Paying Surplus Value

Keith Rankin, 14 March 2015

Last week I wrote about what the increases in Parliamentary salaries tells us more generally about the remuneration of senior managers in the private and public sectors (Paying Politicians and Managers). I noted that, in general, workers get paid on account of their scarcity rather than their productivity. It means that, as productivity increases, ordinary workers become less scarce; competitive pressures between non-unionised workers ensure that productivity gains go to the bosses.

So, yes, the market for bosses is different. KORAKYS (comments) finds "it very difficult to believe that managers are being paid more because there is a scarcity of them". The bosses' bosses (company directors) justify high executive pay on the basis that executive talent is scarce. And they are partly right, in the sense that market failure exists in the 'training' of bosses. It's not clear that ordinary workers and ordinary shareholders really deserve to lose out because their executives, taken collectively, will not reproduce themselves efficiently.

More to the point, capitalism is in practice a scramble for the economic surplus. There are three parties in this scramble: the sovereign public, private property (capital), and labour. A large part of the history of capitalism is the collaboration between capital and labour to shut out the public property rights of the democratised sovereign. Thus two economic interests get to feast on the produce of three. The third interest fights back as pragmatically as it can though taxes and public charity, but in reality it suffered a technical knock-out in round one. (To anglophiles, round one can be clearly dated to the year 1688. But the new English king was actually a Dutchman; the first knock-out blow may have been in the 1580s and not very technical. From 1581 the Dutch were sans-sovereign, a merchant republic.)

The concept of contestable economic surplus, central to capitalism, really dates back to the dawn of agriculture. It substantially predates capitalism. Economics fudges the concept.

In economics the word 'surplus' has three meanings. First it means 'unsold goods' – excess supply – a problem cured by free markets. Second it means something like net benefit, or net product; the spoils of the economy over and above subsistence, and available for distribution. Third it means 'revenue minus spending', as in 'current account surplus', or 'Budget surplus'.

The important meaning here is the second one. Economics' textbooks discuss 'consumer surplus' and producer surplus', but only as a means to derive the inefficiency concept of 'deadweight loss'. By emphasising what happens at the margin, neoclassical economics quickly draws students away from the excesses that occur well away from the margin.

Textbooks also discuss the concept of 'economic rent', which is appropriation of the economic surplus (The concept is only taught at the microeconomic level, and quickly skipped over at that.)The textbooks generally only apply the concept to monopolies. Neoclassical economics displaced classical economics (which emphasised appropriation of the surplus by two moneyed classes and eventually by one landlord class as an inevitable by-product of growth) because of these tumultuous implications.

Karl Marx, commonly regarded by historians of economics as a classical economist, emphasised the bourgeoisie over the landlord class. He saw the accumulation of physical capital, with its embedded new industrial technologies, as prevailing over the landed interest in its claims on that surplus value; until that is, a revolution would transfer that industrial surplus to a working class who could take no more injustice, and would distribute that surplus to the working majority.

Here is not the place to discuss Marxism further. Rather, I will briefly skip to Social Credit (refer Northland, Vernon Cracknell, Social Credit). As I understand it, the A+B theorem is an attempt to grapple with surplus value. Social Credit emphasised the role of interest – usury – as taking value away from

productive people while giving back nothing; interest was/is to the system as a puncture wound, or an unclotting mosquito bite.

The argument is easily dismissed because all interest paid represents income to somebody else, be it the creditors of the banks or the shareholders of the banks or independent of the banks. The problem is that interest represents a flow of income from those on lower incomes to those on higher incomes; it's another mechanism whereby the private propertied classes bleed (extract surplus value from) the (especially) self-employed working classes. Indeed, the policies informed by Social Credit were generally supportive of balanced capitalism – distributing the surplus in an equitable way – rather than the otherwise tendency to concentrate surplus value in the hands of those who already had much more wealth than they could spend on consumer or capital goods.

Social Creditors, like the supporters of Henry George before them, had one big and slightly flawed idea, but understood the need of capitalism as a system to reward all classes and not just the capitalist class. Capitalism dies when the only people who can spend are capitalists. Capitalists, by the very definition of them in classical economics, are misers in that their raison d'être is to save.

The executive (or managerial) class is a more contemporary version of Marx's bourgeoisie. In the 1960s John Kenneth Galbraith called them the planners of the "planning system" that grabbed the economic surplus from the exploitable "market system" of small competing businesses. Galbraith wrote that the planners could steal (either as the robber barons did, or, more subtly, as tax avoiders do; refer my recent Fixing Tax Evadance through Public Equity) from either their employees or from their shareholders. Frequently they appropriated their surpluses at the expense of both their workers and their owners.

So, in the first quarter of what promises to be a long twenty-first century (which I date from 1989), we see the surpluses going principally to the financial and managerial classes. And industrial capitalism is grinding to a halt as these groups accumulate assets at the expense of workers, and of the sovereign public. What about the option of recycling those surpluses (as debt) to the workers, the precariat, the unemployed and the unemployable? That option is now facing diminishing returns.

Our overpaid executives use their bargaining power over both wage workers and self-employed contractors (the distinction is already highly blurred) to accumulate high earnings which are in the main surpluses, not scarcity costs. For them high incomes represent a form of prestige, rather than means to acquire new goods and services. So long as their businesses' shareholders are content with their lot, and their employees are grateful to have jobs, then where else can the surplus value go other than into our executives' wallets?

There is of course a solution to the problem, a means to get much of that surplus value to where it is needed by both presently disadvantaged individuals and the market system as a whole. It is not by having more workers and more work. It is through acknowledging the property rights of the sovereign public; the interest that was edged out of the modern distributional framework when sovereigns ceased to be absolute (as in the English 'Glorious Revolution' of 1688), and before that in the Dutch Republic which began in 1581 and lasted until 1795.

[Note. To historians, the modern era began circa 1500. I would argue that 1492 was the "golden spike" year; not 1610. Refer *The Guardian*, 11 March 2015, Was 1610 the beginning of a new human epoch? Not only did 1492 signify the beginning of Europe's trans-oceanic venturing, it also represented the ejection of Islam – that critical conduit of renaissance knowledge – from Western Europe. Fortunately for Europe – if not necessarily for the rest – the Renaissance had, just that century, achieved critical mass.]