

## How Freely Can Income Flows Be Changed Under Socialism?

### *The Limits of Re-direction of Income Distribution In a Centrally-Controlled Economy*

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SOCIALISTS, WHEN DISCUSSING the distribution of income in a controlled economy, generally concern themselves only with the problem of the optimum distribution and not with the question of the feasibility of different systems of distribution. This does not mean to say that the institutional aspect of the problem is ignored, for indeed different solutions for the *technical* problem of distribution are proposed at length by socialists. Yet they seem to assume that the whole problem consists of finding the proper authority to supervise the distribution and the best method of getting purchasing power into the hands of the people. This attitude assumes that there are no internal "laws" shaping the pattern of distribution and that this pattern can take any shape desired by the planners.

This assumption may be accepted, perhaps, because most writers on the subject are economists and therefore tend to ignore the extra-economic social pattern, believing that it will be shaped so that it will not interfere with the economic mechanism. To a large extent, this view is probably due to the influence of economic determinism, which leads people to believe that, once the economic mechanism is set up, the social pattern will fit into it. But this ignores the fact that both the social and the economic system are in a state of constantly interacting flux, and thus can be taken as determined by each other.

The following notes will be concerned with combating this idea, and with showing that the internal requirements of the distribution pattern severely limit the number of feasible patterns of distributions. The inquiry is along the borderland of economics and sociology, for while the subject matter is usually considered a part of economics, the methodology is partially economic and partially sociological.

#### I

THE PROBLEM which has so far been ignored is the stability of a distribution system. For any distribution system to be stable there has to be what might be called an "anti-grab mechanism," i.e. a mechanism that prevents

the income distribution being upset by any one group of society obtaining more of the national income than was originally planned when the social system was set up. How would it be possible for any group to obtain such an advantage? The most obvious way seems to be either to change the ruling ideology or to change the income distribution in such a slow and imperceptible fashion that people will not be aware of it. These two methods tend to complement one another for if an income distribution is changed in favor of one group, the increased income of that group will in time be looked upon as its right and prerogative (*i.e.*, the ideology will have changed so as to rationalize this change in incomes). The problem seems to lie in seeing what types of distributions can withstand the slow but steady pressure of specific pressure groups.

At this point some socialists might object that under socialism there would be no pressure groups. This belief is usually based on either of two assumptions. Either it is held that pressure groups are the result of class conflict only, and will therefore not exist in a socialist economy from which "capitalist" and "bourgeois" holdovers have disappeared, or it is believed that the whole pattern of acquisitiveness would disappear under socialism.

The former argument can be answered by pointing out that under socialism there would also be different groups and that it would be in the interest of each group to obtain more than its share. The real question here is whether these groups can form under socialism. The orthodox Marxist answer is that this is impossible, for class formation (and these groups are essentially different classes) is determined by the relationship of the classes to the means of production. This does not seem an adequate explanation, however, for if we define classes as groups of people united by a specific ideology, which is the result of their social relationships and work situations, then surely class formation depends primarily upon the presence of these two factors, rather than on anything like exploitation. It is only by the above definition that class formation is relevant for this problem, for if classes as defined above do form, then there will also be formed different ideologies and consequently different views on the optimum distribution, and thus the problem under discussion will arise.

Regarding the second argument, the disappearance of acquisitiveness, very little can be said. We do not yet know enough about cultural dynamics to be able to predict the course, or even to analyze the constituents, of this impulse, though we know from the researches of Sombart, Margaret

Mead and others that it certainly is not to be found in all societies. It does not seem likely, however, that it will disappear within a short time, and, therefore, it does not seem advisable for a socialist society to gamble on its disappearance without having ready a plan for a distribution system which would work even in the presence of that impulse.

The disappearance of acquisitiveness must not be confused with the disappearance of monetary acquisitiveness. As Veblen has shown, the desire for wealth results largely from its use as an esteem symbol; if anything else, say insignia of rank, were to usurp this function, then acquisitiveness would largely be directed toward this object, rather than towards money. The problem discussed in this paper would then arise about the distribution of this symbol. (There would be one main advantage to this state of affairs, namely, the distribution of esteem would not interfere with the optimum distribution of income, which could then be distributed equally, with perhaps no adverse affects on incentives.)

The problem here discussed is, however, not only concerned with the possibility of reaching an optimum distribution of income under socialism, but also with the possibility of reaching a stable income distribution which will not lead to serious social unrest. On the other hand there is the problem of preventing any group from "exploiting" the others, but on the other hand there is also the problem of preventing each group from trying to do this at the same time. Most of the literature on this problem (as for instance James Burnham's "Managerial Revolution") has concerned itself with the problem of the ruling class exploiting the other people, but it seems that this problem is broader. It is also possible for other groups, which wield certain powers, to be exploitative. Thus, in the short run, a managerial ruling class might have to share its good fortune with some of the unions, for instance. Eventually the ruling class might triumph, but in the short run many different groups would attempt to increase their income.

In so far as these groups attempt to increase their money incomes they would raise the price level and thus start an inflationary movement which would add impetus to the demands of other groups, and greatly harm the efficiency of the economy, as well as create social discontent on the part of the less powerful groups. This struggle might even turn out to be more dangerous than the exploitation by the ruling class. To the extent that socialists deny the existence of a ruling class (defined here as a group whose ideology rules), they will have to assume an approximate equality

of power between at least several groups. In that case the latter of these two problems will be of greater importance.

Let us look at the various groups in a socialist economy who might actively be involved in such a struggle. Firstly, we have the managerial group whose accession to power has often been forecast. We must distinguish here between long term and short term conditions. Most of the arguments prophesying their rise to power are based on long run considerations, whereas for, say, the first fifty years, they would not be in power. It is during this time that such a struggle would take place. Indeed their ascent to power might furnish the *casus belli*. It might be that the labor unions would be in the forefront of this struggle. Whether they unite with the managers depends, of course, on the degree of democracy within the unions. This is something that cannot be foretold so easily, for the degree of democracy in the unions depends largely on the desire for self-expression of the members, which in turn depends on the amount of frustrations imposed by the rest of the social system, and our knowledge of that is rather poor. Consequently it might be best to avoid making any forecast about this.

Irrespective of the above, there still remains the question whether the unions themselves would not seize a "disproportionate" share of the national income. (This term is not meant to express a value judgment.) It might be objected that this is not a great danger, for the unions are the "people." This argument ignores, however, that while the unions might contain a great majority of the workers, it is each individual union that obtains wage increases (or shortened hours, etc.) and consequently (if prices rise) the other unions lose rather than gain. The argument above is one which would most likely help the unions to a large extent. Under capitalism the belief that individual and social benefits almost inevitably coincide grew very powerful, and has been taken over by the socialists as far as it applies to unions. When applied like this to groups, this proposition loses, of course, its basis, the "invisible hand" of competition. This fact is likely to cause great trouble for socialism. Unions would probably attempt to keep the old system of collective bargaining. Thus unions in industries having a low elasticity of demand would be able to exploit those in unions whose products have a high elasticity. For this to continue in the long run, entry into the former, of course, would have to be restricted.

Other groups which might be exploitative can also form. Thus it is

quite possible for a combination of labor and management to coalesce in a particular industry or a group of industries. This would be done not so much by raising wages, which the central control body could perhaps prevent, but rather by lowering the intensity of work.

Let us now see how other social systems prevent the troubles here described. Under capitalism of the pure sort it is prevented mainly by economic "laws." The decision-making locus is not the group, but rather the individual; and he is merely a quantity adjuster who cannot raise his remuneration per unit of output. Socialists often argue that the laws of capitalism are cruel and unjust because by their ruthless nature they fail to take care of individual exceptions. This ruthlessness, however, is precisely the quality which makes for stability, and a considerable degree of stability is necessary. For in any stable social system, each group considers itself the exception, and is likely to apply strong pressure to have its claim recognized. Under conditions of present-day mixed capitalism, the basic mechanism ensuring this stability, namely *laissez-faire* and atomistic competition, have been substantially weakened. The fact that the laws of imperfect competition replaced those of perfect competition is not of great significance here, for although under conditions of closed entry it does give excess profit, it does not lead to any instability in the income structure. In the first case, there is a definite limit (which is usually reached early) to the degree of exploitation possible in this way. The fact that this possibility of exploitation is open to only a small group of the population not only prevents it from spreading, but also makes the percentage of the total income involved so small that the other groups are not likely to be goaded into action by it. Moreover, and this is more important, the government is used by pressure groups to increase their incomes. This extra-economic factor negates the limitation of some economic "laws" and does tend to develop into a cumulative movement, for the larger the number of people whose prices are guaranteed, the greater, probably, is the loss of real income of those whose prices fluctuate. This factor also enters, of course, into the effects of business concentration. The existence of this factor is very dangerous to democracy too, as has often been pointed out. Another unstabilizing factor are unions; and the way they unstabilize the income structure is obvious.

## II

WE ARE NOW in a position to see how different schemes of socialism deal or

fail to deal with this problem. First, a few general observations are necessary. If socialism fosters belief in equality of opportunity and at the same time maintains an esteem system in which worldly success (as opposed to goodness, etc.) is important, then this would probably create a decrease in the acquisitiveness drive. Otherwise those who are not very successful (*i.e.* the vast majority) would be deprived of one of the most effective methods of keeping up self-esteem in spite of comparative failure, the ability to put the blame on the inadequacy of opportunity.

This might turn out to be a very powerful factor. The effects of the belief in the unity of group and social benefits have already been discussed. The fact that socialists disparage the capitalistic belief that it is better to increase the cake than to worry about the way it is distributed will also tend to increase the severity of this problem. True, the socialists might argue that this disparagement would not continue under socialism. But once an attitude has been planted into the public mind it is difficult to erase it. This has been shown by some aspects of the recent labor trouble in England.

Furthermore, the abolition of capitalism is likely to be accompanied by a belief that the living standard will be raised by political action. When this fails to materialize (as seems inevitable, for propaganda will have raised people's hopes far above anything achievable in the short run), the feeling that certain groups are cheating one's group of the fruits of victory will be strong. To this must be added the fact that such a transition creates a certain emotional restlessness. Now one of the reasons why people are satisfied with a certain wage seems to be sheer inertia. People to some extent acquire an idea of how much their services are worth rather early in life, and then they are satisfied with a wage roughly corresponding to it with a certain small annual increase. Socialist propaganda is likely to reduce this inertia by promising a great increase in wages, and by this method it will upset one of the most important mechanisms that keeps the income structure stable.

While a vast amount of work still has to be done until anything resembling definite knowledge about this problem can be obtained, a few tentative estimates can now be made as to how different schemes of socialism would be affected by this. To start with, let us consider a system of complete income equality. Such a system would meet our criteria of (short run) stability. If any group in the community tried to obtain more than its share of income, this fact would easily be noticed, and

strong pressure could be brought to bear on that group. Consequently a group could increase its income only by either a long run process of changing the ideology away from equality (which is outside the scope of this paper) or by openly opposing the ruling ideology by naked force, which probably could be suppressed fairly easily. There is however another criterion which such a system might not meet. Not only must the income distribution have an "alarm signal" but the distribution of work must have a similar mechanism, or else each group will try to exploit the others (under the guise of obtaining their "fair" and ideologically-sanctioned share) by shortening the hours and bettering their conditions of work. To distribute the burden of the unpleasant work equally among all citizens (perhaps by industrial conscription) would avoid this difficulty, as would a system under which a free labor market would be allowed by way of supply and demand to balance the unpleasantness of certain types of work against the shorter hours prevailing in it.

A system of "to each according to his ability" would also have to have a free labor market in order to be stable, for the concept of ability is open to partisan interpretation and does not provide an alarm signal. Such a free labor market would have to be one in which there are no unions, for otherwise they could force up the price of labor or one from which unions were thrown out of work by a wage increase. It is doubtful whether a socialist society could destroy the unions so completely as to make this free market possible, but if it does not it cannot meet our criterion. A system of "to each according to his needs" would obviously not meet the test either.

A combination of several of the above methods of distribution would also not meet our criterion. For as long as there is one "loose" section of the income distribution, it can be used by different groups as a lever for increasing their incomes. The setting up of a police State might avoid a cumulative exploitation movement, but only at the cost of giving full reign to the exploitativeness of the ruling (police-controlling) class, and of course at the cost of almost everything most socialists hold dear.

Guild Socialism does not meet our criterion at all. For again, what is to prevent the people in the inelastic industries from exploiting those in the more elastic ones?

According to the theories of some economists, this problem would not appear because each group could be (partially) paid according to its marginal productivity. This marginal productivity would be determined

by a free market. This does not seem to be a suitable answer, however, for the conditions of production which determine marginal productivity are not out of the reach of pressure groups. There would be some, if only a very few areas (such as the degree of capital accumulation, the production of harmful commodities, regulation of the hours of work of minors, etc.) where the State would in any case interfere with the free market. Each pressure group would attempt to manipulate in its favor the policy within this area. This would probably lead to a very severe limitation of the free market area. Thus the production aspect of the socialist scheme, far from solving the problems of the distribution aspect is likely to be upset by it.

The fact that it would be advantageous for the society as a whole to keep a free market does not mean that it could be kept. After all, most economists agree that free trade is advantageous under capitalism and yet protectionism rules in practice. Socialists might dispute the validity of this analogy on the grounds that there would be a greater political consciousness among the people than under capitalism which would limit these pressure groups. Against this consideration the following can be urged: In the first place, this social consciousness lends itself to exploitation by the clever use of propaganda by the pressure groups which could appeal to people on the basis of emotional arguments (such as the effect of their work on their health, the "fact" that their children are starving, etc.). This sort of propaganda is much more likely to convince the average socially-minded man, by appealing to his sympathy, than the government's intellectualized arguments in favor of a free market. Secondly, the great ideological barrier separating the economic from the political can hardly be as strong under socialism as under capitalism.

### III

WHAT ARE THE implications of the above? While nothing resembling adequate knowledge for any forecasts is available to me, I think the following factors are of significance: The struggle for increased income can end by the outright immediate victory of the ruling class, and the exploitation of the rest of society by it. What is more likely, however, is a continuous struggle, at first with one group slowly establishing its hegemony. It is questionable whether the society would not change radically in an unforeseen direction owing to this struggle, before one group becomes dominant. Such a struggle would not only put a strain on democracy which



is likely to destroy it, but would also greatly reduce the possibility of the rational, efficient planning of production. Only if a socialist society is able to break up powerful groups, or if it is able to find another method of noticing immediately and unequivocally the attempt by any one group to obtain more than the planners allocated to it originally, can such a society be stable, democratic, and free of exploitation. (This of course must not be taken to prejudice the fact that there are other factors which are likely to prevent the achievement of these goals.)

To many socialists these considerations must have seemed like pure heresy, for would not socialist distribution be guided by justice? This paper, however, tries to answer precisely this question, and tries to show that there can be no "justice" if each group is in a position to determine for itself what "justice" is. No man can be a judge in his own cause.

The view that our concept of justice is so vague a guide that it cannot serve as the basis of a "consciously planned" distribution of income forms, of course, one of the bases of Friedrich A. Hayek's argument that socialism and democracy are incompatible. The analysis has tried to lay bare several of the factors involved. It does not pretend to cover more than a very small aspect of this problem, and it tries to show a line of approach to it rather than lay down a hard and fast solution of it.

*New York*

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### *The Purchase of Manhattan*

ACTUAL RECORD EXISTS that Peter Schagen of Amsterdam did purchase Manhattan Island from the Indians in 1626 for 60 guilder, now assumed to have been worth about \$24. The real estate value of the island has jumped 200 million times in the last 323 years. At the time of the purchase New York City's midtown area was occupied by a scrub forest abounding in snakes and wolves, but there was tillable land at the northern end of the island. About 30 families lived on the southern tip of Manhattan in 1626. Peter Schagen merely happened to mention purchase of the island in passing when writing the Dutch States-General, meeting at The Hague, about many other matters which he regarded as far more important.

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