better choices as they can easily access product and price information from a host of suppliers and third parties. Perhaps shoppers will be able to upload a body scan to on-line clothing shops which can then display a virtual 'you' wearing different garb. This will give you a much better idea of what you will look like. You can ensure the best off the shelf size or even ensure a perfect fit through an alteration service or one-off production. Online grocery orders will be filled at a warehouse rather than a supermarket by shelf picking machines. The boxed groceries will be either picked up at local centers by the consumer or home delivered. Labor can also be reduced in conventional shopping with the addition of in-store computers providing information about products to customers and of automated check-outs.

Restaurants and bars do not need to be staffed. A machine can dispense a drink. At restaurants booking, orders and payments can be made with your phone. You might then receive a text message when it is time to pick up the meals from the servery. Or maybe a

high tech trolley delivers to your table. Similarly automated means can dispose of crockery and cutlery. As for kitchen work, that is as amenable to automation as manufacturing generally. CCTV reduces the need for security staff on the ground.

Making an appointment to see a doctor, dentist, physiotherapist, accountant or tax adviser is now starting to be done online much like the way we now make hotel and airline flight bookings, except the website will present you with unfilled time slots to choose from. When you visit an office the computer at the front desk will validate any necessary ID, announce your presence and provide any necessary directions. When you put in an order to a supplier for components or materials the information will be sent directly to the robot in the warehouse which will select it from the shelves. At the same time you will automatically receive an electronic invoice which requires no handling or filing. In many cases even the decision to put in the order can be left to a computer which monitors stock levels and rate of usage. Standard letter delivery will eventually disappear altogether. Another dinosaur is the bank clerk, who will not survive the the arrival of electronic money.

The jobs we have mentioned make up about a quarter of the total in the United States, and can be broken down as follows.⁵ The clearly menial and readily automated marketing and sales occupations make up around 6 per cent. Waiting, bar tending and other food and beverage service occupations are another 5 per cent. Short order and cafeteria cooks plus dishwashers are just under 3 per cent. The less skilled machine operators and process workers whose jobs are the most amenable to automation make up between 4 and 5 per cent. The types of office and administrative support jobs mentioned above are 5 per cent of all jobs and almost 30 per cent of all jobs in that category.

Automation will also impact on more skilled work. However, generally speaking the greater the intellectual content of a job the harder it is to automate and the more likely that at least initially any impact will be confined to the more routine aspects of the task. For example, you still need a surgeon for keyhole surgery but there is less cutting and sewing up.

There is some concern that as the average intellectual content of work increases, a large number of people with less natural ability will be left out in the cold with fewer and fewer jobs that they can perform. This is a rather pessimistic view when we look at what the great previously-unwashed have managed to achieve in recent times and what we can expect in the future. Education levels are a good indicator of the current general

achievement. In developed countries school leavers who fail to finish high school are a shrinking minority. In the UK, Finland, Norway, Switzerland and Sweden the figures are less than 10 per cent while it is in the low teens in the US, France and Germany. Just living in a modern industrial society seems to make people smarter as they are confronted by increasingly brain nourishing activities. A few examples will illustrate the point: applying for a job, buying a house, dealing with the healthcare industry; organizing your retirement; cutting through the retail hype to choose a new car, home entertainment system or air conditioner; renovating your house; organizing a holiday on the Internet; trying to figure out how a new electronic appliance works; playing the more cerebral video games; putting in a tax return and deciding who to vote for. Even routine jobs can be more demanding. For example, they generally require you to read and write, carry out a range of verbal interactions with other human beings and be able to use a whole range of machines and appliances without special training. IQ tests seem to confirm that people are getting smarter. We can also expect improved performance in the future as a lot of the conditions that cause stunted development change for the better. These include lack of family support, peer pressure to be an idiot and an inadequate education system. We will also benefit from an increasing understanding of human development and what causes learning difficulties. And over the longer term we can expect to see artificial improvements through mind-enhancing drugs, genetic engineering (induced evolution) and brain link ups to computers.

Ending alienation

Even where work is inherently interesting and challenging, capitalism generally spoils it. The term “alienation” is often used to describe the problem. Eliminating it will require changes in both the general context in which work is performed and in the work itself.

A change in the general context means: your better efforts are contributing to a dynamic economy which is delivering discernibly rising living standards and economic security to you and your ilk; there is no class of rich people being made richer; residual shirking, corruption and other perversities are being brought well under control; and those around you are generally doing their bit.

Work can become satisfying if we remove the dead hand that capitalism imposes through a tyrannical system of authority and a division of labor that excessively narrows tasks and separates thinking and doing.

Under social ownership workers can be trusted to do more of both the thinking and deciding, and it will be an environment that is conducive to workers obtaining the

necessary abilities. They will also learn more when not always told what to do. And not having the toxic competition for pelf or place should see a culture where colleagues help one another to develop their potential rather than white-anting one another.

Then there is internalizing what are currently external benefits of worker versatility and job interest. It is important that a workforce has the training and experience to be versatile when work and jobs are constantly changing. Under capitalism this is often an external benefit which capitalists cannot capture. Also to be considered are the social and health benefits of not dumping people into boring and dead end jobs.

Of course work would continue to have various constraints. You would have to be selected for a job and perform well in order to retain it. There would still be systems of authority although not the tyranny we have at the moment.

As well as being a motivator behind one's own work this general enthusiasm will also prompt a concern about what everyone else is doing. People will not want their own efforts wasted by inefficiencies elsewhere and they will have a general concern about the efficiency of the economy and the quality of output. This would become the driver behind an extensive set of formal and informal systems of supervision and accountability. These would involve:

- giving work colleagues feedback;
- monitoring inputs for quality;
- keeping an eye out for procedures that do not make sense or a piece of equipment which does not appear to be working properly or fully utilized;
- detecting and getting to the bottom of bad decisions, particularly the big ones; and
- reporting poor quality goods and services in our role as consumers.

Enthusiasm a superior motivator

The intrinsic, enthusiasm-based motivation of social ownership has the potential to outdo the extrinsic motivation (i.e., material incentives) of capitalism. The latter encounters mounting difficulties in monitoring performance as work becomes more complex. Whatever performance indicators are chosen tend to have perverse incentive effects as the non-measured and unrewarded aspects of output quality suffer. There is an extensive literature on this and is generally referred to as the “principle-agent” problem. Also the difficulty of monitoring can lead to inefficient work organization as the work is

divided up in ways that are more easily monitored. In particular there is an excessive separation of thinking and doing.

The system of supervision and accountability will also be superior, with a wider and more effective range of instruments. These are as follows.

Horizontal supervision This refers to workers at the same level mutually assessing each other's work. It includes individuals or groups redesigning their own jobs to increase efficiency. Under capitalism workers generally have no desire to perform this kind of supervision and would invite hostility if they did, given the antagonistic nature of production relations under capitalism, including the threat to people's livelihood.

Bottom-up supervision This refers to workers assessing those at a higher level. This scarcely happens under capitalism because of the tyrannical powers the latter have over their subordinates, their ability to conceal what they are doing and worker indifference.

Top down supervision This will be more effective than under capitalism. Those in leading positions can expect greater cooperation and less of the passive resistance often found in the present relationship between leaders and the lead. Also top down supervision from outside an organization will be more effective. This includes better supervision by users, be they other industries or final consumers. Organizations will have no ownership walls to hide behind. There will be no such things as commercial secrecy or confidentiality.

There will still be an important role for material incentives although their importance should decline over time.

There may still be some work that people find unpleasant and don't want to do for its own sake. Although this should keep declining and it can be shared out with other work that people do want to do.

As well as the utility of work there is the utility from the output of work and also from not working, i.e., "leisure". Giving everyone their desired mix will require a wage. People who want more non-work time than others will need to "buy" it with a lower income. Those who want more income will need to earn it with more work.

There may be a mismatch of the type of work people as a whole prefer to do or are able to do and the work required to produce the goods they as a whole want in their role as consumers. Where there is excess demand for a particular form of work, people may

need to be attracted by a higher wage.⁶ In the longer term it would prompt increased training to increase supply or the placement of the job higher on the list of those to be automated. Where demand is low and people particularly like the work, they might bid for the right to the work by accepting a lower wage.

Payment for performance will play a diminishing role if work is generally carried out for its own sake and there is a moral commitment to efficient outcomes. And as I mentioned above payment for performance can have perverse effects. However, it will take time for work and people's attitudes to change and so it will continue to play a role to some extent.

Prices without markets

OK, even if you have motivation covered, what about the hoary argument that rational economic calculation through a price system is technically or logically impossible under social ownership? According to the prevailing wisdom among economists, an effective price system and market exchange are synonymous so that such a system is logically impossible in the case of dealings between enterprises in a socially owned economy. Transferring an intermediate good from supplier to user would not be a market exchange because there is no change in ownership. And with no market exchange there can be no effective price system. Hence, such a system would be stuck with far less efficient methods such as central allocation or some crude system of inventory adjustment.

The so-called "Austrian"⁷ economists have lead the charge on this issue and like to claim that they have "won" what is generally referred to as the socialist calculation debate. However, most of their effort goes into refuting a straw man, namely, an economic model of socialism devised by the Polish economist Oskar Lange in the mid 1930s. While it has markets for consumer goods, with retailers adjusting prices in line with changes in supply and demand, enterprises are not free to adjust the prices for the means of production (i.e., intermediate goods used up in production). Instead these are regularly adjusted by a central agency on the basis of observed excess demand or supply as reflected in inventories. Enterprises producing these goods are then required to supply whatever they can at that price while covering their costs.

The "Austrians" correctly pointed out that this is nothing like how a genuine price system operates. Enterprises don't simply find prices as given parameters. They bid inputs away from other less valued uses and offer their output at prices that undercut more costly alternatives. Such a system of parametric prices would also be rather impractical. Many goods and services are one-offs that are produced under contract so there would be no

excess or insufficient stockpiles to be observed. Even identical goods differ in terms of required time of delivery and this can affect the cost. Most goods can be broken down into 100s or 1000s of varieties many with different costs and there is a constant flow of new goods or varieties of existing ones. If pricing were not left to those closely involved, there would be excessive lumping together of items and untimely price adjustment.

However, what the “Austrians” don’t provide is a devastating case for the view that collective ownership could not employ a properly working price system of the sort they describe. Pretty much all you get is the “self-evident” claim that such a system has to be driven by entrepreneurial profit seeking. Israel Kirzner, one of their leading figures, does a good, if excruciatingly boring and repetitive, job of showing that this is what drives the market process.⁸ However, the market process is then simply assumed to be synonymous with the price system. They are basically assuming what they are meant to prove. They are begging the question.

If, as I suggest, an alternative to the profit motive is at hand, it is not difficult to envisage a market-free price system. I will examine its general features now and then move on to showing how it would be far more effective than the rickety system we have at the moment.

The price system enables the economy to be driven by the demand for final output. This demand stems either directly and indirectly from wages because workers receive the entire income of society. Net wages will be spent on personal consumption while the taxes paid out of wages will be spent mainly on public goods, income transfers, investment and cost of government.

While some producers are meeting demand for final output others are meeting the demand for the intermediate inputs that will be required directly or indirectly for the former. A cotton shirt requires, among other things, cotton, a shirt factory and electric power. Cotton requires land, fertilizer and water. A shirt factory requires building materials and machinery. Electricity requires a power plant and fuel, and so on up the line.

The demand being met is either actual demand in the case of direct orders such as a new building or spectacles, or expected demand in the near future in the case of mass produced items such as groceries or forklifts.

Enterprises will produce whatever they know or expect their customers are willing to pay for. The more they can lower their costs, the more demand they can meet as those willing to pay less are catered for. This is just the intersection of supply and demand curves from Economics 101. And the more costumers are willing to pay for a given level of output the more the producer can bid for inputs, i.e., the higher the Economics 101 demand curve.

If there is excess demand (insufficient supply) for their product it will have to be rationed to its most valued use by pushing up the price above production cost. And if there is insufficient demand (excess supply) for output it will have to be priced below production cost to ensure that output does not go to waste. Final consumers will have a willingness to pay based mainly on personal preferences, income, and what they know about the cost and quality of complements and substitutes. The willingness of producers to pay for an input will depend on the expected demand for their output plus what they know about the cost and quality of goods that complement and substitute for the input.

Most production is aimed at meeting future demand, rather than specific orders, and so some effort will need to go into trying to anticipate what it will be. Even where production is to order, inputs will need to be on hand in anticipation. You cannot always just accept an order and then go hunting for inputs.

In the case of personal consumption, demand projections would be based among other things on past consumer behavior, consumer surveys, demographic predictions and hunches. In the case of intermediate inputs, users will need to keep their suppliers informed about their future plans.

Producers of both intermediate and final goods will need to ensure that potential customers are kept well informed about their products. They will also need to be garnering information about what is happening with respect to substitutes and complements and how this might impact on the demand for their product.

Investment in replacement or increased capacity will need to be based on projections of demand in the longer term and choices of what is believed to be the least cost technology.

Decision makers will also have to decide the level resources that should be devoted to trying to measure both short term and long term demand. There will be diminishing returns on the one hand and increasing costs on the other.

Remaining markets

Under social ownership, there would still be markets for consumer goods and for labor power, with workers providing the latter to society in exchange for the former. However, these will be different kinds of markets from what we are used to under capitalism. In the case of consumer goods, suppliers will be there to benefit consumers and not shareholders and extravagantly overpaid executives. In the labor market workers will receive the full value of their output, the total final product of society. While one's current job will not be guaranteed (and is very likely to be temporary in a dynamic economy), work (and a wage) can be guaranteed because unemployment is no longer used to keep down wages, and the elimination of the capitalist financial system and the necessity to make a profit removes the possibility of recessions and depressions.

Money

With social ownership there will still be money of a sort. It is what gives enterprises and individuals the power to acquire goods and services.

This power to acquire will only be a medium of exchange in the two markets that remain – personal consumption and labor. It will mediate the exchange of labor power “owned” by the individual for consumer goods owned by society. In the case of transactions between enterprises where a supplier provides inputs to a user, money is not acting as a medium of exchange because there is no exchange of ownership – at least not the sort of change of ownership we associate with a market exchange. The “ownership” by enterprises is confined to the right of custody and the right and obligation to put resources to efficient use. Furthermore, there is no individual claims on revenue other than as wage earners. There are no “residual beneficiaries” with claims on surplus revenue.

When established, a new undertaking would receive funds for investment and initial production. Surplus revenues not required for ongoing operations would be returned so they can be made available for other investment. If expectations turn out to be correct, demand will be sufficient to ensure that capacity is fully utilized while generating surplus revenue equal to the rate of interest and principle on investment funds supplied. Surplus funds will be less than this amount if demand had been overestimated and more if underestimated.

Revenue retained for operations would be deposited in the banking system and made available for short term credit. This would allow enterprises to deal with the time mismatch between revenue and expenditure. This is much like circulating capital under

the present system. Operations expenditure would be on such things as the wage bill, raw materials and components, power, out-sourced services, maintenance, and the purchase of smaller items of equipment.

With the average money wage rate staying fairly constant, money supply would only need to change if there is a change in the **velocity of money** or a change in the total hours being worked. Likewise, as the price level falls as productivity increases, the value of total output will only change with a change in the hours being worked.

Investment

The purpose of investment is to maintain and increase the capacity of the economy to meet our needs. This capacity can be maintained by replenishing the instruments of production as they age or wear out; and it can be increased by expanding or improving the stock of these instruments so that they produce cheaper and better products.

Investment proposals would come from many sources. They would not be confined to incumbent enterprises but also include new players such as other enterprises that have discovered a synergy with their existing operations or new start-ups established by individuals off their own bat. No doubt in many cases initial funding would be for a feasibility study or pilot project. Investments could be funded in various ways. These include the returns from past investments, taxation and personal saving.

Past investments in production capacity or service facilities will generally only be approved if there were a reasonable expectation of at least recovering costs including an interest charge. (It's rate is discussed below.) These funds would then be made available for future investment.

Some investments will get a better return than expected while others will do less well. This is unavoidable given that our knowledge of the future will always be imperfect. The demand for the product or the costs of the marginal enterprise is bound to be under or overestimated to some extent.⁹

Some of the returns on investment will take the form of a surplus earned by enterprises that have lower costs than others in the industry. This could be due to a range of factors, e.g., having a better location in terms of access to suppliers or customers and having easier seams to work in the case of a mine. The surplus is the difference between the enterprise's lower costs and those of the highest cost producer that it is economical to operate given the level of demand.

By their nature some investments will not be expected to recover their costs. I have two things in mind here. Firstly, there is the research and development that goes into developing better production methods and products. The fruits of these efforts are so-called public goods which are non-rivalrous in consumption. They benefit all users and are not part of marginal cost and to charge marginal users would reduce economic welfare. Secondly, there are cases of large indivisibilities in production capacity which would be underutilized, or not used at all, if the price is set at a cost recovery level. A port, bridge, railway line or airport might have this problem. Unless there is a way of charging the costs to high value users through **price discrimination** that does not deter significant amounts of consumption, the cost would have to be covered by a non-recovered grant. Price discrimination is ideal in the case of port facilities where the main user is happy to see other more casual ship operators being enticed by lower charges to use surplus capacity and so contribute something to costs that they would otherwise have to bear on their own. A **two part tariff** (a form of price discrimination) would be suitable where all users place a sufficiently high value on the very first unit of a good and far less on the final units and there is no danger of secondary markets reselling the goods. Where a non-recovered grant is needed it would have to be justified on the basis of an estimate of the **consumer surplus**.

Taxation is another funding source if industry revenue is insufficient. This would be an additional use of these funds on top of paying for collective goods, income transfers such as disability pensions, research and development, and the cost of government. There would be better and less costly tax options that are not available under capitalism. With incomes more equal and secure a non-distorting uniform **poll tax** becomes a politically plausible option. An income tax would also work better than it does now. With wages and pensions the only income, it would be easier to administer and comply with and there would not be the problems with avoidance and evasion. With the tax rates no longer used as a distributional mechanism, it would be possible to have either a flat tax rate or even declining marginal rates to reduce any work disincentives. Also keep in mind also that workers will not have to bear the unofficial income tax called capitalist profit.

Some of the savings by individuals could conceivably go to investment. However, personal saving tends to be matched by personal dis-saving. While some people save so they can consume more or work less in the future other people borrow so they can consume more (particularly big ticket items) or work less in the present. The two are likely to match if there is an interest rate set by supply and demand. Interest rates would

not have to be very high to promote savings or deter borrowing. Assuming a monetary policy which ensures that nominal prices decline with real prices, a zero nominal interest rate on savings would still represent a real rate equal to productivity growth.

It is a political decision whether investment is topped up by bonds (i.e., savings) or taxation. The more taxes collected for investment purposes the less individuals would be inclined to save. As argued below the optimal level of investment is determined by the level required to ensure that the rate of interest equals the rate of productivity growth. This has no necessary connection with people's savings habits

I think full cost recovery on past investment would on its own provide sufficient funds for some level of **net investment**. I think the expectation should be that projects recover their historical cost plus the interest charge. Even zero net investment would allow for some growth given that replacement investment would by virtue of innovation deliver less costly methods of production and better final products.

There would need to be a large number of agencies disbursing funds so as to benefit from trying different approaches, to sort out the sheep from the goats and to ensure against conservatism and capture by incumbents. For convenience we will call these agencies "banks". Funds could be allocated to banks on the basis of past performance or expected performance in the case of new start-up ones. You could also have individuals and groups who meet some competency criteria setting up banks with funds that are disbursed through a lottery. Those who do particularly well at this line of work may then find themselves receiving funding through the other more normal channels.

A rate of interest will be used to discount the stream of future benefits and to ration limited investment funds. As I will suggest shortly, the discount rate should be set at the expected rate of growth of per capita income and the level of investment funds set accordingly to ensure that demand is met by supply.

An unencumbered price system

The price system under social ownership will not just ape what we already have under capitalism. Rather it will do a much better job by eliminating the various distortions that currently prevent it from working properly. I think the following list covers most of these. They are not necessarily in order of importance.

Monopoly pricing

Firms are always keen to overcharge if their market position allows them to. This includes both long term market power resulting from having a dominant position in an industry and also the temporary market power that comes with being first in with a new product or process. They will do whatever they can to create and maintain these conditions.

Their ability to restrict supply pushes up the price. This requires keeping out competitors and this depends on things such as favorable government regulation, copyright, patents and collusion among incumbents.

A surplus over cost will not always be avoided under social ownership. With a new product it will take time to put in place all the capacity needed to meet demand. Demand uncertainties can lead to insufficient capacity as often as excess capacity. Then there are the infra-marginal (i.e., low cost) producers. They will have a surplus because the price depends on the costs of the marginal producer.

Public goods

Another break down in the capitalist price system is the charging of users to access public goods. These are goods that have no rivalry in consumption. Your use does not prevent my use. It includes the knowledge obtained from research, the enjoyment from a novel, music recording or movie, the use of computer software and the design of a product such as a new robot or pharmaceutical drug. These are generally combined with a private good that is rivalrous – a printed copy of a book or journal, e-book reader, mp3 player, television set, a computer, a product embodying the new design etc.

Capitalist firms generally try to recover the cost of public goods in the price despite the fact that they are not part of the marginal cost of the item purchased. With some products advertising is a way of freeing up access. These include free to air television and radio, paper and online journals and newspaper, search engines, and “official” music download sites. However, there is a limit to the advertising dollar. As discussed above in the section on investment, under social ownership public goods would be funded by unrecoverable grants or various methods of price discrimination. Access to a public good would then be provided freely to any user who placed a value on it greater than zero.

It is true that some public goods are already funded by grants. Public broadcasting, scientific and social research, and the arts are funded by government or philanthropy. Here social ownership could be expected to improve on existing mechanisms which

smell of corruption. Funding will be more “de-politicized” and transparent with the system of diverse funding agencies discussed earlier.

Also price discrimination is already in frequent use by firms but it is more aimed at creaming off some of the consumer surplus rather than making marginal use cheap or free. The effective use of price discrimination under social ownership would be assisted by the fact that enterprises (and possibly even individual consumers) would be more open in what they were willing to pay.

External costs

Under capitalism there are various “externalities” that do not show up in a firm’s costs. Most notable among these are pollution and land clearing that harm human health and amenity, and the natural environment.

Social ownership will eliminate a lot of the “transaction costs” that prevent affected parties and enterprises coming together to achieve the best overall income. Enterprises would help to determine the extent of the negative impact on others, rather than concealing or obscuring it, and make them aware of it. They would readily agree to take measures where the evidence justified it while resisting pressure to do so when it did not. And they would willingly comply with the measures agreed to. At the moment there has to be an excessive reliance on clumsy bureaucratic solutions that are prone to abuse by officials and green pressure groups.

Unemployment

A lot of unemployment under capitalism can be attributed to a failure of the price system. To start with, it is hard to imagine a system of social ownership having insufficient aggregate demand.

As far as I can see there is no way funds could go unspent. Taxes are automatically spent on investment and other collective activities. The same would be the case for surplus funds in superannuation and other insurance schemes. While there is room for some mismatch between saving and borrowing by individuals for consumer goods, excess borrowing can be choked off with an interest charge and excess savings borrowed by the authorities for investment or other collective spending.

In the case of supply, you will not have enterprises being unable to produce simply because of the credit system has gone crazy. Under social ownership there is no equivalent of being unable to borrow and having creditors breathing down your neck.

Certainly you will always have enterprises going out of business because they are no longer needed or being re-organized in the case of inefficient operations. However, that does not create a general supply problem.

The price system under capitalism also fails because of the struggle between labor and capital. On the one hand, governments will adopt economic policies aimed at slowing economic growth to prevent threats to profits from wage increases that generally occur in a tight labor market. On the other hand organized labor may manage to push wages above market clearing levels through industrial action and political support for minimum wage laws, trading off some unemployment for increased income for workers as a whole. Once there are no capitalists, there will be no struggle over “share”. Wages will equal the full social product. Only then are taxes deducted for investment and social spending such as pensions. And these deductions will be the result of a political process that has general support.

Government failure

Another way that the price system is broken under capitalism is through the heavy hand of government. A range of actions distort prices and in other ways prevent resources being put to their most valued use. Economists call this “government failure” when countering those who justify government actions as a response to “market failure”.

Vested or sectional interests, such as workers or capitalists in a particular industry, are able to pressure government into taking measures that benefit them but harm everyone else. This is a difficult problem to deal with because the benefits are concentrated while the costs are dispersed.

Then there are the reformers, “liberals” and “leftists” who have been able to push through a statist agenda over the last century or so. This has resulted, among other things, in government monopolies, regulated labor markets and bureaucratic provision of services such as healthcare and education. It has been driven by a desire to defend capitalism by presenting workers with a bogus alternative to real radical change.

We also have bureaucrats raising the cost of doing business or even preventing people from doing business altogether. This makes work for themselves and is also supported by the prevailing green anti-industry malaise.

Conservatives or classical liberals try to wash their hands of all these problems. However, they are endogenous to capitalism. They are inherent to the system and not

external or exogenous impositions. Capitalists will always try and get the government to protect their property rights. Likewise, workers, including bureaucrats, will want to protect their jobs under conditions of income insecurity and limited ability to adapt. And the system breeds people who want to protect it by “reforming” it or by blaming “industrial society” for the alienating conditions of capitalism.

Social ownership is really the only way of eliminating big government. Activities that in capitalist countries tend to be highly politicized, such as education, health care and infrastructure, will have to seek funding from independent and “apolitical,” results-orientated funding bodies. And there will be minimal regulation as producers, in consultation with users, can generally work out their own formal and informal codes of practice and act in accord with the general interest.

Is capitalism too big an obstacle?

The only real argument against a new post-capitalist society is that it would have to emerge from the dross of capitalism. Some may deem this too arduous a task. Marx in *The Critique of the Gotha Program* expressed the problem as follows:

What we have to deal with here is a communist society, not as it has developed on its own foundations, but, on the contrary, just as it emerges from capitalist society; which is thus in every respect, economically, morally, and intellectually, still stamped with the birthmarks of the old society from whose womb it emerges.

The old division of labor cannot be magically eliminated overnight and many people will resist change. Those who benefit by having high positions will be happy with the current arrangements and those who don't benefit may lack the confidence or motivation to force through the changes or they may aspire to climb up the career ladder themselves.

More generally, people are scarred by the old conditions. Some behave badly while their victims lack the gumption to resist them. This perverse symbiosis will have to be overcome if the cooperative behavior required by the new society is to shine through.

In particular there will need to be a strong revolutionary movement that is capable of mobilizing the majority of basically good people to overcome the minority of basically bad ones and that is willing to take the brunt of the inevitable attacks by those in positions of power and position who do not want to move forward.

If a future socialist revolution is centered on the most advanced parts of the world, in particular North America and western Europe, we are far less likely to have a rerun of

the 20th century experience. The fact that Russia and China were “imperialism’s weakest link” was a two-edged sword. Lenin said something to the effect that it made it easier to seize power but harder to complete the tasks of the revolution. Under the backward conditions, those leaders who just wanted to be a new bourgeoisie – open or disguised – had little difficulty in prevailing.

Brief summary

My position can be summed up very simply: social ownership will prove economically superior to capitalism because it can rely on the enthusiasm of the many rather than the profit of the few and it will have a better price system.

Endnotes

1. http://nces.ed.gov/programs/digest/do4/tables/dt04_008.asp
2. http://nces.ed.gov/programs/digest/do4/tables/dt04_185.asp
3. National Center for Education Statistics 2005. The Condition of Education 2005 US Department of Education. Institute of Education Sciences. NCES 2005-094. Page 161.
4. http://nces.ed.gov/programs/digest/do4/tables/dt04_362.asp
5. <http://www.bls.gov/news.release/ocwage.to1.htm>
6. Where enterprises are bidding more than what is actually required to attract labor, the difference is economic rent and might be subject to heavy taxation.
7. This is a school of economics founded by the Austrians Ludwig von Mises and Frederick Hayek. See <http://www.mises.org/>
8. See in particular Israel M. Kirzner, Competition and Entrepreneurship, Chicago, University of Chicago Press 1973.
9. If such an error leads to a revenue shortfall it will not create a financial burden. Society does not have to repay debts to itself. It just writes them off. We are of course made worse off by the error just as we are in the case of an error leading to insufficient supply and a revenue excess.

¹ http://nces.ed.gov/programs/digest/do4/tables/dto4_008.asp

² http://nces.ed.gov/programs/digest/do4/tables/dto4_185.asp

³ National Center for Education Statistics 2005. The Condition of Education 2005 US Department of Education. Institute of Education Sciences. NCES 2005-094. Page 161.

⁴ http://nces.ed.gov/programs/digest/do4/tables/dto4_362.asp

⁵ <http://www.bls.gov/news.release/ocwage.t01.htm>

⁶ Where enterprises are bidding more than what is actually required to attract labor, the difference is economic rent and might be subject to heavy taxation.

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