

Socialised Capital II

(Balances?)

Now, to devise an alternative to the way things are done within Capitalism, it is imperative to understand how that regime managed to finance new start-ups and expansions. For those will still be required even in a Socialist State.

Now, when a capitalist firm traded, it had to balance on the one hand its costs, including labour and all its committed to payments for all its used services, with its income. But that alone did not determine the price of what it was that the company produced for the market.

For it was “owned” by a group of investors, who had put up the original capital, and they would expect (and get) an annual dividend – a proportion of what they owned in shares of the company as regular recompense.

NOTE: A brief, and not too accurate calculation will nevertheless give some idea how it all works in Capitalism.

A £100,000 mortgage taken out at 7% for 25 years would, at simple interest, meant that £175,000 would have to be paid in interest alone if NO capital was repaid. But if the capital was paid off in regular instalments too, then the interest would reduce as this occurred. So, along with capital, it would amount to £625 a month, or £187,500 over the full term of the mortgage. Only then, on the completion of the term and full payment made, would the house be yours.

If an investor puts in £100,000 into a company and gets annual dividends of 7%, that would deliver £7,000 per annum in interest or £175,000 over the same 25 years, but he would still have his shares to sell, so his £100,000 investment would become £275,000, supposing the shares were still worth the same amount. And this would not involve a hands turn!

Now this doesn't seem a great deal, but capital growth is actually faster and over a few generations the figures involved can be considerably higher, as selling and buying on the Stock Market delivers another considerable source of income without any work at all!

Let us therefore consider an investment of £1,000,000. Our investor would get £70,000 per annum in dividends and have moved over 25 years to “2,750,000 at least.

Finally the very rich could invest £10,000,000, delivering £700,000 in annual dividends or £2,054 **per day!**

Now, such anecdotal descriptions may expose the nature of the system, but they don't show how it worked, and this must be addressed if we are to organise things within a Socialist State.

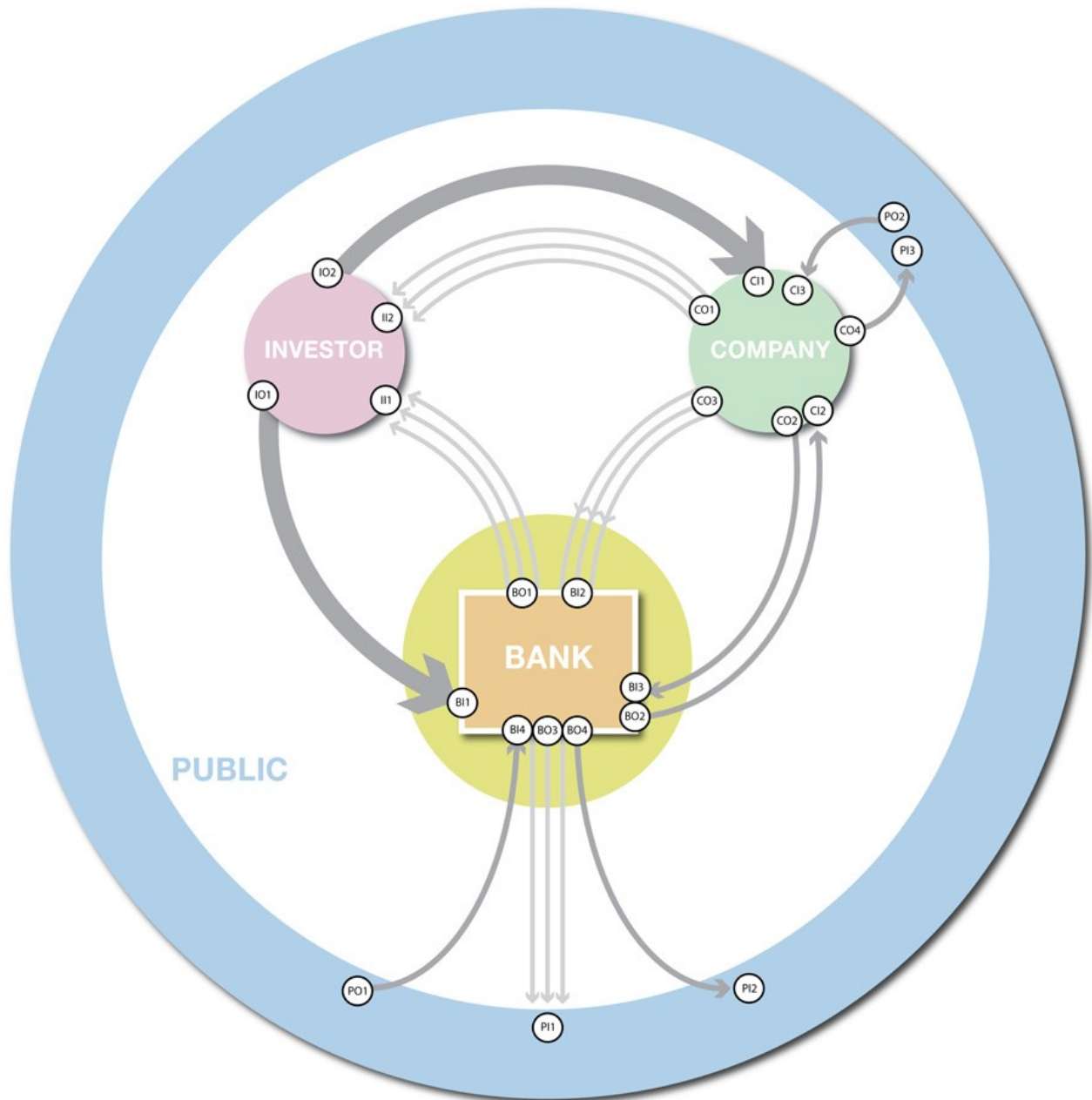
The Diagram shown below is NOT an all-bells-and-whistles revelation of all that goes on, and members of the capitalist class or their hangers-on will doubtless aim to proffer a much more complicated picture with the sole purpose, *not* of informing, but certainly *confusing* the populace.

Don't believe a word they say!

This diagram is a start, and its purpose is no longer polemical or agitational. It is the first step in defining a socialist alternative

The Diagram of Economic Movements in the Capitalist System

The diagram is shown below, and to interpret it you have to remember that every **Outgoing** from one organisation or group is necessarily an **Incoming** from the opposite end of the transaction. Now though sometimes these are exactly equivalent to one another, in others, and indeed the really crucial ones, they are certainly NOT equivalent.



To help with following transactions they are appended with two codes, one for each end of the transaction. The main players are obviously

The Investors - [I]
 The Banks - [B]
 The Companies - [C]
 The People - [P]

And the codes on the transactions will include one of the above designators plus **O** – for **Outgoings** or **I** for **Incomings**, plus a numeric suffix to distinguish each one uniquely.

Key to the Diagram

The following Table includes all the illustrated transactions, each with a brief explanatory phase to accompany it.

Players	Outgoing	Incomings
Investors	IO ₁ – Capital to Banks – BI ₁	II ₁ – Dividends from Banks – BO ₁
	IO ₂ – Capital to Companies – CI ₁	II ₂ – Dividends from Companies – CO ₁
Companies	CO ₁ – Dividends to Investors – II ₂	CI ₁ – Capital from Investors – IO ₂
	CO ₂ – Repatments to Banks- BI ₃	CI ₂ – Loans from Banks – BO ₂
	CO ₃ – Interest to Banks – BI ₂	CI ₃ Income from Sales – PO ₂
	CO ₄ – Cost of Products – PI ₃	
Banks	BO ₁ – Dividends to Investors – II ₁	BI ₁ – Capital from Investors – IO ₁
	BO ₂ – Loans to Companies – CI ₂	BI ₂ – Interst from Companies – CO ₃
	BO ₃ – Interest to Savers – PI ₁	BI ₃ – Repatments from Companies – CO ₂
	BO ₄ – Withdrawals to Savers – PI ₂	BI ₄ – Savings Income - PO ₁
People	PO ₁ – Savings to Banks – BI ₄	PI ₁ – Interest from Banks – BO ₃
	PO ₂ – Goods from Companies – CI ₃	PI ₂ – Withdrawls from Banks – BO ₄
		PI ₃ – Goods from Companies – CO ₄

The most important transaction is as follows:-

is not equal to

CO₄ - Costs to producers **≠** **PI₃ - income from sales**

For Costs of products = materials + overheads + wages
 Costs to buyers = Materials + overheads + Wages + **profits**

Elsewhere there are overt interest payments for Capital and Savings, so they seem to be overt revelations of the system, but differences in interest charged and interest paid will always include a profit element also.

The diagram does not tell all, and a full understanding of the differences in a Socialist Economy must be crystal clear if such a system is to be both **viable** and **better!**

Interpretation

So, after this rather extended preamble, let us consider what the diagram demonstrates.

Clearly, we, the public, as both the producers of goods and purchasers of those goods, are shown in the outer ring, and thus the Source, via **wages-spent** for one contribution to the income of producing Companies, and thence by various routes to the Banks, savers and investors. But they are **not** considered to be the motive force of the system.

It is the invisible **Profit**, via Interest and Dividends that is given that role.

The central role is played by the Banks, who, from a capitalist point of view, are a source of Loans and even Investments.

The other major players are the Companies, who produce goods or services, and the Investors, who provide Capital – Investments.

The system would not work without Profit, which is the gain made in all the various transactions **over and above** those necessary for it to do its basic task of producing for need.

These Profits accrue only to those who either own companies, or invest in them, or maybe lend to them.

The wherewithall to sustain all these **secondary feeders** can come from only one source – the Surplus Value (over and above all costs) that Companies generate by selling their products or services at an increased cost.

They take various forms, but the diagram shows that Investments, Loans and Savings go in one direction, in order to produce dividends, repayments, interests and profits, in the other.

Even the minor saver seems to fit with the earning of interest from the Banks, but such a quantity amounts to peanuts compared with the major moves of Capital and Dividends from and to the severely rich.

What has to be extracted from this system for the Socialist has to be the essential resources to enable the functional/economic side to work. For example, without start-up Capital, no company could be brought to a state to carry out its projected processes, no matter how good an idea was involved in its conception, and no matter how certain it would be that what it could produce would be bought by the market.

You will, of course, have noticed the **major flaw** in this diagram?

“Where on earth does the wealth come from, which the investors have to invest in new companies?”

The diagram does not say.

, And the meagre inputs as savings from the general populace are clearly totally inadequate for this purpose.

Well, the answer is that it did not come from any capitalist process.

The first paper in the whole *“Why Socialism”* Series did address this under the heading of ***Primitive Accumulation: it was stolen!***

Initially, this wealth was the booty of war, and the more wars and acquisition of territory the more confiscated wealth and indeed land were taken into the possession of the victors, mostly into the hands of their leader, but also more and more to that leader’s followers too.

And historically, the most important acquisitions were in the takeover of Land, for that meant a constant supply of rents from farmers using that land. With increasingly large estate the income became enormous, and apart from mere extravagant display in the owners palaces, the advent of Capitalism allowed the investment into profitable enterprises, from Privateers (pirates) acquiring the ships and wealth of others, to more modern capitalist production enterprises, and, of course, the steady banker was in the return from their estates as rents, kept on rising, especially as increasing numbers of these estates were in the colonies abroad, and worked by slave labour.

Of course, once there was sufficient Production and Commerce, there was sufficient for the majority of their **Surplus Value** to accrue from the proceedings of Companies, engaged in production for the market worldwide.

Now, we must be clear what **Surplus Value** actually is. It the part of the final value of a product released by its sale. For though the workers along with appropriate materials and equipment were the actual producers of the Goods-for-Sale, the full value of their labours was not passed on to the workers. Instead, only a part was given out as wages. And, after all other commitments were settled, the remaining value was this Surplus Value or Profit, to be used as the owner of it though fit, it was not needed as such in the productive process. And as Industry and Empire both grew at an ever-increasing rate, the amount of surplus value became prodigious.

Now, rather than spell out how such a diagram, and the system it represents, would indeed be transformed when modified within a Socialist State, at this point instead it seems appropriate that the questions an demands of the readers, should be tackled by them. And particularly, *“Where would the necessary Capital come from to lubricate the workings of the Economic System within Socialism?”*.

(1,704 words)

