CONTROLS,

SOCIALISM,

AND PRIVATE ENTERPRISE

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THE restoration of war-time controls over production and consumption prices and wages, appears to be imminent in many countries. In the United States the President has declared a state of emergency and taken power to re-impose rationing, price control and wage pegging. In Australia it is proposed to restore the control of capital issues, but for the time being it is apparently hoped to re-allocate man-power and materials by indirect methods such as the regulation of bank credit.

The prospective restoration of controls so soon after their relaxation (or, in some cases, total abolition) will be a matter for widespread dismay. It is not only that the circumstances of their restoration—re-armament and renewed military preparations—are deplorable. The restoration of controls would also disappoint all those who hoped for the opportunity after the War of deciding for themselves what pursuits they would follow, what goods they would buy and, if employers, how they would conduct their businesses. The restoration of controls would inevitably restrict individual freedom of choice in all these matters. It does not follow, however, as is sometimes alleged, that the restoration of controls is a step towards "socialism."

I

Socialism can mean many things and one specialised meaning will be indicated below. A basic element in all socialist programmes, however, is the "social" as distinct from the private ownership of the means of production. This in turn, for all except the Syndicalists and the Guild Socialists, implies ownership by local, state or federal governments. The distinction between public and private property is not, however, the same as that between central control and individual freedom of choice. On the contrary, these distinctions cut across one another. This is so in spite of the facts that, on the one hand, the economic system of Soviet Russia seems to be characterized by public ownership and fairly extensive control over prices, production and consumption. However, our war-time experience shows that central control is by no means incompatible with the existence and the recognition of private property.

This was also true of "planning" in Nazi Germany, as is recognized by Professor Eucken in his recently translated "Foundations of Economics." (page 85). Eucken further observes that there have been historical instances, for example, the Empires of the Ancient East, where the absence of private property did not imply central direction of production. Indeed, the society contemplated by many modern socialist economists is one in which the means of production are publicly owned, but in which their management is decentralized and free markets exist both for consumers' goods and for labour. Even in Russia government controls are by no means all-embracing and free markets exist for at least some types of consumers' goods, although the prices of many goods are beyond the reach of most people. One distinguished exponent of the economics of socialism has suggested that the term "socialism" should be reserved for a system under which public ownership and free markets co-exist; the term "communism" being applied to a society under which public ownership is combined with centralized direction and control. (O. Lange, "On the Economic Theory of Socialism").

Thus we may distinguish four types of economic systems:

(1) Our "normal" pre-war system, which for want of a better term we call "private enterprise." This is characterized by both private property and individual freedom from centralized direction and control.

OVER

(2) A War Economy, in which private property still exists but in which the individual is subject to bureaucratic controls over man-power, production, consumption, prices, wages, etc. In Nazi Germany and Fascist Italy these restrictions upon economic freedom were also combined with considerable limitations on the political freedom of the individual.

(3) A "Socialist" system, in Lange's sense, in which the means of production are publicly owned, but management is decentralized and individuals are free to choose their jobs and spend their incomes as they wish. Such a system has never actually been realised, although the practice of Soviet Russia may have approximated towards it in the days before the first five year plan.

(4) A "Communist" system, again in Lange's sense, in which the means of production are publicly owned, and in which production is centrally controlled, and individuals are subject to rationing and man-power controls.

The inter-relationships between these four systems can be illustrated by the following scheme:

	Private Property.	Public Ownership.
Free. Markets.	Private Enterprise.	"Socialism"
Central Planning.	War Economy.	"Communism"

In this classification of economic systems it is the vertical dividing line which marks the great historical controversy between the socialists and the non-socialists. The horizontal dividing line has been comparatively neglected, and its importance has only been recognised in recent years.

II

It is becoming increasingly clear that the ownership of the means of production is no longer a matter of such major importance as was once imagined. This is partly because of the development of the statutory corporation as an instrument of public ownership, and partly because of changes in the internal structure of large joint stock companies. Let us briefly examine each of these developments.

(1) The device of the statutory corporation is one which has been widely adopted in many countries as an instrument for the administration of publicly owned enterprises, such as the S.E.C. in Victoria, the T.V.A. in America, and the new nationalized industries in Britain. Its net effect is to enable a publicly owned undertaking to be operated in accordance with approximately the same canons of efficiency and financial success as a privately owned undertaking, instead of in accordance with the administative methods appropriate to a government department. This implies that the management enjoys some degree of financial independence and freedom from political interference.

There is a great variety in the constitutions and powers of different statutory corporations, and on this point we cannot do better than quote Mr. D. N. Chester: "Most people who were asked to define a public corporation would probably reply by giving an example—the B.B.C., or the Central Electricity Board or the National Coal Board, or even perhaps the Port of London Authority.

"This is probably a sound instinct, for though the creature is usually recognisable it is less easy to define. There is no single pattern or model. The elephant and the squirrel are animals, and the British Transport Commission and the Port of London Authority are public corporations and the differences are not without importance. True, there are certain common features: there is usually a board of management, appointed and not elected, with defined statutory duties and powers and with a revenue usually derived from the sale of its products or services. The board is usually a body corporate, with perpetual succession, a common seal, and power to hold land without a licence in mortmain. But each Corporation has its own peculiarities; it may for example, differ in the numbers and tenure of the members of the Board, or in the way it obtains its capital, or in its relations with the Minister." (D. N. Chester, "The Nationalized Industries." Institute of Public Admin., 1948).

OVER

(2) Simultaneously with the development of statutory corporations there has also been a transformation in the internal relationship between the proprietors and the management of many joint stock companies. In order to take advantage of the economies of large scale production joint stock companies have grown larger in size and their shareholders have become more numerous with the result that in the large companies all but a few, even of those whose shares carry voting rights, are unable to take any active interest in the business or to exercise any of the traditional rights of ownership. The general effect has been to increase the independence of the Board of Directors, who are nominally elected by the shareholders but in large companies are virtually co-opted. In some cases there has also been a further devolution of control within the Board to the Chairman or the Managing Director and his associates. Effective control over the policy of the company may thus be concentrated in few hands and this may be achieved without any substantial shareholding. Legal accountability to the shareholders still remains in theory, but is only likely to become a reality in the event of flagrant mismanagement.

Twenty years ago the extent to which this separation of ownership and control had up to that time progressed in the United States was examined by Berle and Means in their notable book on "The Modern Corporation and Private Property." The authors found that of the 200 largest non-banking corporations in the United States 88, controlling 56 per cent. of the combined assets, were controlled by the management. In none of these companies was more than 5 per cent. of the capital held by any one shareholder. Included among them were such famous concerns as the American Telephone and Telegraph Company and the United States Steel Corporation. The former had nearly half a million shareholders, no one of whom held more than 6/10 of 1 per cent. of the total stock. In many other of the 200 corporations examined, the authors found that although individual shareholdings were relatively larger, effective control was still retained by a minority holding, buttressed sometimes by legal devices such as pyramiding. During the last twenty years the thesis developed by Berle and Means has been taken up by many writers. In particular, James Burnham in his book "The Managerial Revolution" extended and popularized it but at the same time obscured it with a good deal of mythical history and pseudo-philosophy. Little has been done to bring the facts presented by Berle and Means up-to-date or to provide comparable data for other countries such as Australia.

From the present point of view the significance of the development of the statutory corporation, and of the separation of ownership from control in joint stock companies, is not so much that they both increase the independence of management as that they tend to narrow the importance of the question of formal ownership. Whether a business is owned directly by the public, as its shareholders, or whether it is owned indirectly by the public, as government bond holders, tends increasingly to become a matter of detail. It is, of course, a detail that is important, and management would generally prefer the first arrangement, as likely to leave it with a freer hand than the second, but in the event of gross maladministration public criticism and enquiry is likely whatever the form of ownership. Moreover the above developments concern only large businesses. They do not apply to small businesses which after all are the growing points of a dynamic economy. In this sphere private ownership and the rights to set up in business for oneself are the mainsprings of enterprise and efficiency.

Recognition of this fact leads to the advocacy even by many socialist writers, of a "mixed" economy in preference to the old demand for complete nationalisation. It may also be noticed that nationalisation has traditionally been advocated not so much as an end in itself but as a means of securing a more equal distribution of wealth. The form in which wealth is held however, does not in itself modify its distribution. Distribution would be just as unequal whether wealth was held in the form of Government bonds or in the form of company shares.

III

The shift of interest from the question of the ownership of industry to that of its control began in the 1930's, when the first Russian five year plan and the Nazi four year plan attracted the attention of a world that was floundering in the chaos of depression.

OVER

At that time Mrs. Barbara Wootton wrote a widely read book called "Plan or No Plan," the implication of the title obviously being that the private enterprise system, unlike the Russian, is planless and chaotic. This view was once, and perhaps still is, widespread. The truth of the matter, however, is that the private enterprise system suffers if anything from too many plans rather than from no plan. Every firm has its own plan, embodied in its production and sales programmes. Similarly every decision made by a consumer concerning his expenditure or by a worker concerning his choice of job entails a "plan." Moreover every society plans to spend part of its income communally on the provision of services such as defence and education.

A system under which there is not one big plan, but many small plans, all framed independently by entrepreneurs and governments, by workers and consumers, would seem to be peculiarly exposed to the danger of producing too much of some commodities and too little of others. There seems to be no necessary reason why producers should turn out goods and services in the quantities and at the times that consumers are prepared to buy them.

In the actual working of the private enterprise system gluts and shortages do occur, as the critics have not failed to observe. Nevertheless the remarkable fact is not that they occur sometimes but that they are ever avoided. "Even in bad times the vast majority of the productive resources of society, both human and material, are being utilized, and the faith in which they have been launched into various channels of endeavour is found to have been not misplaced. And on the whole the wants of consumers, so far as these wants can be expressed in the offer of a money price, are punctually and fairly abundantly supplied. When we reflect on the apparent chaos of the whole proceedings, the wonder surely is, as Dr. Johnson hinted in comparing the woman who writes books with the dog which stands on its hind legs, not that the thing should not be done better, but that it should be done at all." (Dennis Robertson, "The Control of Industry," pp. 86-87).

How is it done? The explanation is that decisions to buy and consume, or to produce and sell a commodity are framed on the basis of existing and estimated prices, including not only the selling price of the commodity but the prices of competitive goods, of raw materials and of labour. If, in the outcome, too much is produced the selling price of the commodity will fall, and if too little is produced it will rise, until demand and supply are equated and the market is cleared. Producers and consumers will then revise their plans on the basis of new prices. Thus, in free, uncontrolled and competitive markets, prices are the data upon which individuals frame their plans. At the same time such prices are the result of the decisions made and the actions taken by individuals acting collectively as buyers and sellers. It is the price system which co-ordinates the plans of individuals, and brings their multitudinous projects into alignment with one another.

The above system obviously has great merits. It is decentralised and requires no Superman to run it. It is highly flexible and fosters experimentation. Above all it ensures that production is directed towards the goods which people are willing and able to pay for, instead of towards those which some bureaucrat thinks they ought to have. The price mechanism enables consumers to register their demands as though they were voting in a daily referendum. These merits of the system have commended it to the modern school of liberal socialists, whose purpose it has been to explore the theoretical possibility of combining free markets for consumers' goods and labour with the public ownership of, at least, "key" industries. In this way they hope to "combine as much as possible of the decentralised freedoms and peculiar efficiencies of the price mechanism with that large extension of the field for State planning and control over total money demand, over private monopoly, which is necessary to avoid the chief evils of the inter-war system." (Meade: "Planning and the Price Mechanism" p. 10).

In some respects the description given above of the operation of the private enterprise system is, of course, an idealised picture. In the first place markets are not absolutely free and uncontrolled nor are they purely competitive. Even in the absence of government price control many prices are fixed by convention, or by the policy of trade associations, and wages are fixed by awards, thus there are serious obstacles to the speedy adjustment of prices and wages in response to changes in demand and supply. Secondly, even where prices are adjustable, supply—and, to lesser extent, demand—does not always respond quickly or readily to a change in price. As often as not machinery cannot be converted, and labour does not readily transfer itself from customary occupations to new jobs in new places. The unfettered working of the price system could be an uncomfortable process for many people, and some of the present clamour for the reimposition of controls arises from a fear in some quarters of the consequences that would follow the restoration of free markets.

It would be a misrepresentation of the present situation, however, to suggest that this is the only, or even the main reason for the reintroduction of controls. In the United States, at least, the restoration of controls is in prospect not because of any unwillingness to let the price system work, but because it would obviously be impossible to re-arm by relying solely on higher prices to call forth all the arms required, and higher military pay to attract all the recruits that the forces need. The military demands for manpower and materials are so insistent that the limit is soon reached beyond which increased supplies cannot be attracted merely by bidding up prices. Any attempt to do so simply involves the all round inflation of prices, wages and profits without securing the necessary diversion of resources. It is for this reason that any community, no matter how strong its attachment to economic freedom in peace time, has to resort to controls in War time.

The price mechanism is in fact a fair weather system, appropriate enough in peace time when only comparatively small adjustments in production and consumption are called for, but unworkable in war time when larger adjustments are required. Acceptance of controls under these circumstances, however, is not to admit their superiority in peace time nor does it imply the imminent socialisation of the economy.

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