The State and the Disposition of the Social Surplus

by Gavan Butler

It is argued here that the state has assumed a crucial role in the disposition of the social surplus. More precisely, the paper is concerned with the disposition of the investible part of the social surplus, taking as given the claims of the banking and commercial sectors on the social surplus. That the state has an important role in the disposition of the investible surplus tends to have been submerged in James O'Connor's categorisation of stock expenditures, as being either social capital expenditures or social expenses.[1] Similarly, the state has an important function which is not captured by either of the two functions which O'Connor ascribes to the state. There is an important category of public budgetary transfers of revenue between capitals. These transfers are brought about by the active involvement of the state in exchanges between industries and with the state's ratification of the centralisation of power in the private sector. The paper examines the nature of the politics - economic contracts involved and the origins of the revenue transferred. Finally it draws attention to empirical difficulties in the way of further study.

O'CONNOR AND SOCIAL INVESTMENT

James O'Connor has argued that the state in advanced capitalist economies has two functions: (i) to ensure the conditions necessary for the continued accumulation of capital, and (ii) to ensure the maintenance of social harmony, or to legitimise the capitalist mode of production.[2] Yet in performing the first function, the state exacerbates social disharmony, for the accumulation of capital is essentially the accumulation of monopoly capital and the continuing centralisation of control of capital produces ever-greater social imbalances. In performing its first function, the state undertakes "social capital expenditures" ("social investment" and "social consumption"), while in performing its second function the state must bear certain "social expenses". The social capital expenditures are productive whereas social expenses are unproductive. O'Connor admits that rarely is it possibly to classify any single state expenditure, as recorded in the budget, unambiguously. "Nearly every state expenditure", he wrote,[3] "has this twofold character - of being a social capital expenditure and at the same time a social expense".

In O'Connor's view, social investment consists either of "facilities without which private capital projects would be unprofitable" or projects "designed to provide incentives for new private accumulation".[4] Essentially, social investment cheapens the costs of production of commodities by reducing the amount of constant capital involved. Social investment, in O'Connor's terms, occurs in projects which private capital is unwilling or unable to undertake, either because their outputs are what are conventionally known as "public goods", or because the projects are large and "indivisible". A good example of a project which produces a public good is the damming of a river for the purposes of flood control. The flood control cannot be made exclusively available to some rather than all farmers downstream, hence cannot be marketed: it is an output which private capital would never produce. It may be noticed that neither this area of investment by the

state, nor any of the others suggested above, would surprise mainstream economists such as Samuelson. No more would it surprise a conventional analyst of public finance, such as Richard Musgrave,[5] to learn that "the increased complexity and interdependence of production"[6] is likely to increase the share of such public investments in total investment. But O'Connor's social investment is not the whole of public investment: there are public projects, at least in countries other than the U.S., which - given secure agreements - would be profitable private projects. The question remains: why are certain activities socialised while they might be profitable for private enterprise?

BUDGETARY TRANSFERS TO PARTICULAR CAPITALS

There are two possible answers and the two are closely related. (i) The state is called upon to socialise some part of the cost of existing constant capital - to bear a portion of the costs of production otherwise borne by private enterprise. (ii) There are some activities which are strategic in the sense that their outputs are required by most other activities. Control of such activities gives the controller immense power. That power has to be limited in the interests of all other activities. It may be limited either by state regulations or through the ownership of the activity in question by a statutory corporation which is itself responsive to political pressures registered within the apparatus of the state, or to a state planning unit. State ownership may be the simpler alternative especially if investment in the activity concerned has to be in large, discrete amounts and involves long gestation periods. More significantly, state ownership makes possible the control of the prices at which the products of the activities concerned are sold and hence the subsidisation of some or all of the uses to which such products are put. It is not necessary to look beyond the electricity commission in each State to discover this strategem.[7] The state may, of course, subsidise private enterprises, as the Australian Government has subsidised enterprises involved in the production of nitrogenous fertilizers, but only in the hope of controlling prices indirectly.

In addition to long term State ownership of the sort just discussed, there are also cases of the temporary nationalisation - or "hospitalisation" - of particular enterprises. For example, Rolls Royce was nationalised by the U.K. government, but then part of it was returned to private ownership. The "hospitalisation" of particular large enterprises may be necessary, when they must clearly be restructured, to ensure the continuity of the flow of production on which other enterprises depend or to ensure that the "writing off" of some liabilities occurs without undue disturbance to at least the liquidity of other enterprises. "Hospitalisation" is indeed likely to involve state expenditure; but such expenditure is also a transfer to the private sector rather than investment.

My point is that much of state expenditure consists of transfers to the private sector - transfers to dependents of "hospital cases", transfers to some or all users of steel or electric power or whatever, transfers to international traders by way of the insurance of forward exchanges by central banks, transfers to the users of innovations developed by public scientific and technical institutions, transfers through the state's purchases of commodities from the private sector, transfers by way of direct subsidy, etc. Such transfers do not involve social investment, in O'Connor's terms: rather they involve the socialisation of the costs of producing commodities in a much more direct sense.

To class such transfers, instead, as "social expenses", seems equally unsatisfactory. This class is already broad, in that it includes welfare expenditures to support a surplus population and warfare expenditures to absorb

surplus capacity.

It is more fruitful to regard the transfers listed above as being necessary, along with other involvements of the state, to ensure the order or stability of structures of production and investment, or to ensure order and stability within the mode of production itself. That is to say, there is not only a distinction between augmenting the accumulation of capital and legitimising the mode of production, but a distinction between augmenting the accumulation of capital and ordering the process of accumulation.

OTHER COMPARABLE INVOLVEMENTS OF THE STATE

Once one becomes aware of a set of public budgetary expenditures of the sort that has been described, it is necessary to acknowledge that there is another set of transfers directly effected by the state. These latter transfers do not involve, however, the outlay of revenue by the state (except in administration). Perhaps the most obvious of the mechanisms effecting such extra-budgetary transfers is the tariff. The tariff of course contributes to consolidated revenue: that is, the tariff is in part a mechanism for transferring revenue from capital and from labour to the state. But it is also a mechanism for transferring revenue between industries, as anyone who has been exposed to the farmers' campaign for tariff compensation will know.[8] Other extra-budgetary transfers are effected by means of pricing decisions by the state, these days in Australia most notably with respect to oil, natural gas and L.P.G. The Prices Justification Tribunal in its original conception might have added to the range of important pricing decisions. Import quotas effect transfers to quota-holders and to corporations producing import substitutes, not only from households but from other industries as well. Licensing arrangements in general effect transfers to licence holders.

It is difficult, in fact, to distinguish formal arrangements from other involvements of the state that are similar to them in effect. In a number of ways, the state can ratify the process of centralisation or the degree to which an industry is monopolised at any point of time. It may do the first through its criteria for granting assistance for research and development, or through its own purchasing policies; it may do the second - that is, ratify a particular oligopolistic structure or degree of monopolisation - through the judgements of agencies such as the Trade Practices Commission and even through the composition of advisory panels.

POLITICO-ECONOMIC CONTRACTS

I argue that political economists must seek to understand the plethora of transfers of state revenue to particular capitals, extra-budgetary transfers of revenue between capitals that are brought about by the active involvement of the state in exchanges between industries, and the instances of the state's ratification of the centralisation of power in the private sector. The transfers that have been listed must be considered as falling outside O'Connor's categories of social capital expenditures and social expenses if these categories are to remain coherent. According to Adolph Wagner,[9] much of the transfer activity and of the operation of mechanisms of revenue transfer between capitals may be explicable in terms of conflicts between capitals or fractions of capital and the need to protect some fractions from others. Galbraith may be interpreted as arguing that the State involvements which are of concern here represent the socialisation of insurance against the risks of private investment within the planning system.[10] The notion of the socialisation of insurance is a step in the right direction.

But it seems that there is something which the various involvements have in common which has still to be identified.[11]

Each state involvement can baldly be said to reflect a contract between the state and a particular capital, be it a particular industry or a tight oligopoly or even a single corporation. The most straightforward of these contracts reflect attempts by the governing party to assure itself of support in vulnerable electorates. But such contracts are the least interesting, the most arbitrary in their effect on capital as a whole, and limited by this very arbitrariness. The more interesting are those which give effect to some pattern of development of an economy's industrial structure, those which seek to ameliorate particular effects of the pattern of development and those which seek to ameliorate the impact in specific cases of a general policy. These latter contracts reflect a variety of significant factors - conflicts between industries, the need to ameliorate abrupt changes in the structure or the technology of an industry which can threaten the necessary flow of output of a commodity and the network of credit, and the need to maintain employment where substantial segments of the workforce would otherwise become unemployed. Particular capitals receive inducements to act in certain ways, or ratification of actions they are already taking, or protection and compensation. On the other hand, the contracts enable the state to maintain order in the continuing restructuring of capital, to direct development in accordance with the perceived interests of capital as a whole, and to maintain its own legitimacy. This last is important: the involvements of the state must be seen to be legitimate by capitalists if the state is to be able to secure the conditions of the accumulation of capital in general.[12] Both here and in the United States at present,[13] there is something of a campaign by private business against regulation by the state, though not, of course, against the continuation of the protection of particular industries and the underwriting of investment by the state. There is an important tension between purposeful state intervention and the continued legitimacy of the state, insofar as the principles of intervention are not clear and generally accepted.

The propositions above are about the nature of politico-economic contracts which give effect to a role of the state beyond those ascribed to it by O'Connor. The role in question is in the disposition of revenue between capitals either directly or indirectly through the determination of terms of exchange between them.[14] One might ask at this point just how the politico-economic contracts discussed correspond with the contracts of concern to modern writers on corporatism!

Corporatism can be said to be the formal integration of the state, capital and labour by means of explicit contracts. According to Crouch, however, the modern European interest in corporatism emphasises the contracts between labour and capital and labour and the state, and contracts between capital and the state really only insofar as they pertain to the conduct of industrial relations.[15] He cautions, however, that "some of the conditions of corporatism may reflect development in other areas of the economy [areas other than industrial relations], such as: defensive rationalisation and cartelisation; an increasing degree of concentration in industry to take advantage of modern technology and the economies of scale; state participation in economic planning; and other processes which at least partially suspend the full force of market competition".[16] In fact, the legitimacy of the state's involvements in the disposition of the surplus product and the legitimacy of its involvement in industrial relations are interdependent. I shall argue later that the importance and sensitivity of industrial relations contracts can fluctuate depending on the evident success of other contracts as well as general economic conditions.

THE COMPOSITION OF TRANSFERRED REVENUE

Just what is the state disposing of? The flows of revenue which the state is managing consist of more than portions of the surplus value generated in various branches of industry. Some portion of the public revenue made available to particular capitals is made available at the expense of real wages, that is to say is deducted from money wages won by the labour movement. The portion depends upon a number of factors. It depends on (i) the capacity of particular capitals to pass on wage increases and other increases in costs in the form of higher prices, (ii) the regressivity of taxation, and (iii) in cases such as Australia's, on the capacity of the Government to persuade central wage-fixing authorities to set aside increases in taxes when calculating any cost-of-living index on which wage determinations are based.

The state's role in the redistribution of surplus value must be seen in the context of differing degrees of centralisation in the various branches of industry[17] and of differences between what one might call the strategic importance of various branches of industry. Some branches of industry are more strategic than others in the sense of supplying commodities to relatively greater numbers of other branches of industry and commodities for which there are, for the time being, no close substitutes. In the context of such differences, it is possible for surplus value created in one branch of industry to be realised in another: it is possible for surplus value to be transferred from one branch of industry to another through the terms of the exchanges (or terms of trade) between the two. The resultant distribution of money capital between branches of industry is modified by the operation of the capital market. It is further modified by the state - in some instances accentuated and in some instances negated. Quite conceivably the perceived interests of capital as a whole may not be consistent with the distribution of the investible surplus, even the distribution as modified by the operation of the capital market.[18] If such were the case, the extent of the state's involvement in the redistribution of the surplus would need to be substantial. Moreover, it is likely to be acknowledged that perceptions of the interests of capital as a whole may be incorrect and that the state requires room for error. This realisation brings us back to industrial relations policies and what passes in capitalist countries for incomes policies.

As interventionist state has a strong interest in toughening employers' attitudes to their workers and in otherwise attempting to depress real wages. Revenue transfers might be drawn from surplus value; but to the extent that they are drawn from wages, or are at the expense of real wages, the greater is the amount of the disposable revenue. Further, a state that is prepared to intervene on behalf of capital in industrial relations and wage determination thereby makes its intervention in private investment decisions more legitimate. The riskiness of the investment is offset by the state's support in raising the finance for the

investment at the expense of real wages. Not that such support absolves the state of further responsibility for the resulting pattern of production: the state must remain ready to support the profitability of the new structure of industry.

OTHER DETERMINANTS OF THE DISTRIBUTION OF THE SURPLUS

The actions of the state are not the only determinants of the disposition of the investible surplus. New techniques, new commodities, new skills, new sources of raw materials and new markets are continually arising. These developments change expectations of profits and draw capital out of some industries into others. According to the Australian Treasury, owners of capital should be free to respond to such developments or "market forces" as they see fit: the changes in expectations of rates of profit which are produced by such developments are said to be sound indicators of just where investment should occur in the interests of capital as a whole.[19] A person taking this position usually asserts as well that the state can have no superior information as to what are the interests of capital as a whole. Now it is one thing to assert that a freely functioning market would produce the most desirable outcome for capital as a whole. To suggest, however, that the cessation of state intervention would be sufficient to free the market is absurd. The impact on prices of developments such as a new technique or a new source of raw materials is distorted by the monopolisation of industry to one degree or another. Hence a development that should cheapen some commodity may do nothing of the sort because it is monopolised and can yield a quasi-rent to a particular capital. What is being argued is that much state intervention is to be explained as a reaction to the arbitrariness of a distribution of social surplus that reflects merely differences in the degrees to which various industries are monopolised.

PRINCIPLES OF STATE INVOLVEMENT?

What is it that determines the particular actions of the state? Are there economic principles to which the state may refer? There may be logic in a strategy such as that which the Fraser Government is frequently said to have adopted, of basing general economic recovery on the development of natural resources and the basic processing of these resources. The logic in this case is embodied in the theory of imbalanced growth. However, while this logic may inform state action in a general sort of way, it seems unlikely that it could yield guidelines for many specific actions of the state. Surely it is the implication of Stuart Holland's concern to promote what he calls "meso-economics" and of post-Keynsian micro-economics with its emphasis on very large corporations, or what Eichner calls "megacorps", that there is a dearth of "economic" principles upon which state intervention might be based.[20] The Crawford Committee endorsed a set of O.E.C.D. principles mainly concerned with limiting the duration of assistance to particular industries and exposing its extent.[21] In the absence of other principles or guidelines, then, the details of state intervention in the disposition of the surplus are determined by the stated needs of corporations in significant industries in which some growth is generally thought likely to occur, by the lobbying of client departments of government, and by the relationships between these and other parts of the state apparatus.

EMPIRICAL QUESTIONS

The question of just how significant is the state in the disposition of the social surplus is largely an empirical one. As such it is a very difficult question. Quite basically there is a problem of how much of observable revenue flows are transfers of surplus. Among extra-budgetary transfers effected by the

state, the impact of tariffs is a good example of the problem.

The I.A.C. usefully calculates what it calls "effective rates of assistance" for various groups of industries. The assistance taken into account includes the tariff, import quotas, subsidies (including export incentives) and "special pricing schemes for sugar and petroleum products". The I.A.C. notes that "forms of assistance not taken into account include government purchasing practices and the local content scheme for motor vehicles".[22] One might add that quite a number of other forms of assistance are also not taken into account. In 1977-78, the effective rates of assistance in manufacturing (or percentages by which value added per unit of output is increased by assistance) ranged from 149 per cent in the case of clothing and footwear industries to five per cent in the case of non-metallic mineral products.

In a paper presented to the Crawford Committee, the I.A.C. calculated the cost of protection of inputs into 26 of the 173 Australian Standard Industrial Classification (A.S.I.C.) classes and expressed these costs as proportions of the gross subsidy equivalent of all assistance to the industries concerned.[23] The figures related to 1973-74. The 26 industries produced about a quarter of the manufacturing sector's value added in that year. The total cost of protection of inputs was some $556 million in comparison with an aggregate gross subsidy equivalent of some $1,129 million. The "cost of protection of inputs" gives some idea of the impact of tariffs alone on the disposition of investible surplus not excluding, of course, their withdrawal of surplus into public revenue. While, according to the I.A.C., it would be inappropriate to multiply the figure of $556 million by four to obtain an estimate of the total cost of protection of inputs into manufacturing, the figure itself does give some idea of the significance of one mode of state intervention.

The Crawford Committee noted that the export incentives as of 1979-80 (some $170 million[24]) would "roughly offset the overall increase in costs of materials which protection imposes on exporting manufacturing activities". However the Committee recommended (Chapter 7) an expansion of export incentives sufficient to increase the effective assistance to such industries from about nil to about ten per cent. Why? Simply because it believed that smaller grants would provide insufficient incentive.

There are pieces of additional information which one can adduce to give a better picture of the significance of the state's intervention short of completing the serious and complex empirical study which is warranted. For example, tax concessions specific to mining industries involved a transfer of public revenue of at least $76 million.[25] This includes the value of only category A concessions, since the Treasury alleges that it cannot calculate the value of specific category B concessions. It is to be noted that the value of such taxation concessions would be much greater during a period of rapid investment in mining such as is being forecast at the moment. Under Commonwealth crude oil pricing arrangements, gross revenue to companies extracting oil from the Bass Strait, Barrow Island and Moonie fields increased by $331 million during the period 1975-78.[26] The same arrangements have been even more generous to the oil companies since 1978; and the decision to count the Fortescue field as "new oil" rather than "old oil" may mean a bonanza of well over one billion dollars over the life of the field.

The figure with which such transfers should be compared is "net operating surplus" in the national accounts. This figure does not relate, of course, to the total mass of surplus value created; but it does roughly approximate the annual investible surplus. In the year for which the I.A.C. has calculated a figure for

the cost of protection of inputs into selected manufacturing industries, 1973-74, the net operating surplus was $13,978 million.[27]

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It is possible to argue that the capitalist state is facing a crisis of competence. If it is true that the state is gradually reducing the scope of the market in the distribution of the social surplus, there exists the substantial risk that the order and stability of production and investment will decline further. In the absence of legitimate guidelines for state intervention, that intervention must be capricious, reflecting the political expression of conflicts between capitals and conflicts within the state itself.

FOOTNOTES

1. Readers may wish to refer to the complimentary critique of O'Connor in James O'Connor, The Fiscal Crisis of the State (New York: St. Martin's Press, 1973).

2. Dwayne Ward, Towards a Critical Political Economics (Santa Monica: Goodyear, 1977), to a much earlier sociological discussion of public finance than O'Connor's, by Rudolf Goldscheid, "A Sociological Approach to Problems of Public Finance", in Musgrave and Peacock (eds.), Classics in the Theory of Public Finance (New York: St. Martin's Press, 1967), and to the critique by Hugh Mosley, "Is There a Fiscal Crisis of the State?", Monthly Review, Vol.30, No.1, May, 1978, pp.34-45.

3. O'Connor, op.cit., p.7.

4. O'Connor, op.cit., p.102.

5. Richard A. Musgrave, Fiscal Systems (New Haven, Conn.: Yale University Press, 1969), as quoted by O'Connor, op.cit., p.104.

6. O'Connor, op.cit., p.103.

7. Gavan Butler, "The Processing of Australian Alumina and Other Minerals", A.L.R., No.72, December 1979, pp.34-39.

8. See, e.g., John W. Longworth, "Green Paper + I.A.C. + N.R.A.C. Rural Policy", A.Q., Vol.47, No.3, September 1975, pp.7-16.

9. As cited by P.D. Groenewegen, Public Finance in Australia: Theory and Practice (Sydney: Prentice-Hall, 1979), Ch.2.

10. See, in particular J.K. Galbraith's, New Industrial State (Boston: Houghton-Mifflin, 1973).

11. The search for that something involves Hilferding; in this regard see Colin Crouch, "The State, Capital and Liberal Democracy", in Crouch (ed.), State and Economy in Contemporary Capitalism (London: Croom Helm, 1979), Ch.1, p.21. It also involves Poulantzas with his notion of a relatively autonomous state resolving conflicts between fractions of capital. E.g. see Nicos Poulantzas, Classes in Contemporary Capitalism (London: N.L.B., 1975). And it involves the Frankfurt School, in particular Claus Offe and Jurgen

Habermas. See, e.g. Jurgen Habermas, Legitimation Crisis (Boston: Beacon Press, 1975). Habermas argues that advanced capitalism is characterised by an extensive though not total replacement of the market by the state.

12. The concept of legitimacy goes a long way towards overcoming Crouch's problems.

13. See Paul Malone, "C.A.I. Hits Government Regreation", Australian Financial Review, August 6th, 1980.

14. It is a role of which many writers are aware; but it is not a role which "fundamental Marxists" have been prepared to study seriously because of the primacy they attach to the sphere of production and the difficulties for value theory which a non-competitive distribution of surplus product presents.

15. Crouch, op.cit., p.19.

16. Ibid., p.20.

17. Cf. Michael Kalecki, Selected Essays on the Dynamics of the Capitalist Economy (Cambridge: C.U.P., 1971).

18. Cf. Ernest Mandel, Late Capitalism (London: N.L.B., 1973), on the anarchy of late capitalism.

19. For a succinct statement of the Treasury's view, see its submission to the Crawford Committee, Flexibility, Economic Change and Growth, Treasury Economic Paper, No.3.

20. See Stuart Holland, The Socialist Challenge (London: Quartet Books, 1975), and Alfred S. Eichner, The Megacorp and Oligopoly: Micro-foundations of macro dynamics (Cambridge: C.U.P., 1976) for an example of post-Keynesian micro-economics.

21. Report of the Study Group on Structural Adjustment (Canberra: A.G.P.S., 1979), ch.11.

22. Industries Assistance Commission, Annual Report, 1978-79 (Canberra: A.G.P.S., 1980), p.82.

23. See Report of the Study Group..., op.cit., pp.10.6-10.12.

24. Treasurer of the Commonwealth of Australia, Budget Speech 1978-80, p.149.

25. Budget Speech, op.cit., p.159.

26. R. Stuart et.al., Australian Crude Oil Pricing Since 1975: Government Policy and Revenue Flows, Petroleum Research Project, Background Paper No.1, September, 1979.

27. A.B.S., Australian National Accounts: National Income and Expenditure 1977-78 (Canberra: A.G.P.S., 1978).

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