From: Raven, J. (1995). *The New Wealth of Nations: A New Enquiry into the Nature and Origins of the Wealth of Nations and the Societal Learning Arrangements Needed for a Sustainable Society (pp.56-61)*. Unionville, New York: Royal Fireworks Press; Sudbury, Suffolk: Bloomfield Books.
Raven, J. (1995). *The New Wealth of Nations: A New Enquiry into the Nature and Origins of the Wealth of Nations and the Societal Learning Arrangements Needed for a Sustainable Society*. Unionville, New York: Royal Fireworks Press; Sudbury, Suffolk: Bloomfield Books. (Chapters 1 [which summarises the whole book], 4 ["Some Observations on Money"], and 17 [Summary of Parts I to III and overview of Part IV: The Way Forward] are available at www.npsnet.com/cdd/nwn.htm).

Chapter 5

Some Observations On Prices

We will now look at some consequences of the fact that control of the spending of some three quarters of GNP rests, in some sense, with government. Many of these consequences stem from governments' adherence to current economic beliefs - which require them to raise most of the money they spend through taxation. In fact, in all countries of the European Union, on average about two thirds of the price of goods and services consists of taxation. In the UK, this is made up roughly as follows: One third of what appear to be the direct costs of labour consists of income tax, a further 10% consists of employees' national or other compulsory health insurance and pension contributions, and a further 25% consists of employers' national insurance and pension costs. Of the money that reaches employees, a significant sum is then spent on property taxes, other local taxes, and VAT. In this way, perhaps half of the wages paid to employees finds its way back to central or local government. Of firms' non-labour costs, 17.5% of the costs of materials, equipment, fuel and services consists of VAT. There will also be annual taxes on the use of cars and lorries. There may be training levies. Taxes on business property commonly amount to 30%. Much of the interest businesses are charged on loans will be devoted to banks' administration expenses. These have a high labour - and thus taxation - content. Finally any profits made by the business will be taxed at some 30%.

These observations indicate - in contradiction to traditional economic theory - that the largest share of the purchase price of goods and services consists of taxation - and not land, labour, capital, or management costs.

On the international scene, the price of most products is heavily dependent on the way in which research and development, defence, waste disposal, pollution, education, training, pensions, landscaping, redundancy, safety provision, and energy are priced and paid for. Such costs can be spread over a whole community via taxation, or individual firms can be required to pay for them and recover the costs from sales. In the second case, firms' products become much more expensive on the international marketplace. (As we will see, these arrangements have far-reaching consequences because, if firms were forced to pay the true costs of transportation, the claimed economies of scale of centralised production would disappear.) Indeed, as Grossman and Adams[5.1] have shown it was precisely to avoid the second scenario this that corporations worked so hard to create a network of laws - few of which came to public notice - to ensure that as many costs as possible were spread over the whole community.

Not only is the international competitiveness of a country's products heavily dependent on the overall level of taxation, it also depends on such things as tax-free enterprise zones (which enable employers and employees to enjoy the benefits of living in a society with high levels of public provision without having to pay for them) and on the *way* in which taxes are raised. Consider, for example, two countries which devote the same proportion of GNP to the public sector. One (like the UK throughout the 1960s and 70s) raises most of its revenue from income taxes and only a little from VAT. The other (like Germany) does the reverse. Since VAT, but not income tax, is deductible from export prices, the first country's exports become relatively expensive. This price differential is then further increased by the high VAT charged on entry into the second country. This gives the second country a huge competitive advantage without any basic difference in the overall level of taxation.

There are other ways in which legislation affects prices. For example, the price of housing and office and factory accommodation is primarily determined by, on the one hand, building and zoning legislation and policies relating to the release of land for building purposes, and, on the other, by pension companies' need to keep selling the property to each other at higher and higher prices in order to increase their nominal income and the value of their assets. The viability of out-of-town DIY warehouses, furniture stores, and supermarkets is heavily dependent on community investment to provide tax-free "advance business" accommodation. Similarly, the viability of forestry is heavily dependent on special taxation arrangements. Because it takes trees more than one human generation to grow, forestry, in the UK, can only be made "economic" by allowing management expenses to be set against the first owner's overall income, by creating special legislation to exempt forests from capital gains and capital transfer tax, and exempting sales of timber from other taxation. The viability of shipping lines is determined by the extent to which the country in which the ships are registered fails to enforce desirable (and sometimes internationally agreed) safety standards, manning levels, and hours of work.

What these examples show is that the *way* in which taxes are raised, and other legislation enforced, plays as important a role in determining prices on the international market as *levels* of taxation.

Then there is the question of subsidies, grants, and levies. The way in which targeted taxes and subsidies affect prices is immediately obvious in the case of such things as butter, oil, and electricity. In addition there may be direct "subsidies" to manufacturers: Capital grants, grants to employ certain classes of worker, and subsidies designed to maintain employment in designated local areas. Beyond that, certain types of equipment may be subsidised or, as is the case for factory robots in Japan, made available free of charge. Research may be paid for out of public funds ... in Japan it is *illegal* for firms to pay for research out of sales. Funds for such activities are made available by the government and thus do not have to figure in the prices charged for products.

Another factor which plays a much more important role in the determination of international "competitiveness" than the efficiency of management and labour is the rate of exchange. Changes in the rate of exchange between the US dollar and Sterling during the 1980s actually caused the price of the same British car, carrying a constant Sterling price tag, to vary between $8,000 and $24,000 in the USA. Confidence in a currency - and thus the rate of exchange - is primarily determined by what public servants do: It depends on the accounting conventions adopted in the calculation of "profits", the level of taxation of profits, interest rates, the likelihood of government confiscation of capital, and arrangements for the protection of the financial interests of shareholders in companies which get into difficulties. Once again, therefore, we see that it is the quality of public management (rather than the innovativeness and efficiency of individual producers - to which market theory attaches so much importance) which determines the success of individual companies in the international marketplace.

But these are not the only ways in which the decisions of public servants come to be the main factors determining prices and trade. Public servants also decide *which* costs have to be included directly in the price of a product and which will be spread over the whole community. As we have seen, the costs of production and distribution are not, as economists would have us believe, "facts" uncontaminated by human hand. They are in no sense directly determined by costs of capital, labour, and resources. On the contrary, the nominal costs of goods and services is almost entirely determined by what amount to almost arbitrary accounting practices resulting from an accumulation of, largely opportunist and ideologically-motivated, political and public service actions often themselves resulting from the interventions of pressure groups.

These interventions have had the effect - sometimes deliberately engineered - of obscuring the true costs of many goods and services. For example, the true costs of mass-produced goods include both the costs of transporting employees and materials to the factories and the products from factories to consumers. These costs actually include the expense, not only of constructing highways, but also the (extremely high) costs of the planning enquiries which are required prior to the highways being built and the administrative costs incurred in maintaining and policing them. The costs of transport also include the enormous costs of the insurance and legal systems. The costs to the community include the enormous costs of time lost in traffic congestion[5.2] and the costs of dealing with the effects of lead poisoning (many of which will be long-term and inflicted via damage done to the biosphere), treating injuries caused by vehicles and the costs of repairing property and rejuvenating forests damaged by the acid rain produced by exhaust fumes. To these may be added the costs of treating the diseases and organisational problems caused by the stress of travelling to work and working in large units, and the costs of disposing of the industrial waste (and the effects of the attendant pollution) generated by the factories themselves. Because of the way things are organised, most of these costs are spread over the entire community (via taxation) or else left for future generations to pay. Put simply, the organisers of mass production units do not have to cover more than a fraction of the costs which are directly attributable to them. These are paid by all citizens - whether they buy the mass-produced goods or not. It is virtually only because mass-produced goods are effectively subsidised that they seem to be less expensive than those produced by small units.

Similarly, the supposed efficiency of large distribution outlets - such as supermarket chains[5.3] - is almost entirely illusory. These impose a number of costs similar to those imposed by mass production units onto the community as a whole - and thus on those who go to smaller shops. By channelling almost all material through a small number of regional distribution centres - in the case of Safeway (one of the large supermarket chains), one milk centre serves the whole of the UK with all milk from all farms in the country being channelled there, packaged, and trucked back to stores from the north of Scotland to the south of England - they not only contribute to traffic congestion and pollution, they also destroy local resourcing of shops, kill local sustainability of communities, and gain enormous power over their suppliers. They use their economic muscle to force many of the costs which *are* counted by current accounting systems onto those - mainly older and poorer people who do not have cars

- who patronise small shops. This is done by demanding “discounts” from suppliers which far exceed the savings which can be achieved through bulk sales. To continue in business, manufacturers then have to raise pre-discount prices. The bulk of the increase is paid by small purchasers. Large distributors also put pressure on government to secure favourable terms and employ accountants to find loopholes which enable them to exploit legislation - by, for example, continuously moving from one advance warehouse to another in order to remain eligible for reductions in property taxes. The general lesson to be drawn from this discussion is, once again, that not only are costs and prices not primarily determined by the marginal productivity of labour and the efficiency of management processes - as traditional economic theory would have us believe - but by the accounting conventions and the arrangements for paying for provision which have been established by politicians and public servants.

The fact that taxation and other legislation has such a major effect on the prices which have to be charged - both nationally and internationally - has major implications for employers. An effective manager will seek loopholes in, and ways of influencing, tax legislation. He or she will work to secure the enactment of legislation which will release funds directly into his operations or to purchasers of his products. He will press for legislation mandating the use of the goods or services he provides. He will argue for complex packages of policies like the European Union’s agricultural intervention programme. These lobbying efforts become more important than attending to the needs and reactions of customers, minimising labour costs, or improving the efficiency of the enterprise.

Implications

Three main conclusions follow from this discussion: First, what appear to be market prices are based on the cumulation of expedient decisions taken in particular circumstances with only limited account taken of how they load costs onto particular products or spread them over the whole community. Outside Japan there is very little systems analysis and consideration of the way in which particular decisions will interact with others to have consequences of national importance. Second, what appear to be “economic realities” - such as “competitiveness” and “inefficiency” - are primarily constructions of the public service. They are determined by the accounting conventions which are adopted and do not merit the interpretations commonly placed upon, or indicated by, such terms. The appearance of competitiveness, efficiency, or otherwise is easily manipulable and, as such, rarely merits the kind of action typically advocated to combat the accusation of non-competitiveness or inefficiency. Third, cost-benefit studies designed to assess the merit of particular activities are rarely of value because they are based on indices which are ephemeral and subject to radical change at the stroke of a civil servant’s pen. Thus, even in those areas of the economy which have not been brought directly under government control, it is the doings of public servants, rather than those of management (at least as commonly understood) or labour, which determine “economic realities”.

It follows from what has been said that the prices of any country’s products on the international marketplace can be greatly altered by public servants, not only by changing the arrangements made for taxation, but also by varying such things as the charges made for energy and pollution or the grants available for pollution control. Thus the international competitiveness of a country’s products or services is more dependent on the ingenuity, inventiveness, and competence of its public servants than on the competence of the management of individual firms.

Such interventions could be made much more systematic. By constructing a map of systemic connections and taking appropriate action (which would typically *not* involve direct intervention in prices and taxes), prices could be explicitly manipulated to have any of a whole series of effects, both nationally and internationally. The kinds of action which could be undertaken include promoting the development of academic research laboratories, encouraging decentralisation and sustainability, requiring Third World countries to invest in pollution control and research before they can trade with us, and requiring Third World customers to pay for our armaments industry, welfare system, and pensions if they wish to purchase from us (or relieving them of the responsibility of doing so) and so on.

Our need now is not so much for a new *economic* system as for some system of accountability which will ensure that the accounting conventions which public servants establish - and other actions in which they engage - are indeed in the public interest. Actually, it is not just public servants to whom this statement applies because we have delegated much of the responsibility for the management of the monetary system to stockbrokers and the managers of private organisations like the banks. Such people are not noted for their inclination to manage the system of which they have charge in the interests of society. Rather they have behaved as if they had a licence to manage it in their own interests, justifying this by reference to market theory and arguing that what they were doing must have been worthwhile and important because they were able to earn large commissions by doing it.

We also need evaluation systems which look far beyond the "demand" for products and services in the marketplace and ask what their effects are likely to be on the individuals concerned, society, and future generations.

Finally, new feedback systems are needed to enable people with different priorities to make their feelings known and participate in making decisions which affect themselves and society.

It follows that it will not be possible to define a sustainable economy using the - at best - metaphorical language of economics. As Bookchin[5.4] has noted, its description will, above all, involve the delineation of new political and ethical arrangements based on new inter-personal relationships and sensibilities and the distribution of goods according to rational, ecologically-oriented, needs. It will involve radical change in our *social* institutions.

Notes

5.1 Grossman and Adams, 1993
5.2 Pearce, 1993
5.3 Raven, H., Lang, & Dumomteil, 1995
5.4 Bookchin, 1992