The Principle of the Distribution of Income in a Socialist Market Economy

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Abstract: *This article examines the conditions for a classless society on the basis of the degree of social integration. At first the classical model of distribution is presented where the social degree of integration is zero, capitalists receive only profits, workers only wages. Then the degree of integration is introduced and the type of cross-distribution is presented which yields a classless society as every individual receives his income from the different sources in equal proportions.*

Keywords: socialist market economy; size distribution of income; cross-distribution of income, functional distribution of income; rate of surplus value; degree of social integration; economic classes; classless society; institutional economics; Chinese economy; savings rate;

JEL codes: B51; D30; E02; E11; E25; I30; O16; P16; P2; P3

Introduction

"For the classical economists, and especially for Marx, the study of Political Economy and the analysis of exchange-value necessarily *started* from those socio-economic conditions that shaped the class relations of society." [Dobb, 1975]

"The produce of the earth -- all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated."

"But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different … To determine the laws which regulate this distribution, is the principal problem in Political Economy ..." [Ricardo, 1817, Preface].

Marx defines classes like Ricardo on the basis of their source of income. In his "Critique of the Gotha Programme" Marx emphasises that "the instruments of labor are the monopoly of the capitalist class" as well as of the class of the landowners and "the resulting dependence of the working class is the cause of misery and servitude in all forms."

It is the purpose of this article to present the principle of the distribution of income from the different sources for the socialist market economy. If the institutions of a socialist market economy are such that these principles are observed the society is a classless society in the sense that there are no economic classes as each individual receives income from different sources in the same proportions. This does not mean that the level of income is the same for all individuals but it is certain, that the size distribution of income would be less unequal.

This article does not investigate the question how this distribution can come about. In particular we do not discuss the question what are the institutional requirements to obtain such a distribution.

The Classical Model of the Distribution of Income

For simplicity we distinguish here only between capital, **K,** and labour, **L,** as the sources of income, **Y.** This does not mean that capital is a source of value as the only source of value is labour. However, in a capitalist economy the private ownership of capital yields profits. The people who receive their income from capital in form of profits, **P,** constitute the class of capitalists whereas those people receiving wages, **W,** from their labour form the class of labourers.

We can express total income of society, **Y** as the sum of incomes by capitalists, **P,** and workers, **W,** as:

$$Y = P + W$$

which consist of the incomes of the members of each class. The individuals **i = 1** to **m** as capitalists receive profits from their ownership of capital:

$$P = \sum_{i=1}^{m} P_i$$

and the individuals **i = m + 1** to **n** receive wages from their work:

$$W = \sum_{i=m+1}^{n} W_i$$

This is the classical model of the distribution of personal income amongst the members of the different classes of society. As indicated by the quotation of Maurice Dobb above, the traditional socialist view is that only by nationalising the means of production this division of society into classes can be overcome as only public ownership of the means of production can provide the necessary conditions for a fundamental reorganisation of the socio-economic relations of production.

However, if we search for the principle of distribution for a socialist economy based on private means of production there has to be a cross-distribution of wealth and income to abolish the antagonism of class. To analyse such a distribution we redefine the model of distribution of income.

The Model of Cross-Distribution of Income Amongst Classes

Individuals receive income from the different sources capital and labour. As labour is the primary source and capital yields income only because of its relative scarcity we measure the income from capital as a proportion of income from labour, **s**.

s is in essence the same as the rate of surplus value which expresses the surplus **m** as proportion of variable capital **v** which has produced it. **s = m / v**.

However in our context **s** is the relation of profits to wages in individual income. $\mathbf{s_i}$ is called the degree of participation. For individuals the cross-distribution of incomes from different source can now be expressed by their $\mathbf{s_i}$.

Our formula for total income has to change as now we want to express the fact that there is a cross distribution. So, income is $\mathbf{Y = P + W}$, but it is preferable to express it also as $\mathbf{Y = Y_C + Y_L}$, where $\mathbf{Y_C}$ is income of the pure capitalists, that is those who do not work at all and $\mathbf{Y_L}$ is the income of the individuals forming the rest of society.

For total income $\mathbf{Y = P + W}$ we express profits as a part of wages by $\mathbf{s = P/W}$ and therefore total income:

$$\mathbf{Y = W\,(1 + s)}$$

In a capitalist society we cannot define $\mathbf{s_i}$ for some capitalists (the pure capitalists) as there is no income from work. For this class the only source of income is profits as in the classical model:

$$Y_C = \sum_{i=1}^{m} P_i,\ s_i \text{ is not defined as } W_i = 0$$

But for the rest of society, the individuals $\mathbf{i = m + 1}$ to $\mathbf{n}$ who participate in work we can define their degree of participation $\mathbf{s_i}$,

$$Y_L = \sum_{i=m+1}^{n} W_i (1 + s_i);\ W_i > 0$$

There exist some $\mathbf{s_i}$ which are almost infinite as some capitalists income from work is very small in relation to their income from profits.

For some persons $\mathbf{s_i < 0}$ as they have to pay some debts from their wages.

Many persons receive only wages and their $\mathbf{s_i = 0}$ which is the classical case. As $\mathbf{s_i}$ is the degree of social integration, in the classical model the social integration is zero.

It is interesting to note that we are using the same tool, the rate of surplus value, **s,** which Marx has used to analyse exploitation. Here we apply it to the distribution of personal income from different sources to find the solution for a socialist market economy. The distribution of personal income in a capitalist market economy can be characterized by a distribution which has approximately the shape as illustrated in Figure 1.

This distribution is known as the Pareto distribution [Pareto, 1896]. The point P characterises the level of income **I** or higher that has been obtained by **N** persons. The higher the income, the less persons receive that level of income or more.

The shape of this distribution is not only determined by the unequal distribution of wealth and the profits deriving from this but also the income from work or income from earnings is highly unevenly distributed (see Lydall, 1968).

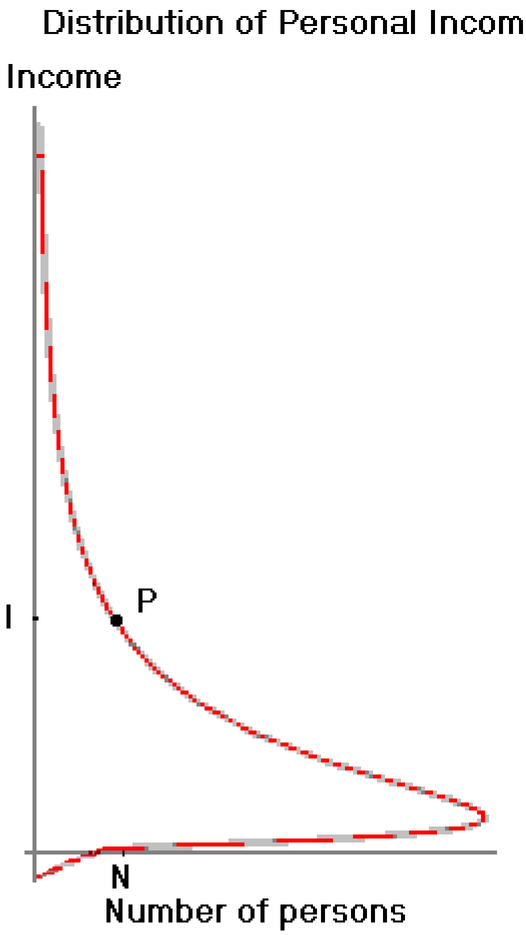

Figure 1

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Differences of personal income due to differences of ownership of the sources of income can be measured by the degree of participation $\mathbf{s_i}$.

Different intensities of using wealth in order to obtain income and different intensities to work are some of the factors determining the distribution. We are concerned here only with those conditions which define the classless society. Great inequality amongst persons may cause other forms of dependence. That is of importance too as expressed in demands for "equal opportunity" and "solidarity". But these issues are not considered here. We are searching the principle of distribution which overcomes the antagonisms of the economic classes and this can be expressed in terms of the degree of participation **s** which is the rate of surplus value applied to personal income.

The variation of $\mathbf{s_i}$ amongst persons characterises the **degree of socialisation of society**. If there exist differences in the degree of participation, persons with a $\mathbf{s_i}$ greater **s** "exploit" the persons having an $\mathbf{s_i}$ less than average.

The antagonism amongst classes is overcome if the individual degrees of participation are equal to the average degree of participation, if the composition of income of each is equal to the composition of total income of society,

$$\mathbf{s = s_i \text{ for } i = 1 \dots n,}$$

This is the fundamental principle of distribution of income for a socialist market economy.

Capitalism recognizes the importance of means of production to increase the productivity of labour but the ruling class exploits the working people by owing and controlling these means of production and deriving a monopoly income from their relative scarcity. The transition to socialism consists in abolishing this monopoly of ownership and to establish a relationship between work and ownership of the means of production.

It is obvious from the analysis above that a transition from a planned socialist economy to a socialist market economy is in principle much easier (although it has failed in the Soviet Union) than the transition from a capitalist system to a socialist market economy.

One major objective of socialist policies is to increase the degree of participation of the members of the working classes.

The average degree of participation that is to say the rate of surplus value of the economy is approximately s = **0.33%** in OECD countries. It is very encouraging to see that the medium saving rate in the Chinese economy is much higher than in the Western economies. This is a key factor to come close to a socialist market economy. There has been a tough debate on compulsory savings for workers in some Western societies in order to overcome the monopoly power of capitalists. These efforts have always been dwarfed.

Even more troublesome is the fact that some Western governments put pressure upon the Chinese government to reduce the savings ratio of their people. This demand is just the same as demanding the abolishment of socialism.

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