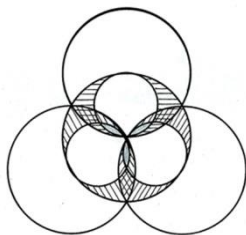


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ON THE CONDITION OF STABILITY OF SOCIAL RELATIONS IN THE MARKET ECONOMY

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Abstract. Based on a simple macroeconomic approximation of a production system as a system that uses common property resource, the author discusses the rules of distribution of the social product between three economic subjects: a group of entrepreneurs, a group of employees, and the government (the state budget). The scheme of distribution of the social product in accordance with the volume of common property resource used in production is proposed. It is shown that the proposed scheme compared to the traditional scheme of taxation on the profits of enterprises and individuals' income stimulates an increase in the efficiency of the use of common property resource and simplifies the tax collection system.

Key words: distribution of social product, production efficiency, common property resource, taxation.

1. INTRODUCTION

The organization of social economic activity involves the coordinated activity of a huge number of people, so the production has had a social character since prehistoric times. Man plays various roles in the system; above all, man is the initiator and manager of all possible production projects. In the simplest case, a single person is the initiator, coordinator, executor, and beneficiary of the project. In the organization of more complex projects, different functions are performed, generally speaking, by different people; in this case, social (production) relations of people arise, and the problem of distribution of the created social product among the participants arises, and conflicts over this distribution appear.

The functioning of the production system is determined by objective economic laws independent of people's desires; the fundamental law of any theory of social production is the relation between the output of the system Y (goods and services, social product) and production factors, as which, besides labour input L (a factor common to all theories), there is a need to use other quantities [6]. When studying the dynamics of social production [4, 9] it was established that the output of the production system Y (social product) is unambiguously determined by the social resources used in production (labour input L and work of external energy sources for replacement of labour input P) and the currently existing technology of production processes, which can be represented in different forms, for example, in the following form

$$Y = \beta L + \gamma P \quad (1)$$

It is assumed that the output (social product) Y is measured in monetary units of constant purchasing power, i.e. when inflation is excluded, while the marginal productivities β and γ of production factors are determined by the technology used, and are, generally

speaking, functions of the ratio of production factors P and L estimated in units of energy. It is essential that, unlike traditionally used production functions [6], relation (1) does not contain any adjusting values.

The distribution of the social product takes place according to rules that are established by people in the interests of all or a few chosen participants in production processes. The rules are written down and formulated in laws approved by parliament, and are registered in the constitution: the rules of distribution of the social product are legitimized, and the life of society (social relations, including the production ones) is organized in such a way as to guarantee the fulfilment of the registered rules. The order of distribution is the result of social self-organization and can be changed according to the wishes of the people.

There is a special structure, the government, to monitor compliance with the established rules. In addition to its constitutional responsibility, the central governing body (the national government) oversees the implementation of some specific programs, in one way or another, beneficial to the whole society; according to Stiglitz and Rosengard [11], we find among those programs, primarily, external and internal security, research and scientific and technological development, health care, education, social welfare, and much more. There are different opinions about the functions that should be centralized; some researchers of the problem believe that the role of central authorities should be minimized: the government should establish the monetary system, maintain order, judge and protect those in need; everything else should be left to an "invisible hand of the market" [8].

In any case, government by definition has certain responsibilities; in order to fulfil these responsibilities, and to organize nationwide programs, it draws certain resources, mainly in the form of taxes from participants in production processes and trade operations. The problem arises of the distribution of the social product between the participants in production processes and the government, which is a necessary participant in the production and distribution activities. To simplify the analysis, the direct participants in production can be divided into two groups: businessmen (entrepreneurs) and performers (hired workers), and therefore, as a rough approximation, we should consider the problem of distribution of the social product between three participants: two groups of producers and government (the state budget), without paying attention to the non-working members of society.

Schemes of distribution of the social product have existed for centuries; taxes are an integral part of social life, but from time to time questions about the principles of taxation arise [2, 11]. Who or what is the subject of taxation: an individual or a production enterprise? Should the amount of deductions correspond to the contribution of the subject into the production output or, alternatively, to its consumption? This paper treats the set of productive enterprises as a system that uses common property resource to produce things and services, and therefore considers it natural that producers should compensate for the resources used. Section 2 discusses the practice of distributing the social product and formulates a condition for the sustainable development of the social system. All this allows us to propose a new taxation scheme, discussed in Section 3. The purpose of the paper is to discuss the rules of distribution of the social product and to justify the conditions for sustainable development of the social system on the basis of the new taxation scheme.

2. DISTRIBUTION OF THE SOCIAL PRODUCT

2.1. Surplus product. Two groups of economically active people (businessmen-entrepreneurs and hired workers) cannot exist without each other and together create value Y , or gross domestic product, which is valued in monetary units and determined by the production factors: the efforts of workers L and substitute work P (see equation 1). Installed production equipment with a total value K makes it possible to attract common property resources to production, i.e. labour force and productive energy, which use must naturally be compensated due to the production output Y , unless, of course, the organizers of production seek to destroy the system of social production.

Entrepreneurs, as organizers of production, pay operating costs: compensation for the use of equipment in the form of substitute labour $p = \mu K / P$ (μK is the cost of equipment used in the production process, μ is the retirement rate) and compensation for the use of labour force in the form of wages of hired workers and employees w . After subtracting current expenditures from the social product Y , which we represent by relation (1), we are left with a quantity of product called surplus product

$$\Delta Y = (\beta - w)L + (\gamma - p)P \quad (2)$$

The owner or lessee of production equipment, as an entrepreneur, is traditionally considered the owner of the surplus social product, and one can agree with this, since the entrepreneur is the organizer and coordinator of production processes. However, the entrepreneur must fulfil an important requirement: the social resources used must be fully compensated. It is assumed that the compensation of employees w will be the result of an agreement between the entrepreneur and the employees. However, the circumstances of attracting workers are such that they allow the entrepreneur to undervalue workers' wages [1]. The businessman seeks to maximize profits and thus reduce costs to a minimum, while paying employees does not usually compensate for all costs (education, health care ...) of restoring what is said to be a labour force. Similarly, a businessman's current expenditures on equipment maintenance or, in other words, paying for the use of substitute work p does not fully offset the public costs of research and development of devices that enable the use of energy for production purposes¹. Obviously, some kind of control is necessary to ensure that the compensation of the common property resource used is complete, in which the system of social production is not destroyed.

2.2 The problem of distribution. A study of economic activity shows that, contrary to Friedman's notion [8], common property resource are not compensated by the "invisible hand of the market" without any state intervention in economic life; government acts as the guardian and guarantor of social resources and the regulator of the equitable distribution of the social product. Being a central national authority, the government represents the interests (internal and external security, infrastructure, social programs, environment, etc.) of all members of society; it has to deal with a certain set of strategic public projects; for example, investments in demographic and research projects have effects after many years and usually do not attract private business. A more comprehensive set of public tasks must include

¹ *This type of expense is partially offset by payments for the use of inventions and know-how in production through various patent and licensing schemes*

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energy, transportation, communications, protection against epidemics and natural disasters, roads, postal services, education, information services, internal and external security, social insurance, care for the elderly and disabled, and care for the environment. The central government has to organize and control national projects, and a part of the social product created by productive enterprises must be used for this purpose, in one way or another. In addition, the central government is forced to intervene in relations between people on the basis of an uncertain and not always adequate notion of justice.

The central authority assumes responsibility and receives the corresponding rights; the government has to forcibly withdraw some share of the social product Y in order to fulfil its responsibilities. Thus, in the most elementary approximation, when considering distribution, it is necessary to consider three aggregate economic subjects: a group of entrepreneurs (including owners and top managers of enterprises), a group of employees and workers (executives), and a central authority (government), which by definition represents national interests, and to divide the produced social product into three corresponding parts

$$Y = \Pi + V + T \quad (3)$$

Each of the economic actors participates in social production and seeks to increase its share of the limited social product. Economic subjects are forced to cooperate with each other in order to establish a distribution acceptable to all. Thus, the problem of optimal allocation of the social product arises.

2.3 The stability condition. As can be seen from relation (1), marginal productivities β and γ are the average values of value production per unit of resources used, the depletion of which must be compensated under a stable society. The real values of direct compensation for the use of hired workers and substitute work w and p are usually underestimated due to various circumstances [1], and compensation rates d_L and d_P [3] should be introduced to avoid depletion of common property resource. Thus, according to the effort of workers, and to the substitute work used in production, the distribution of the social product between the group of entrepreneurs, the group of wage earners, and the government should be set as follows, respectively:

$$\begin{aligned} \Pi &= (\beta - w - d_L)L + (\gamma - p - d_P)P \\ V &= wL \\ T &= d_L L + (p + d_P)P \end{aligned} \quad (4)$$

The rates of compensation d_P and d_L are calculated according to the averages of the following values: marginal productivities β and γ , direct payment of inputs of production factors w and p , and the assumed share of income of entrepreneurs (owners and top managers of enterprises) in total final output $\pi = \Pi / Y$. It follows from relations (4)

$$d_L + w = \beta(1 - \pi), \quad d_P + p = \gamma(1 - \pi). \quad (5)$$

The average business income Π is controlled by society and must be provided in a

reasonable amount: the normative rates cannot be too large; on the other hand, the payments must compensate for the depletion of social resources and, if possible, ensure their increase, so that values d_L and d_P cannot be too small. These values also depend on the average values of the entrepreneur's estimates of current costs w and p .

The condition for the existence of a stable society is such a distribution of the social product, when the depletion of common property resource is at least fully compensated. Relations (4) and (5) allow us to estimate the necessary norms of withdrawal of part of the social product for a given value of the average income of entrepreneurs Π , which should be controlled by society.

3. THE EFFICIENCY OF THE PRODUCTION SYSTEM.

3.1 Taxes as compensation for the depletion of common property resources. In every society, a part of the product created is allocated for national purposes. This part includes expenditures on education, training, health care, and so on, which ensures the recovery and growth of the population and the development of modes of production. Payments include expenditures for the search for new sources of energy, the study of the possibility of using energy for productive purposes. In any case, the two production factors: human activity and the ability of energy to do useful work must be supported by a central authority.

Traditionally, the withdrawal of part of the surplus product occurs in the form of taxes, which are realized (without discussing the details) as a deduction from the profits of enterprises and people's incomes. Existing tax schemes (with a flat or progressive deduction scale) do not look fair and raise some questions [2, 11]: why does the money that, for example, was earned due to my hard work belong not only to me, but also to the person who did nothing. The progressive tax scale is also unfair: the person who earns more must pay more. Businessmen tend to evade taxes: there are offshore schemes, shady businesses, under-the table pays, and other inventions. The right to part of the product is contested by entrepreneurs; they are convinced that the surplus product belongs to them fairly. The existing mechanism of distribution of the social product turns out to be imperfect, but, in fact, no one can deny that surplus product belongs not only to the owner-lessee of the production means, but to all of society.

The traditional scheme described above represents the realization of the principle of taxation according to output; an alternative scheme could be based on the principle of taxation according to consumption: each enterprise pays for the "labour force" used and the substitute work. Charges (fees and regular payments) for the productive use of the natural environment as a major public resource should also be added. Thus, there should be three basic payments for the use of common property resource. These payments do not preclude the introduction of other payments to fine tune the production system.

The implementation of the principle of payment for the consumption of common property resource has certain advantages. Firstly, the distribution of payments across enterprises is equitable (what could be more equitable in a market economy than payment for common property resource used?). Secondly, understanding taxes as compensation for the use of common property resource eliminates disputes over the amount of taxes; the necessary amount of withdrawal can be calculated by relations (4) and (5) when information

about the state of the production system is taken into account. Then, control over the order of payments to the social fund is simplified (resources used can be controlled more easily than profits and revenues). And the last, but, nevertheless, perhaps the most important is that such a system includes an automatic mechanism for identifying and eliminating inefficient enterprises, which leads to an increase in labour productivity, which we will discuss in more detail below. It can be argued that the discussed scheme fully satisfies the "five desirable characteristics of any tax system" formulated by Stiglitz and Rosengard [11, p. 511-512]: economic efficiency, administrative simplicity, flexibility, transparent political accountability, and fairness.

3.2 Enterprise efficiency and the entrepreneurial premium. The efficiency of the technological activity of an enterprise is ultimately determined by how wisely common property resource (natural resources, employee effort, and productive energy) are used. The marginal productivities of an individual enterprise, $\tilde{\beta}$ and $\tilde{\gamma}$, generally speaking, differ from their average values for the entire production system. They may exceed the corresponding average values if the owner of the enterprise introduces a new product or a new technology in production compared to the existing ones. In this case, the entrepreneur, who, according to Schumpeter [9], can be called a neo-entrepreneur, creates an additional product. The entrepreneur's talent manifests itself in the efficient use of common property resource; the most successful businessmen receive additional profits, i.e. an entrepreneurial bonus, and the enterprise receives an advantage for development. The rest of the entrepreneurs must be satisfied with the average value of profit. If the local values of marginal productivity are lower than their average values for the whole system, the owner of the enterprise will face difficulties and will have to take measures to improve production processes, for example, to replace manual work with mechanical work (this increases the P/L ratio and, in turn, increases marginal productivity). Otherwise the company will go bankrupt. Thus, distribution (4), without any further appeals, contributes to the efficiency of the use of common property resource. It should be noted that the traditional taxation scheme does not have this property; moreover, traditional taxation suppresses productive activity and encourages the concealment of profits and income.

According to Schumpeter [10], the entrepreneur is the central figure of the project; he is an inspirer and organizer of the production process and hopes to benefit from the project. The entrepreneur's expectations are based on ownership of the production means, which, according to him, is unconditionally accompanied by ownership of the product created. But this is not true; David Ellerman [7] calls the widely held view that the owner of a business has the right to appropriate the product created by that business as a "fundamental myth". The product created can be considered as the property of the businessman only after full compensation for the common property resource used; the product can be consumed, sold, destroyed, used in production, that is, one can do with it whatever the businessman wants, but only after the common property resource used have been fully paid for. One of the responsibilities of government is to control property rights through a legal framework to be established. The principle of appropriating surplus value without any restrictions destroys any society, which, unfortunately, is happening in Russia. Any national society can encounter such a problem.

4. CONCLUSION

The economic activity of society is subject not only to certain economic laws, which are usually understood as ratios between different values, an example of which is ratio (1), but is also governed by certain legalized rules of social life, which should be distinguished from objective economic laws. The most significant influence on social life is exerted by the rules of distribution of the social product produced, which is traditionally associated with the distribution of property rights to the production means. This assertion has been widespread for centuries and seemed so fundamental and enduring that the question concerning ownership of the production means turned out to be the main issue of all social transformations. In Russia in 1917, the Bolsheviks fought hard for the nationalization of the production means; the meaning of the transformations of the eighties and nineties in Russia is a struggle for the transfer of the production means into private hands. In both cases, this struggle turns out to be a struggle for the right of appropriation of the surplus product; the change in the social situation has not led to stable social relations, and this raises the question of the causes of the existing problems. We should agree with S.S. Sulakshin [5] that the root of the problem lies not in the fact that people own productive assets, but in the fact that they use common property resources without caring about their support and development. The mechanism of distribution of the social product proposed in the paper can serve as a reliable basis for stable social relations.

A fair distribution of the created social product can be achieved not only through the distribution of property rights, but also in other ways, one of which is described in this paper. In any case, relations (4) and (5) allow us to establish the necessary accruals in order to obtain the desired distribution of the social product. The rules of taxation are formulated according to the volume of consumption of common property resource, and this, in our view, is a more appropriate principle of taxation than the alternative principle of taxation by volume of output. In our era, the main consumers of common property resource are productive enterprises, and they should also be the main subjects of taxation.

The government, which has adopted the described principles of formation of the social fund, receives a tool for evaluating the efficiency of the use of common property resource in production, which will make it possible to regulate the distribution of the social product and monitor labour productivity. The described rules are aimed at stimulating efficient development, creation, but not destruction. An increase in labour productivity will lead to an improvement in the well-being of each member of society, which will remove contradictions and soften mores. It should be noted that the rules can work effectively only with freedom of entrepreneurship, when any member of society can organize a business according to his/her desires and initiatives: we return to the need for freedom of entrepreneurship proclaimed by Friedman [8], but with some explicit limitations.

Economic laws do not depend on people's wishes, whereas rules are set by people, and differences in social systems are not due to economic laws, but to legalized rules of behaviour. One might think that eventually humanity, as a self-organizing system, will be able to design its own future by developing sensible principles of living together to ensure its prosperity, and will find, on the basis of all we know, options for the future development of the human population.

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