A Case For Socialism?

THERE has come into our hands a booklet entitled "Towards a Socialist Australia." It is produced by the Fabian Society of New South Wales.

For several reasons it has a peculiar importance. First, it is on a higher plane of thought and argument than the socialist propaganda to which we are accustomed. In fairness, it must be said that this book is not propaganda at all. It is a sober and conscientious attempt to state a case for the replacement of free enterprise by a socialist economy.

Secondly, it gives a clear idea of what complete socialism would probably mean —a matter about which the majority of people are still very hazy. It would mean mainly three things:—

First, that the great part of industry would be under government ownership instead of under private ownership:—

"Socialism implies much more than the nationalisation of particular industries for particular reasons. Socialists aim at a change in the character of the economy from one in which industry is mainly privately owned to one in which industry is mainly owned by the community";

Second, that the type and quantity of goods produced, the employment provided, and the distribution of incomes would be "planned by the state":—

"Socialism embraces no less than the planning of industry as a whole to achieve community objectives relating to employment, production and distribution";

Third, that there would be virtually no incomes from property:—"All incomes would be paid for work done, and never for mere property ownership without work."

A further, and most important, reason why the document has a special significance, is that while the argument is moderately and conscientiously stated, while its authors evince a genuine concern for the traditional values of liberty and the freedom of the individual in the socialist state, it nevertheless suffers from the fallacies and weaknesses common to all expositions of the socialist case. There is the same tendency to bald assertion without any convincing factual support, the same blind disregard of the teachings of experience, the same confusing array of unreal simplifications and crass contradictions.

Like all socialists, the authors have in their minds a picture of an "ideal" economic order, but they are constantly in difficulties in trying to reconcile this "ideal" with the hard realities of experience and with the limitations imposed by the human kind, which has so far shown itself to be constitutionally incapable of acting in anything like an "ideal" fashion. While they would, no doubt, be extremely reluctant to admit it, the authors frequently betray their inner doubts whether a sufficient measure of co-operation and of public spiritedness and private disinterestedness will be forthcoming to make the socialist system function effectively. These doubts lead them into many uneasy compromises and often into flat self-contradiction.

"Financial Incentives."

For instance, they condemn, like all socialists, the "profit-seeking" aspect of the existing economic system, and state that "socialism aims at the replacement of profit-seeking by conscious planning." But, when it comes to the point, they find themselves compelled to retain it. "Some financial incentives will be necessary. This will give rise to inequality. It is unlikely that people will undertake long courses of training to acquire special skill, work hard to achieve promotion, undertake work of a specially difficult and dangerous character, or accept great responsibility without financial incentive." The socialist is thus unable to dispense with the profit-motive—that motive which he has so strongly assailed as an odious feature of the private enterprise system. By what miracle of logic does it become right for a man to try to increase his gains as an employee of the state under socialism, when it is wrong for him to do so as a private individual under free enterprise?

The authors are plainly uneasy about this resort to the "unworthy" profit-motive. They attempt to excuse themselves by suggesting that at least socialism will not have to rely so heavily on "financial incentives"; (apparently they are too delicate to stomach the term "profit-motive"). "A socialist economic system under which all incomes were paid for work done and never for mere property ownership without work, would be fairer and morally superior to capitalism. By the elimination of property incomes the main cause of inequality would be eliminated." But this contention leads the authors into some very shoddy reasoning and into another remarkable self-contradiction. For elsewhere in the booklet, they state: "Interest would continue to be offered as an inducement to individuals to save, to supplement public provision for their old age and their children." And they go on to say quite arbitrarily: "But the interest incomes which result from these forms of borrowing would not represent a significant part of anyone's income and since they would not permit the accumulation of large fortunes, they would properly be regarded as a social dividend instead of a factor making for inequality." But how could these incomes do other than make for inequality? The thrifty people and the people benefiting from "financial incentives" for work would soon accumulate much greater savings than the less thrifty and those on lower incomes, and would obtain much more income from interest.

Competition.

Another contradiction! In one part of the booklet the authors state that socialism will emphasise co-operation rather than competition; and they expound on the disadvantages of the latter. But in another part they admit that one of the means of ensuring efficiency in socialised enterprises, would be to induce them to compete **vigorously** with one another by giving monetary and prestige incentives to managers and workers. Thus, in a society to be based mainly on **co-operation**, there is to be both the central principle of private enterprise—competition between firms—and, if that were not enough, competition between individuals, for the highest financial prizes. Apparently, in order to make socialism tick, the socialists are reluctantly forced to recognise that they cannot rely on altruistic and "service" motives; that what will be necessary will be plenty of juicy carrots and a liberal dose of the stick of competition. This is just what the believers in private enterprise have been arguing for years.

There are other places in the booklet in which the authors seem to betray mis-

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givings as to whether human nature will be high-minded and selfless enough to measure up to the requirements of the "ideal" economic system they would wish to see established.

"Courteous Service."

Where practically all activities are controlled by the state, high standards of courteous service on the part of public servants, they recognise, are essential. But how are they to be obtained? The problem they admit is "a real one"—human nature being what it is. Under competitive private enterprise, the controllers of industry are **forced** to pay close regard to the wishes and needs of the consumer. Otherwise they lose money, or go out of business. But how can the controllers of state enterprises be compelled to defer to the consumer? They cannot go out of business, and the money they lose is not theirs, but the community's.

During the war period of acute shortages, when the supplier had no difficulty in selling everything he could acquire, there was no rarer commodity than "courteous service." The accepted business dictum that "the customer is always right" was relegated to the scrap-heap and was only resurrected with the threatened return to normal competitive trading. Would the customer ever be right where the state was the sole or main supplier? Would it really be possible to get "courteous service" where the customer had no means of redress, or would the civil servant rapidly degenerate into an uncivil master?

Full employment under socialism, say the authors, will work only **"provided trade unions live up to their new and wider responsibilities"** But will they? Socialised industries will be at least as efficient as private enterprise **"if modern methods of administration are adopted."** But can one be certain they will be? Will the planners with assured jobs and relatively assured status, be vigorous and public-spirited enough to drive ahead with new ideas and methods? Right through the booklet the authors unwittingly betray the doubts existing in their own minds whether ordinary fallible human beings will be good enough to work the system they have in mind for them.

Stephen Leacock.

One is reminded of what that wise old man, Stephen Leacock, said in his inimitable and penetrating fashion: "Socialism means everybody working along with everybody else for everybody's good, in cheerful co-operation and equality, instead of each selfishly working for himself in a world of inequality and injustice. The idea is grand. I'm all for it. But I'm not fit for it. At least I might be, but I doubt you other people. I'd hate to give up my house and my shares in my latest get-rich-quick gold mine till I am a little more sure of the rest of you."

The Trade Unions and Socialism.

We are constrained to ask, therefore, what would happen in the socialist economy if people did not play the game according to the socialist plan. What if the trade unions endangered the plans for full employment by excessive claims for high wages, or refused to change jobs from the "less essential" to the "more essential" industries (according to the planner's decisions) except for exorbitant "attraction" wages, which would give rise to unrest among workers in other industries? Would the state be prepared to see its own plans go by the board or would it resort to the weapon of compulsion? If the latter, then we are well on the road to the totalitarian state. The booklet faces this dilemma and hints unmistakably that compulsion might be necessary: "They would have to approach their task in the knowledge that failure (to appreciate the importance of the mobility of labour and the changed conditions of a full employment economy) would mean a choice between substantially forgoing economic and social progress on the one hand, and accepting some form of compulsory direction of labour on the other." At least under private enterprise, if trade unions refuse to accept their responsibilities, they only have to forgo the fruits of economic progress. No question of the compulsory direction of labour ever arises. And what if a great trade union chooses to strike against the state authorities? Would that be permitted if the "planners" saw in it the threatened destruction of their schemes. Is it not very probable that the state would compel obedience? In fact in a socialist society could the trade unions hope to preserve their independence? To whom would the trade unionist's first loyalty be—to the union or to the community (as the socialist theory would require)?

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The authors advance four main arguments for the introduction of socialism:

First, they claim, that it will produce more than the free enterprise system.

Second, that it will produce more of the things most needed by the people. "A system based on free enterprise," they say, "is fundamentally incompatible with the production of the right things in the right quantities."

Third, that it will eliminate depressions and provide full employment—something which has not yet been achieved under private enterprise. (Nevertheless, the authors practically admit that, by the adoption of the right policies, depressions can be largely prevented under private enterprise.)

Fourth, that it will lead to a fairer distribution of income.

Socialism and Production.

With the exception perhaps of the first, these are no more than the arguments commonly used by the socialists to justify their case for the replacement of free enterprise by a socialist economy. On the first point, that socialism will produce more than private enterprise, socialists have seldom been very emphatic. The authors of this booklet, however, have no doubts at all that a socialist economy could be much superior in the matter of "delivering the goods." "The profit system," they assert, "is restrictive and inefficient. Given the conditions of modern industry it will usually pay a firm to sell little at a high price and to restrict production accordingly. The search for profits commonly results in restricted production, not maximum production." But, if this is so, why have employers been so outspoken over the last few years in urging the need for greater production. Why, in fact, has increased production always been a cardinal point of the policy of employer bodies? Is it because employers desire to limit their own profits? The argument, quite plainly, becomes fantastic. As a technical proposition it is also fantastic. "Given the conditions of modern industry," that is, with the increasing tendency to mechanisation and large-scale operations requiring expensive machinery and equipment, the exact opposite of what the authors contend must surely be true. As the fixed capital charges of industry grow, the natural tendency of management is to strive for volume production in order to keep down unit costs by spreading these charges over the greatest possible output, and thus to produce an article at a saleable price. This, of course, is not to argue that there are no instances of restricted production by employers. There are. Nevertheless, to assert that, **in the main**, it is in the interest of employers and maximum profits to restrict production, is plainly ridiculous.

Moreover, how would the authors explain away the wonderful record of productive achievement of private enterprise?—the production over the years of an astonishing variety and expanding volume of all kinds of goods and services which have added to the comfort and enjoyment of the people. Under private enterprise hours of work have been almost halved, real wages have greatly increased, social services have multiplied many times. How has all that been possible? Only, surely, out of greater, more efficient production. All the historical and statistical evidence disproves the contentions of this booklet.

How can the authors, who are obviously men of more than average intelligence, be blind to all this evidence? And if they are not blind to it, how do they reconcile it with their claim that free enterprise restricts production? They might, of course, respond that they are not thinking of the long-term historical record of private enterprise, but of its more recent record, under conditions where (they would probably claim) the organisation of industry has become more monopolistic and less competitive. But, if that is so, how can they ignore the unparalleled achievement of the United States—the country in which the principles of free enterprise are given their fullest and most active expression—which has nearly doubled its production in the last decade? Do socialists consider facts, such as these, to be of no significance, as mere irrelevancies to be given no weight when the future economic policy of the democracies is being considered? How can socialists, conscientious as they in most cases appear to be, continue to ignore the facts which are plainly before their eyes—if they will only open them? Can they readily assume that an economy, in which the majority of industries are owned by the state, and run by government boards, will be able even to remotely approach, let alone surpass, the record in production of free enterprise in a country like the United States. If free enterprise has weaknesses—and the I.P.A. has never suggested that it has not—economic history and latter-day experience prove conclusively that they do not lie in the field of production.

What are these weaknesses?

Inequality of Income.

To take the authors' own accusations —first, the fact of inequality of income. "One of the motives," they write, "which from the beginning has led men to socialism has been revolt against the gross inequality of incomes under capitalism. Fairer distribution is still an important part of the case for socialism."

The authors would no doubt be prepared to admit—in fact, in parts of their booklet do admit—that we have gone a very long way toward correcting gross inequalities, and that this process has taken place without the need of any revolutionary economic transformation involving the substitution of government for private ownership of industry. If, therefore, this movement toward the elimination of gross inequalities of income has been possible under private ownership of industry, why can't it, where it is wise and just, be continued under private enterprise?

A socialist Chancellor of the Exchequer, Sir Stafford Cripps, recently described the change that has taken place in the distribution of income in Britain as a revolution. This revolution has, however, owed nothing to the socialist objective of wholesale nationalisation. On the contrary, it has occurred while the great bulk of industry is still in private hands. The authors make great play of the fact that under socialism the "monopoly profits" which now go to shareholders, will accrue to the community. But where do the great bulk of company profits go now? In 1947-48 the total earnings of companies in Australia amounted to £178 million. Of this, £70 million went to the government in company taxation, £64 million was "saved" by the companies to be used for expanding and modernising plant and equipment, £44 million went to shareholders, on which the shareholders then paid tax. Probably over half the total income of Australian public companies eventually found its way into the hands of the government. How would the community benefit from these so-called "monopoly profits" if the state took over all these companies? From the 50% which at present does not find its way to the Treasury, the state would still have to find something like £64 million if its programme of development was to be equivalent to that of private enterprise.

The story in Britain is the same. In 1948, of the profits of companies over one-half was taken in taxation, and over one-quarter was saved. It has been proved over and over again statistically that only meagre financial benefits to the majority of the community would result, if it were practicable to divide up company profits. Why then do socialists continue to argue or imply that there is a great source here of untapped wealth, which, if shared up, would make everyone vastly better off? As "The Economist" said in referring to the profits of British industry: "Profits are not a widow's cruse which can be tapped indefinitely for political purposes. They are the income from which industry pays heavily in taxation, from which it attempts to maintain its capital, and which, if sufficient is left, it may pay out in part as a reward for risk-taking. Now that the facts about profits are becoming more fully known . . . there is no longer any excuse for wild talk about them. The evidence is available for all to see." Nevertheless, as this booklet shows, "the wild talk" persists.

Whatever is done to eliminate inequality, some inequality—as the authors of the booklet are sensible enough to see—must remain if there is to be the incentive to efficient work. Exactly how much incentive, **in other words, how much inequality,** will be necessary to procure maximum efficiency is a point that can only be decided in the light of experience. There are good reasons for thinking, however, that in Australia, so far as incomes are concerned, we are at present erring on the side of too little incentive rather than too much.

"What the People Need."

The argument used in the booklet that private enterprise does not produce the things most needed by the people, and that socialism will correct this through

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the agency of government planning, is a stock one in the socialists' repertoire. It should be sufficient to say that it is not supported by any economist in the world with a reasonable claim to political impartiality. The authors write: "A system based on private profit is fundamentally incompatible with the production of the right things in the right quantities." On the other hand Lord Keynes, who no one could seriously accuse of being either rightist or leftist in political tendency, says: "I see no reason to suppose that the existing system seriously misemploys the factors of production . . . there are of course errors of foresight, but these would not be avoided by centralising decisions." The probability is that the errors would be multiplied a thousandfold. On what does the business man under private enterprise base his estimate of the demand for his products—that is to say of "the things the community most wants"? He bases it on prices and profits, on comprehensive expert survey of markets, on an intuition and knowledge which come from a long association with his particular field of industry.

How are the government planners to estimate demand? Having destroyed the indicator of the free price market on which the business man depends, they would be forced to take decisions which must be largely arbitrary. If they produce too much or too little, they don't stand personally to lose anything so why should they worry. The business man, on the other hand, literally cannot afford to be seriously wrong. If he is, he incurs big losses, perhaps goes out of business. Where the present system produces the wrong things, luxuries before basic needs of food, clothing, shelter, education, this arises from inequality of income and can be corrected by modifying these inequalities. This, the authors themselves admit: "It is characteristic of capitalism that production of luxuries occurs while basic needs are left unsatisfied. This arises largely from inequality of income distribution. The remedy here lies in the more equitable distribution of income." If this is so why, it may be asked, is it necessary to hand over to the state total powers to decide what goods and services the people most need, and the power to produce those goods and services?

Socialism and Freedom.

It is at this point of the socialist case that the great issue arises whether socialism is compatible with individual liberty and political democracy. Where the great bulk of economic decisions are made by officials of the state, instead of by producers and consumers acting in a private capacity independently of the government, is it possible to retain the real substance of individual freedom?

The authors of the booklet make the astonishing assertion that "private enterprise gains by its undemocratic freedom from any sort of responsibility to the community."

Do they seriously believe this? Do they seriously believe that the great majority of businesses can be succesful unless they pay strict regard to their responsibilities to the community to give good service, or to produce good quality products at reasonable prices?

In the argument that immediately follows the authors make it clear that, in their view, the only true form of democratic control is that which is exercised by Parliament. Does this mean as it would logically appear to mean, that when the electors choose their Parliament they hand over to that body complete and unqualified authority to decide everything, down to the smallest detail of their personal lives; that any exercise of their own personal initiative and decision is in a sense undemocratic, and that only decisions made by Parliament are democratic decisions?

That, no doubt, the authors would say, is a "reductio ad absurdum." But where is the line to be drawn, between the power of the state and the power of the individual in a democracy? According to traditional theory, the all-powerful state is the very antithesis of democracy. But a state which controls practically the whole of economic activity, which decides what shall be produced in what quantities, and therefore what shall be available for consumption, and then proceeds to produce it, and parcel out the product among consumers, is very nearly all-powerful, in the economic sphere at least.

The truth is that in the sphere of economics there can be only one true form of democratic control—that is the choice exercised by the individual consumer to decide whether or not he will purchase, and on what terms he will purchase, the products offered by the producer. This is broadly the form of control which exists under true private enterprise. There can be no other effective democratic control. As Lionel Robbins, the noted economist, describes it, it is itself a kind of election: "that process of election which not only allows proportionate registration of minority opinions, but also continuous review of producers' decisions by those immediately concerned with their ultimate results." This form of democratic control would be almost completely lost under a totally planned economy. As Robbins says again. ". . . instead of the detailed vote on individual goods, the total plan on a take-it-or-leave-it basis. . . ."

The authors of the booklet might retort to this that the state industries would defer to the wishes of the consumer. That might be so; but it is highly doubtful. In any case without the free price market they would have no practical means of ascertaining what those wishes were. It is far more likely, in practice, that instead of the state plan being adapted to the people the people would be adapted to the plan.

Even so, the real point at issue is that with the state in virtually complete control of production, it would not be **forced to defer** to the wishes of the consumer. **It might defer, but it would not be forced to.** If it did not do so there would be no means of making it. There would exist no democratic sanction. Parliamentary control over production would be democratic in theory and name only. There would be no way in which the mass of the community could effectively exercise control over the kinds and quantities of things produced or the prices charged. No effective means would be open to the community to compel the state to comply with its wishes.

Unseat the consumer from his rightful throne in the economic kingdom, hand over to state officials the authority to make the great mass of economic decisions affecting the everyday life and welfare of the individual, and the way is open to unbridled political and economic despotism.

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