

Coupon socialists: A critique of the new Marxists

Living in the late 20th century must be quite trying for Marxists and all the other varieties of socialists. Seldom have utopian expectations been more truly dashed than by a confrontation with reality, even if the will to believe is taking an unconscionable time dying. Indeed, the old time religion is still alive, in places, even if not exactly well.

A recent sighting has been the attempt by John Roemer of the University of California at Davis (Business Day, August 28 1996) to present encompassing state intervention as a viable alternative to privatisation.

According to Roemer, what is decisive is not privatising state firms but restructuring them.

This has little to do with transferring property rights from the state to individual citizens; a mere "legal process". Restructuring is about making sure that state firms face competitive environments before being privatised. State monopolies must be broken up, state firms must no longer benefit from tariff protection and preferential tax and credit treatment, and managers must be hired on a competitive labour market.

Now all this is unexceptionable. There are different routes to privatisation. One way to go is to convert public monopolies into private monopolies, which will maximise state revenues from the sale of public assets and will ensure monopoly rents for the happy new owners.

But on equity and efficiency grounds it leaves a lot to be desired.

Those who support privatisation for these reasons will have no problems endorsing Roemer's proposals.

It should be a prerequisite for privatisation that former state firms operate in a competitive world. The plain sailing enters choppy waters when we look at what comes next in Roemer's scheme of corporate governance. Difficulties accumulate thick and fast and refuse to go away.

Roemer shares the familiar socialist distrust of the poor, which is why he says the shares of state-owned firms cannot be distributed free to all adult citizens on a per capita basis as happened in Russia and some Central European countries. If the new owners can sell their assets, "many poor citizens will sell these shares to the rich, and a sharp concentration of share ownership in the hands of the wealthy will ensue".

What is more, the recipients of such one-time capital lump sums will not always invest them "wisely" and their children "will receive nothing". This paternalist belief that many of the poor are not really adult and need protection, in fact guidance, reminds one of the old apartheid laws which forbade the sale of liquor to Africans.

Just as the members of Rousseau's ideal state were to be "forced to be free", so under Roemer's precept citizens will be forced to be equal, whether they like it or not. All adult citizens will receive coupons which they can use to purchase shares in firms being denationalised.

They cannot sell them or transfer them to others. They will receive dividends but when they die the shares will revert to the state, which will then distribute them to a new batch of recipients.

This seems much too simple. It is. He doesn't face up to his own logic.

What about those holders who make "imprudent" investments by purchasing shares in firms which are unprofitable? Their incomes will decline against profitable investments and inequalities will widen.

If we accept Roemer's premises it follows that the state will have to intervene to prevent the process from getting out of hand. When will it start doing so and where will it stop?

But this not the worst of it, not by a long shot. Public firms will not be fully denationalised; the state will be there all the time. Roemer proposes three classes of owners of "denationalised" firms: coupon-holding citizens, pension funds and similar institutions, and the state. His justification is that these "three classes will all have somewhat different goals, and balancing the ownership by assigning no one class a majority of shares will prevent the firm from behaving perversely".

He points out, plausibly enough, that as pension funds and citizens are mainly interested in profits, "the state will not be able to induce the firm to engage in inefficient practices which may suit political interests". The obvious next question is how the state will prevent the other two classes from behaving perversely.

To this there is no answer, which appears extraordinary - at first. On reflection, it is not so very odd.

The state presence can only make itself felt by inhibiting the pursuit of profit, which of course is the main justification for privatisation. And if the state actually were to promote the pursuit of profit, it is difficult to see why its presence is required in the first place.

In short, there is no economic rationale for continued state involvement with denationalised firms.

All we have is the traditional socialist distrust of market processes.

Just as socialists have doubted the ability of the poor to make sensible decisions on their own behalf, so they have had an uncritical faith in the ability of wise and benevolent politicians and bureaucrats to know what's good for others.

This is the clear thrust of Roemer's writings. Like other neo-Marxists, he cannot bring himself to accept that state firms will be turned over to the private sector.

So he comes up with an ingenious scheme for a continued state presence, just call it "restructuring". Roemer gives the game away when he talks about how the citizens "would benefit from the state-provided goods that would be financed with state revenues from firms". So state expenditure would in fact increase under Roemer's scheme.

And not only because denationalisation would be incomplete. He proposes "transforming large privately owned firms into "coupon firms" as well, thus augmenting the scope of the coupon sector in the economy". But we know that he is only being coy.

Roemer in fact means augmenting the scope of the public sector. That is what "restructuring" is a euphemism for.

Perhaps the strangest thing about Roemer's argument is that he so totally ignores the findings of the theory of public choice, or the economic theory of politics.

It is strange because one would have expected a US economist to be thoroughly conversant with a discipline pioneered by his own countrymen.

The central conclusion of public choice analysis is that the state sector does not consist of well-informed and altruistic individuals who impersonally pursue the public interest.

Like businessmen, politicians and bureaucrats do the best they can for themselves. Unlike businessmen, they are not subject to the discipline of the market and find it easier to promote their own interests at the expense of the public.

What we see around us in SA today does little to refute the economic theory of politics.

It seems as if the main change has been in the identity of the parasites. We can only tremble at what they would do with increased state revenues from the "coupon sector".

Professor Roemer has done us a huge favour.

He has shown that for privatisation there is no alternative.

This Briefing Paper was written by Henry Kenney of the University of the Witwatersrand, and first appeared in Business Day in September 1996.