

Ways to improve Free-Market Economy

The way to a soft revolution

The present financial and economic turmoil has brought blame the Free-Market Economy, because of its profit-oriented mentality, held largely responsible for this disaster. Alternate models are longed after, that would be void of greed and more socially oriented. However, only two economic models exist: Either the Free-Market Economy, which we have, or the Planned-Economy of the past communist regimes, where a long experience exists. Barter trade is not a separate economic model, because it is profit-oriented in the same way as the Free-Market Economy. It only differs by the absence of a reliable currency.

Had the experience with the Planned Economy not been so devastating, then this order could be credited with some benefit: By definition such an economy can be easily steered by politicians, which is what they are so fond of. For example the gap between rich and poor can be more easily managed. However, according to the long experience mentioned above, this has indeed succeeded, but it invariably resulted in making everybody poorer. The fact that this happens inevitably so, is maybe due to millions of people working in the same direction, i.e. profit maximization, under the Free Market Economy, whereas in a Planned-Economy the steering function is left to a small number of party-faithful planners. So this would be the consequence of collective action yielding superior results compared to (nearly) individual action. After all these years the overall result was horrifying: some 75 years of oppression for millions of people, restricted progress in welfare for the populations, heavily contaminated environment, annihilation of the elite etc.

Clearly, the Planned Economy is not a valid alternative to the current Free Market Economy.

The Free-Market Economy, if unregulated, has also massive disadvantages: Writing at the beginning of the industrial era, Karl Marx describes the inhuman conditions, which prevailed at a moment when Capitalism was truly “unleashed”. However since those times a lot has changed: the Free-Market Economy has progressively been regulated and made socially acceptable through the untiring efforts of the workers, of their unions, as well as under the guidance of farsighted statesmen. In rendering the Free-Market Economy socially acceptable, Europe has gone farther than the USA. Unfortunately in the globalised world of today, where dollar dominates, the rules, or absence of rules, are often imposed by the USA. Recently however something seems to change: Alan Greenspan, Apostle of the unregulated market, admits today that he was wrong in his believe that banks should best be left regulating themselves. Because the present financial turmoil clearly has its origins in the USA and in its blind reliance on the self-regulating forces of the market, Europe has today a historical chance to impose a different view.

I would propose to build a common European position around the concept of Humanity¹, putting the industry at the service of people, rather than the other way round, as is the case now and has been for thousands of years: Probably since the emergence of the agricultural Societies, for the majority of people the rule has been “work or starve!” Today we have a

¹ IN THE SPANISH SENSE OF “HUMANIDAD” ADVOCATED BY PHILOSOPHERS LIKE JOSÉ ORTEGA Y GASSET AND MIGUEL DE UNAMUNO Y JUGO

historical chance to bend this rule by putting the industry to the service of people. In order to achieve this goal, „it is sufficient“ to break up the chains, which are tying people to a source of income. How this can happen, requires an explanation:

Industry is made up of individual companies that can be thought of as black boxes that receive capital and labour inputs and produce by means of a „magic formula“, proper to each firm, a certain amount of added value. At the level of a country, all these added values sum up to the often quoted GDP². Inputs from outside the company, like supplies, raw or semi-finished materials and energy are ignored in this view because they do not contribute to the added value. Taxes and interest are paid off from the added value produced by applying precise rules, allowing hardly any leeway. From the remaining added value some funds are put aside for investment in order to keep the machinery up to date and in good working condition. Next, the special allowances which the leaders and the board members authorize for themselves are deducted. The remaining part of the added value is then distributed between the inputs capital (shares) and labour (wages) depending upon the prevailing conditions. This is where the bargaining positions of the two partners, the workers and the shareholders become all important.

Some recent worldwide developments have had large effects on the negotiating positions of these partners and are maybe at the origin of a number of mishaps, for example:

- the world-wide freedom of movement, enjoyed by capital today, due to globalization;
- the greatly exaggerated prices for energy and other raw materials, e.g. crude oil, under justification by a well-organized green lobby, that have lead to a huge, freely floating amount of capital;
- the outsourcing of jobs world-wide to low wage countries, made possible by the Internet;
- a structural unemployment situation that started end of the 80's, because simple jobs had been eliminated and taken over by machinery or computers. Therefore unskilled and older workers today find no suitable jobs.

On balance, these developments have had a detrimental effect mainly on the negotiating position of the workers and therefore result in the ever larger opening of the shear between earnings from capital and from wages.

The magic concept, which is capable of fundamentally changing the balance in favour of the workers under the Free-Market Economy, is called:

Basic Income.

We mean an income fixed at a decent level for every citizen, whether female or male, young or old, guaranteed by the State and depending upon need. The financing comes from tax revenue. Such a scheme is very similar to the RMG³, which is a minimal revenue at an appropriate level that exists in Luxembourg. The only change required to shift to Basic

² GROSS DOMESTIC PRODUCT

³ „*Revenu Minimum Garanti* », MINIMUM GUARANTEED INCOME AT A LEVEL SLIGHTLY LESS THAN THE MINIMUM WAGE, LINKED TO THE CONSUMER PRICE INDEX

Income is to strip the RMG from its bad reputation of a lazy person's revenue. This would seem reasonable, since the individual out of work is often not responsible for the situation he is in, as has been explained above. Moreover, such a position should not be feared, but considered a chance because it gives people the possibility of using newly acquired leisure time in a meaningful way: e.g. by attending to occupations that have no direct economic but certainly a human value, like sports, art and culture, social work, children's care, neighbourhood service etc.

Basically the substantial advantage of removing the compulsory link between people and labour lies in the strengthening of the negotiating power of the workers on the labour market. This is a profound change that could go so far that it would almost amount to a revolution. Therefore such a system can only be introduced gradually. However there is not the smallest doubt that the equilibrium in the labour market would greatly change in favour of the workers, without necessitating bitter contests. The above mentioned shear between incomes would again tend to close.

How can such a system be financed?

Luxembourg is a good example in this respect, because the RMG already exists and is being financed. The first phase of a change to Basic Income is simply accepting the RMG as a normal feature. It is a purely psychological measure that comes at no cost. Therefore no additional financing would be required. However as more low-wage workers would choose to join the RMG regime, financing would need to be increased. Yet it is easy to show by a marginal reasoning that additional finance is automatically provided through corporate tax: Imagine that in the course of a restructuring, a company would make one more job redundant, it will then spare the corresponding full cost, including social contributions and its profit would increase by exactly the same amount. The additional corporate tax due for the increase in profit is almost equivalent to the RMG for one individual. In this way financing one additional redundancy joining the RMG-regime will be financed *ceteris paribus*⁴ by the higher amount of corporate tax paid. It is fair to say however that other adjustments will be needed, like contributions for pension funds, jobless insurance, health insurance etc. but since these are basically social transfers, money will simply be shifted from one place to another, at no additional cost.

It is no exaggeration to declare that Europe can be proud of the way it has handled the present crisis through pragmatic action in collaboration between the ECB⁵ and the Euro-Zone Council of Finance Ministers, these initiatives serving as an example in quite a few instances. By introducing the idea of a novel, more human way of shaping the Free-Market Economy, into the ongoing discussion about shaping its future, Europe could again play a decisive role. This idea would be introducing the principle of Basic Income at an appropriate level for each citizen and implementing this principle in a gradual way. By removing the compulsory link between income and labour, freedom of mankind would reach a new dimension and the introduction of Humanisation would eliminate many negative aspects of the classic Free-Market Economy.

Since it can be expected that the shear between income from capital and labour would tend to close, embittered resistance from capital owners can be expected. However If supply and

⁴ ALL OTHER FACTORS BEING EQUAL, LATIN QUOTATION COMMONLY USED IN MICRO-ECONOMICS

⁵ EUROPEAN CENTRAL BANK

demand are unbiased, this would not affect the equilibrium between offer and demand on the labour market that would establish itself. This is because workers would only accept wages sufficiently in excess of the Basic Income.

As soon as the new principle would be introduced worldwide, the bargaining position of the capital owners would be weakened because of the excess capital accumulated through the artificially high prices of certain raw materials mentioned above. The advantage to the workers would then be further enhanced, leading to a historical revenge of the labour factor.