Norms, Sovereignty and Regulation.

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With Compliments

Please find attached Page 1 of
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externalities, natural monopoly or imperfect information, is seen as peripheral and requiring only specific and limited government interventions. The consumer is sovereign. Equilibrium is reached when satisfaction, by some aggregate measure, cannot be raised by any further reallocation of time, wealth or expenditures.

There are a number of points at which one might wish to depart from this orthodox analysis. First, one might disagree with the criteria for efficiency adopted within orthodox welfare economics. Second, one might argue that market failure is likely to be sufficiently extensive to justify general rather than specific action by government. Third, one could take issue with the practical relevance of the assumption of perfect competition. Fourth, and the starting point of the current paper, one could challenge the validity of an approach built on the assumption of individuals as rational economic agents in the conventional sense. In many ways this is the most fundamental point of departure from orthodox neoclassical analysis. Consequently, challenging the postulates of economc rationality implies departure at other points, too. For example, the orthodox welfare criteria for economic efficiency become groundless. We shall also be concerned with the joint relaxation of the assumption of perfect competition.

In this paper, we shall argue that it is not valid to assume that individuals can be characterised as independent consumer units or automata with exogenous preference orderings. As Gintis (1972) has argued, individuals have much richer and more complex sets of objectives concerning their personal and social development than can be accommodated within the orthodox analysis. Few neoclassical economists would

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Abstract: In orthodox economic theory individuals are modelled as rational economic consumers maximising their utilities given their preferences and the market prices of the commodities over which preferences are defined. This paper challenges the validity of such an approach. Commercial forces originating in the objectives of producers are likely to exert an influence on preferences and the choice set open to the individual is restricted by the requirements of the market system. Once it is established that the wants to which production is responding are determined, at least in part, within the system of production, then the whole structure of the system is invertible: adjustments can be brought about just as easily by the manipulation of preferences as by the reallocation of the budget by the individual. One implication of our analysis is that there are likely to be a wide range of contexts in which conventional market structures do not provide the most efficient form of resource allocation. The paper concludes by drawing out the implications of the analysis for the design of industrial policy.

disagree with this sentiment but would argue that such phenomena form the proper domain of enquiry for social sciences other than economics. Against this, we would argue that for a number of reasons many economically-relevant phenomena are unjustifiably omitted in the reduction of the individual to a given utility function. First, the individual's preferences are not formed in a social or economic vacuum. Instead, they are shaped by various factors such as the individual's past choices [see Duesenberry (1967)], the actions and choices of other individuals [see Jones (1984) on conformism] and by social norms and customs concerning, *inter alia*, non-selfish preferences [see Collard (1978)], giving [see Titmuss (1970)] and collective action [see Schelling (1978), Hardin (1982)]. Through these and other channels commercial forces originating in the objectives of producers are likely to exert an influence on preferences [see Baran and Sweezy (1966)]. Second, and more fundamentally, we argue that within a capitalist economy the choice set open to the individual is itself constrained to be compatible with the reproduction of the social relations of the specific system. Thus the preferences of individuals generally do not guide the historical development of the economy or society. One question which then must be faced concerns why individuals remain loyal to such a system, and indeed why, at this particular historical conjuncture, they appear to demand it in preference to the immediately attainable alternative, that of state socialism. It will be argued that the system develops a self-justifying dynamic with two central elements: the structure of available economic activities itself induces the development of conforming preferences - via experience and by the development of individual capacities which is itself conditioned on such constrained availability - and this is increasingly supplemented by the external manipulation of preferences via a communications system within which commercial messages are increasingly dominant over the non-commercial. This is not to deny the huge inadequacies of state socialism as it has been experienced.

Once it is established that the wants to which capitalist production is responding are, at least in part, determined directly or indirectly within the capitalist system of production, then the whole structure of the system is invertible. Whilst in the new sequence the individual continues to maximise her utility, adjustments can be brought about just as easily by the manipulation of preferences as by the reallocation of budget or time by the individual. Once this sort of intervention is admitted, then the case against other forms of intervention in the microeconomics of the system is no longer as clear as the economic orthodoxy would have us believe. If we are to allow firms the freedom to constrain and persuade, then we cannot fairly disallow democratic agencies the means to intervene in and around the market and, thereby, to shape the economic choices facing the individual.

One implication of our analysis is that there are likely to be a wide range of contexts in which conventional market structures do not provide the most efficient form of resource allocation. Nevertheless, in such contexts, especially in economies dominated by relatively unregulated market exchange, there will be a strong dynamic tendency for market exchange to develop. One source of this pressure lies in the promotion of individual rather than community-based strategies within market structures. A policy implication of this is the need to establish disaggregated and localised democratic structures within which power can be appropriated by individuals, thereby shaping their environment in ways not achievable by mere market interaction.

Dealing with endogenous preferences is notoriously difficult in economic analysis. Our claim is not that the capitalist market economies are unique in distorting individual preferences away from some 'natural' set or ordering. Rather, although it seems sensible to believe that some needs or wants are more fundamental or less inalienable than others, we would argue that any socio-economic system generates its own peculiar sets of values, preferences and norms. The preferences and norms which characterise capitalism - especially, if not exclusively, in its monopoly stage - are those which facilitate the goal of profit-maximisation. Given such a set of preferences, capitalism may be more or less successful at achieving simultaneously the goal of social welfare maximisation. It is likely to be less successful in its monopoly stage. But the goal of social efficiency is likely to be best achieved under different sets of norms and preferences than those characterising (monopoly) capitalism. This is conceptually complex if we restrict ourselves to utility criteria and disallow meta-preferences. In Section III we avoid these problems by focussing on endogenous norms rather than on endogenous preferences.

The structure of the rest of the paper is as follows. Section II offers the outline of a methodological framework in which the orthodox neoclassical approach emerges as a highly restricted special case. Within this framework stress is laid on the need to allow the analysis of economic outcomes and of individual preferences, broadly defined, to be mutually informative. Our approach is related closely to the work of Roemer (1986). Section III considers one application of this approach in presenting a model of the interaction between individual attitudes to cooperative behaviour and the extent of collective action. The class of formal models from which this is drawn is associated with Schelling (1978) and Akerlof (1980). We also identify areas in which social norms are likely to be particularly important in affecting economic behaviour and organisational development. Section IV of the paper looks at the particular role of the communications sector and its organisation in shaping preferences, norms and opportunities. Section V is concerned with bringing together production and consumption-side inefficiencies in the context of monopoly capitalism. Finally, Section VI concludes by drawing out implications of the analysis for the design of industrial policy.

II Social Formation of Preferences and Norms of Behaviour.

There are two dominant and polar traditions on the nature of the relationships between individual preferences and economic processes. At one extreme, the traditional Marxian approach sees the preferences of individual economic actors as derivative of economic structures, but as not influencing those structures and, hence, as uninteresting in the analysis of the historical development of the economy. At the other extreme, the neoclassical orthodoxy views exogenous preferences as the underlaying force shaping economic outcomes through transactions in the market-place. The consumer[1] is sovereign. To the extent that the model can describe the determinants of the historical path of the economy, exogenous preferences imply a sort of dynamic consumer sovereignty.

Neither of these two extremes seems satisfactory. Instead, we suggest[2] the following general framework in which preferences and economic processes are seen as interdependent. Consider an economy at a point in time, E_t. This economy can be characterised by a vector of various attributes relating to such features as the structure of property rights, the type of production technology, the nature of industrial organisation, the legal, legislative and political framework, the system of social institutions, the mechanisms of exchange and the distribution of income, *etcetera*. Additionally, the economy will consist of a certain arrangement of individual preferences, P_t, defined over various commodities and over the characteristics of the economy. Neoclassical orthodoxy generally restricts the range of preferences to concern only consumer goods

[1]The dual role of the individual as consumer and producer is rarely made explicit in this analysis.

[2]The schematic representation follows closely Roemer (1986).

and services[3]. More significantly, these preferences are seen as independent of the other characteristics of the economy. Given their preferences, individuals engage in optimising behaviour in market transactions the outcome of which, in a dynamic model with exogenous shocks, is a new configuration of economic characteristics. Many things might have changed in that new configuration - except preferences. Schematically:

$$\{E_t, P_t\} \dashrightarrow E_{t+1} \qquad (1)$$

where $P_t = P$ is constant. Thus, neoclassical economic analysis considers how the economy develops as a consequence of market transactions by individuals with given preferences. There is no obvious room here for individuals, either consumers or firms, to shape their environment through collective, political or other non-market decision-making. Constant preferences are the causal and unifying strand of historical economic development. In contrast, as we have said, a traditional Marxian theory sees no scope for individual preferences to exert any influence on the economy - they are effect not cause. Thus, individual preferences are determined by economic forces which are independent of preferences and, possibly, also by past preferences. Schematically:

$$\{P_{t-1}, E_{t-1}\} \dashrightarrow P_t \qquad (2)$$

Traditional Marxian approaches would reject expression (1) as it invalidly assigns a role to individual preferences. Tradional neoclassical models would reject expression (2) which, when combined with (1), makes preferences and economic outcomes simultaneously determined. We suggest that a correctly specified model of economic processes would incorporate the processes described by both (1) and (2). As Roemer has described, the schematic representation embodied in (1) and (2) is one which is consistent with an approach in which, "...individuals are formed by society, and these individuals react rationally to their environments to produce tomorrow's environment, which in turn produces individuals who think somewhat differently from before, and react in their environment to bring about yet a new equilibrium[4]."

[3] In the economic theory of democracy [eg Downs(1957)] rational economic voters 'spend' votes reflecting their political preferences over the manifestoes 'supplied' by political parties. But here again, perhaps even less justifiably, preferences themselves are taken as exogenous.

[4] The equilibrium status of the stages in this process is not clear.

The perfectly competitive neoclassical special case of this general schema has been developed to a highly sophisticated degree of analytical rigour. Neoclassical economics, however, restricts itself to the study of (generally price-taking) market-based interactions, whilst there are other ways in which the economy is reproduced. Outside the perfectly competitive case, economic agents can act not only as price-makers, but also as environment-makers. Monopoly power can be used to shape E_{t+1} in particular advantageous directions. Furthermore, the distribution of income implies a distribution of economic power which can be used either to influence markets directly or indirectly through the political power which derives from economic strength (see Miliband, *inter al.*). Similarly, collective action by individuals through trade unions, consumer groups, campaigns, boycotts, interest groups and political activity in general provides mechanisms by which individuals collectively can influence the pattern of economic development in ways other than through the market.

Such collusion, among or across either individual consumers, workers or firms suggests the importance of developing an analysis of the causes and consequences of non-atomistic collective action. This has proved difficult within the confines of mainstream neoclassical analysis in which the free-rider incentive obstructs collective action. A test of the usefulness of the more general framework will be its ability to overcome this problem. This would then offer the possibility of explaining the development of group or class interests and actions. We shall return to these issues in Section III.

The major difficulty facing an approach based on the general schema described in expressions (1) and (2) stems from the paucity of any economically meaningful analysis of the preference formation process captured by (2). What is needed is a theory of the social formation of the individual: a theory which allows for simultaneity between individual preferences, in the broadest sense, and economic outcomes. This means bridging the gap between what Carling (1986) has called the structureless agency of orthodox neoclassical economic analysis and the agentless structure of traditional Marxian economics. There have been a number of attempts to demonstrate ways in which individuals' preferences are formed socially. For example, there is a literature on the effects of advertising which, in the limit, implies producer sovereignty, though this is probably no more reasonable than absolute consumer sovereignty. There are also theories of consumer behaviour which stress interdependence [see Duesenberry (1967) and, on Veblen, Snob and Bandwagon effects, Leibenstein (1950)].These should be viewed as consistent with the approach we are taking, if they each represent only partial aspects of the phenomena under discussion.

In the next Section we offer a more specific model in which we attempt to demonstrate a particular application of our general schema to the analysis of the interaction between individual behaviour, social norms and economic outcomes. We present a model which combines both features embodied in expressions (1) and (2). The application is in the spirit of a partial equilibrium analysis. Nevertheless, the context is one which enables us to address a number of the issues we have raised in the discussions so far.

III.The Economic Impact of Social Norms.

One of our arguments is that traditional neoclassical economic analysis, in positing individuals as making independent optimising decisions, regards each economic agent as inhabiting a social vacuum. We regard this as a severe restriction on economic modelling. Instead, we view individuals as making decisions which in many classes of cases, are likely to be influenced by relevant social norms. One important area of economic activity where this is likely to be especially relevant concerns situations in which the individual has a free-rider incentive not to take part in general collective or cooperative behaviour. This can range across issues such as taking part in voluntary organisations, being a 'good neighbour', entering community groups, giving blood, donating to charity, not cheating, not stealing, not reneging on collusive deals, not breaking a strike, being honest, *et cetera*. In such situations there is often a social norm invoking individuals not to free-ride but to act like the 'good citizen'. Amongst the factors which will shape the individual's decision on whether to conform with the social norm or whether to free-ride are the extent to which the individual believes in the validity of the social norm and the proportion of the relevant population who are obeying the social norm. If all others are breaking the social edict, then only the most devout Kantian agent is likely to conform.

We construct a formal model in which individuals choose whether to conform with a social custom invoking them to act in a cooperative way or whether to free-ride. We assume that some proportion, μ, of the population believes in the social custom. We then determine what proportion, λ, of the population will conform with the social custom. This will depend upon rational individualistic choice. If $\mu = \lambda$, then we have an equilibrium. If $\mu > \lambda$, then we assume that μ falls next period. This can be justified by a cognitive dissonance argument: an individual who can't practise what she preaches will tend to lose the faith. Conversely, if $\mu < \lambda$, then we assume that μ rises next period. Hence, individuals make rational economic decisions which are conditioned by the behaviour of others and by their own belief, or otherwise, in the social norm. Individuals do not choose whether or not to believe. This is determined in the aggregate. Thus, we have a model in which individual behaviour and the strength of social norms are mutually informative.

Formally, let the payoff to individual i be specified as

$$U = y - ds + \varepsilon\lambda s - b(1 - s)c - (1 - b)(1 - s)g \qquad (3)$$

where,

y = income

d = cost of cooperation

ε = individual's sensitivity to conforming and is therefore interactive with λ.

c = loss to believer who breaks the social norm.

g = loss to non-believer who breaks the social norm, where $0 \leq g < c$.

s = 1 if the individual cooperates,
0 if the individual free-rides.

b = 1 if the individual is a believer in the norm,
0 if the individual is a non-believer.

For a believer in the social norm the payoff from joining in cooperative behaviour is

$$U_i^J = y - d + \varepsilon_i\lambda,$$

and from free-riding is

$$U_i^{NJ} = y - c.$$

Therefore, a believer will join iff

$$U_i^J \geq U_i^{NJ},$$

i.e.,

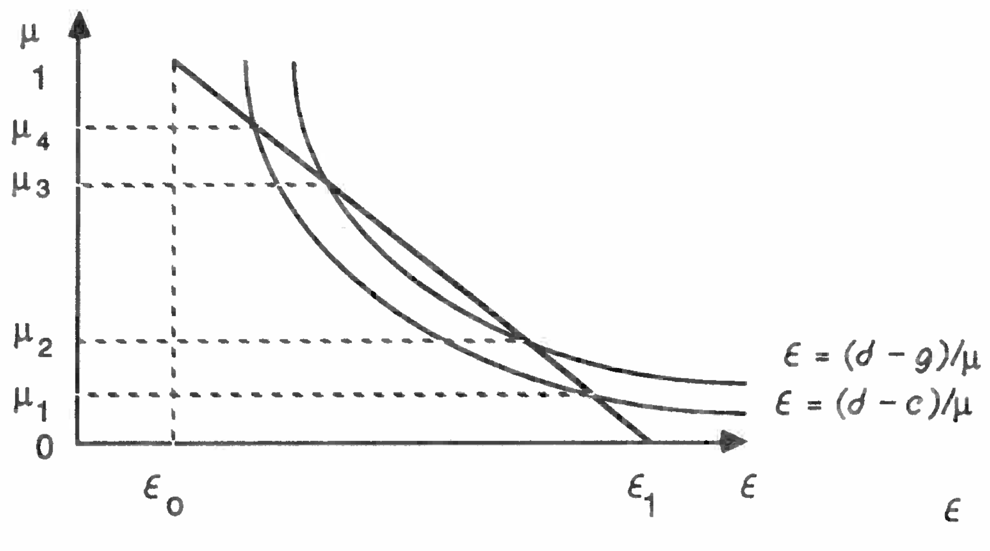
$$\varepsilon_i \geq (d - c)/\lambda. \qquad (4)$$

Similarly, a non-believer, j, will join iff

$$\varepsilon_j \geq (d - g)/\lambda. \qquad (5)$$

Inequalities (4) and (5) define decision schedules and are represented in Figure 1.
We also show in Figure 1 the schedule representing the distribution of the parameter ε, which, without loss of generality, is assumed to be distributed uniformly between a lower bound, ε_0, and an upper bound, ε_1.

Figure 1.



If collective action involves less than μ_1 of the population, then cooperation will atrophy to zero. $\mu_1 \leq \mu \leq \mu_2$ represents a range of equilibrium levels of cooperation in the Nash sense. If $\mu > \mu_2$, then cooperative action will be increasing to μ_3. $\mu_3 \leq \mu \leq \mu_4$ represents a second range of (locally stable) intermediate equilibria. If $\mu > \mu_4$, the degree of cooperation will fall toward μ_4. 100% collective action is possible if either the decision schedules shift to the left or the distribution schedule shifts to the right. The implications of this analysis are that:

(i) there are multiple equilibria in the extent of cooperative action,

(ii) cooperative action is more likely:

  (a) the lower are the direct costs, d, of following the social norm,

  (b) the greater the subjective loss, c and g, of breaking the social norm,

  (c) the greater the sensitivity, ε, of individuals to the reputation effects of participating in cooperative action.

The model as developed here does not endogenise preferences and so does not lead us into the complexities of preference endogeneity discussed in Section 1. Rather, it is the simultaneous nature of norms and individual behaviour which is endogenised through the strength of belief in and support for the social custom of collective action. The model can be made dynamic with endogenous preference formation by allowing the ε parameter to vary with the collective action equilibrium outcomes, but this is pursued elsewhere [see Naylor and Cripps (1988)].

The model has been applied with interesting results to a variety of issues. Akerlof (1980) generates a social custom model explaining the existence of wage norms, Booth (1986) develops the model to investigate the determination of union membership, Naylor (1989) analyses the properties of strike solidarity in a social custom model and Naylor (1990) develops a general social custom approach to collective action problems. The major conclusion we draw from these models for our current purposes is that economically relevant action in a variety of spheres is likely to be shaped by the strengths of social norms and associated reputation effects and these, in turn, are likely to be influenced by the economic environment. We now suggest a number of areas where these effects are likely to be important.

Economic relevance of social norms.

First, in the context of voluntary blood donations, Titmuss (1970) has argued that the super-imposition of a market exchange system on top of a pre-existing system of voluntary donations might reduce rather than increase the efficiency of allocation of blood. This is quite consistent with our model. The collection of blood in exchange for a financial price is likely to weaken the strength of both the social custom and reputation effects which drive voluntary cooperative action. We believe that this example is a special case of a general problem which emerges in societies where economic activity is dominated by decentralised market exchange. Such systems generate and are sustained by particular sets of social norms which foster materialism and which downplay the importance of collective action and instead encourage and reward self-regarding individualism, thereby exacerbating free-rider problems.

Second, Andvig and Moene (1990) have argued that the profitability of bureaucratic corruption may be related to its frequency and develop a model which, formally, is similar to the one developed in this section. They find multiple self-fulfilling levels of corruption even when both supply and demand of corrupt acts are considered. We would argue that an economic analysis of crime should take account not just of the cost-benefit calculations made by potential criminals, but also of social norms relevant to crime and how these are shaped by economic pressures. Indeed, an economic system based on market exchange requires a set of social norms in which a particular distribution of property rights is legitimised. If obedience to these social norms dissipates, then the underlaying legitimacy of the system is undermined.

Third, the efficiency of production is sensitive to social norms in the workplace. An establishment in which there is trust, goodwill and a norm of cooperation is likely to be more productive than one in which there is a practice of self-regarding utility maximisation. The prospects for the successful application of production technologies and organisations which do not rely on strict monitoring and control mechanisms are likely to depend upon the development of appropriate workplace social norms.

Fourth, Hirschman (1970) has shown that the use of voice rather than exit can provide a more efficient mechanism than the market for the transmission of signals concerning tastes and preferences. This is especially true where public goods are concerned, as has been demonstrated by Freeman and Medoff (1984) in their analysis of the productivity-enhancing effects of trade unions in the workplace. However, the public goods characteristics of situations in which the voice mechanism can be efficient implies the possibility of the free-rider problem emerging to frustrate the expression of preferences, especially where giving voice is costly. There is likely to be a collective action problem unless there is either a tradition or norm of expression or a mechanism to facilitate voice, or both. We shall explore this later when we look at the need to facilitate local democratic decision-making.

Finally, we note that we have concentrated so far on the implication of social norms for the behaviour of the individual [chiefly in the process of consumption] - but the matter does not stop there. We turn now to look in some detail at how the behaviour of organisations - including organisations of production - might be affected also. In addition, inter-organisational institutions may facilitate the development and durability of group norms, see e.g. Phillips (1961). In some cases these may be exploitative in nature, welding the coherence of a powerful and tightly-knit group. In other cases cooperation between production units may have important positive implications for dynamic efficiency. The former case has provided the focus for much of our regulatory theory and policy and, in the case of highly concentrated markets, this would appear entirely appropriate. The threat to the rest of society posed by an effective collusion of interests would, in this case, be expected to be considerable, and at the same time, the size and the power of the independent giants would be such that there need be little fear that important economies of scale would be truncated or innovatory activity curtailed by intervention designed to limit cooperation. This is not to deny that there may be large-scale research projects where cooperation might be allowed, or even encouraged, but the general presumption should be that such activity was potentially too dangerous to allow.

Where regulatory policy may have gone wrong, particularly perhaps in the case of the United States and Britain, is in denying or restricting the facility to cooperate, irrespective of market structure. Under certain interesting circumstances the fostering of social norms within the organisations of production can be expected to lead to significant dynamic efficiencies. Thus, whilst the attenuation of price competition amongst the giants in oligopolistic markets may be a cause for concern, such attenuation in other more atomistic and potentially competitive market structures may be largely beneficial in its impact. In the context of modern industrial districts, characterised as a system of flexible specialisation [see Piore and Sabel (1984)], it has been observed that social norms serve to restrain price and wage competition among the small firms involved and to channel rivalry into the socially productive outlets of process and product innovation, whilst, at the same time, contributing to the richness of the work experience [see, for example, Best (1990) reviewing the Emilian case]. The network of mutually interdependent firms both cooperate and compete and their cooperation, on which is based their socially beneficial competition, is supported by a sense of community which is in turn fostered and sustained by the development of community institutions[5].

Best illustrates the potency of the development of collective entrepreneurialism for

[5]It is interesting to note that Scitovsky (1990) argues for the same sort of benefits arising from the purely individualistic response of firms with some degree of monopoly power rooted in the informational asymmetry between producers and (final) consumers. The resulting non-price competition Scitovsky sees as essentially socially beneficial, whilst recognising that regultion may sometimes be necessary to achieve this result. In this context, the case of collective entrepreneurialism would seem to have increasing relevance as the monopoly power of the producer declines. This cooperation to secure socially beneficial competitive activity would be both most necessary and also least ambiguously socially beneficial within a small firm economy.

the small firm sector by reference to the comparative experience of the furniture industry in North London and the Third Italy over the '70s and early '80s. Whilst the industry in North London, based on an essentially individualistic response by the small firms involved, collapsed in a welter of wage cutting and de-skilling, the same industry in the Third Italy, with a similar structure of small firms, achieved rapid expansion by acting collectively in terms of joint marketing and long-term consultative relations with suppliers, coupled with a high degree of innovativeness within the autonomous firm, which was in turn facilitated by the cooperative environment of the district. The central message is that if we wish to foster innovative, dynamically efficient small firm sectors, then our regulatory and developmental strategies need to pay due regard to the creation of an environment supportive of the development of social norms which push firms away from destructive forms of competition, tending to grind communities down, and towards socially productive activities both collective and individual.

Differences between the Western mass producers and the major Japanese firms, see Aoki (1990), would suggest that similar aims might usefully motivate policies towards big firms as well as small, perhaps particularly in the case of the relationship between the major manufacturers and their suppliers. In the Japanese case the relationship appears to be evolving into a much more cooperative and creative phase characterised by Aoki as "quasi-integration": a subtle blend of cooperation and autonomy.

IV An Example: Endogenous Preferences and the Communications Sector.

In Section II of the paper we argued against the neoclassical assumption of the exogeneity of individual preferences, suggesting that preferences are formed socially and economically. In Section III we argued that social norms, themselves endogenously determined with other economic forces, are an important determinant of the economic behaviour of individuals and organisations. At one point we suggested that the norms and values associated with unadulterated market exchange could be destructive of collective and cooperative behaviour in important economic contexts and therefore lead to economic inefficiency. In the next Section of the paper we argue that these inefficiencies are likely to be most severe in capitalist systems in the monopoly or oligopoly phase. In this Section we restrict the discussion to the case of the communications sector which both reflects the tendency of the increasing concentration of economic power and represents an important channel through which norms and preferences are influenced in modern economies.

Whilst the increasing concentration of economic power is of general concern for democracy and social efficiency, perhaps the most pervading and direct influence lays in the organisation of the communications sector. Despite the on-going communications revolution, ownership and control is highly concentrated and diversity is more apparent than real. The sector is characterised by a highly concentrated structure <u>within</u> each form of communication - press, television, sound broadcasting, cinema, books - but also by interlocking ownership and control patterns <u>across</u> forms of communication - national and local newspapers, newspapers and television, newspapers and local radio, newspapers and books - and by vertical links between production and distribution, as in the cinema.

How has this concentration of ownership affected the determination of preferences of individuals within society? Hirsch and Gordon (1975) have argued that the press is fundamentally biased because the pursuit of profit implies that the interests and views of those with high spending power will command excessive attention since advertising revenue will be dictated by the spending power of the audience rather than by its size. This would seem a plausible if incomplete story: incomplete, first, because the proprietors, editors and senior journalists are unlikely to be passive in this process and, second, and perhaps more fundamentally, because the polarisation into "quality" and "popular" groups of newspapers, and the views and coverage they offer, are likely to "...create and reinforce the situation they apparently describe," [Williams (1966)]. Many of the characteristics of the population we observe and perceive are determined within the system of communications we experience. When it is said that we get the culture we deserve it is surely correct to say, as Raymond Williams does, that this implies a confusion between tastes and values and <u>potential</u> tastes and values. With concentrated ownership throughout the communications sector and with formidable barriers to entry, a whole variety of views can be excluded from any sort of adequate representation in the mainstream output of the industry. As a result it is almost inevitable that the influence of such views will be effectively curtailed. Whilst individuals within specific social groups may initially be highly variable in terms of values and tastes, extended exposure to a conforming media will tend to move them to conformity.

Given this situation within communications what can be done to open up this crucial sector of the economy to a broader range of ideas and viewpoints? Raymond Williams has argued that an educated and participatory democracy, both political and economic, can be achieved only with a communications revolution. Individuals have to grow in capacity and power to direct their own lives which requires, among other things, an extension of the expression and exchange of experience which the system of communications provides. In the case of broadcasting and television he argues for the ending of the commercial structure with its close links with the commercial press. For Britain he argues for a new form of organisation outside the BBC, with four or five regionally-based independent public corporations. In the case of the press he wants to free local newspapers from remote control by large companies and wants to set up Newspaper Trusts to finance working journalists to produce new local and national newspapers. For the cinema he proposes public production facilities available for use by professional film-makers and the opening-up of the cinema circuits for their use. For books he suggests public funding of a chain of new bookshops and as an alternative to advertising he advocates the funding of Citizens Advice Bureaux to provide information on products and services. Interestingly, Williams also argues that all that is required is some suitable public credit arrangements - these activities can then generally be relied upon to pay for themselves. If this is more or less true, it would suggest that the irreversibilities created within the market system can be overcome within the developmental role of government and that the role is essentially catalytic; it does not require a significant increase in public expenditure. Given the enormous significance of the system of communications in the development of the economy and of our democracy, experiments with a more accesible and democratic system would seem long overdue. We might then replace the present enormous, commercial expansion of the system currently taking place in Europe with "real growth", offering real choice and variety and hence moving away from minority control to broad involvement.

V. Norms, Economic Democracy and Transnational Monopoly Capitalism.

In this Section of the paper we examine the particular inefficiencies associated with the monopoly or oligopoly phase of capitalism, focussing on the manipulation of preferences and values in such an economic regime and on the implications for economic democracy. We observed in Section 1 of the paper that in orthodox economic analysis market failure is seen as peripheral and requiring only specific and limited government interventions in order that consumer sovereignty be sustained. We have argued subsequently that notions of consumer sovereignty are fundamentally flawed as they fail to address the issue of what determines consumer preferences. Furthermore, some would argue that the capitalist system, particularly given the twentieth century evolution to its monopoly or oligopoly phase, poses such systemic threats to both microeconomic and macroeconomic efficiency, as well as to equity and democracy, as to require a coherent system of overall and continuing control which is much in excess of, and of a different nature to, any system of regulatory activity currently manifest[6]. The focus of this concern with the efficiency of the capitalist system has tended to emphasise the production side of the economy without recognising fully the endogenous nature of the pattern of consumption, except in terms of asides to the general line of argument. A recent paper by Cowling (1990a) identifies three fundamental reasons for imposing on the market coherent, community-based economic planning systems: centripetalism, transnationalism and short-termism. All of these are inter-related and all are related to an underlaying concentration of power and therefore decision-making in modern economies. But these tendencies relate to decisions about production and the extent to which such decisions depart from what individuals, making up specific communities, would regard as optimal.

Centripetalism relates to the tendency for higher-level activities and associated occupations to gravitate to the centre and therefore to be lost to the periphery. The major corporations are drawing the control of the use of an ever-increasing share of the world's economic resources into the ambit of the key cities of the world - cities like New York, Tokyo, Frankfurt, Paris, London. The result is that strategic decisions with major implications for many local, regional and national communities are being taken entirely outside those communities. Centripetal economic tendencies become centripetal political and cultural tendencies and the community enters a vicious circle of relative decline.

Transnationalism adds a further dimension to this process. It relates to the asymmetry of power that is created between corporation and community, which derives from the international flexibility of the corporation, in terms of the location of production, versus the locational rigidity of a specific local, regional or national community - a rigidity which becomes almost definitional with the development of community. Thus, at one and the same time, the major corporations are internationalising production and controlling such production from a limited number of locations.

[6]For this sort of position, see, for example, Bluestone and Harrison (1982), Bowles, Gordon and Weisskopf (1983) and Cowling and Sugden (1987).

Short-termism relates to centripetalism and transnationalism because of the induced lack of commitment to any specific production location, but also to the organisational form chosen by the corporation and the nature of the financial institutions serving the industrial sector. Thus, the multi-divisional corporation, of such importance as an enabling condition in the development of transnational production, incorporates the seeds of short-termism within its structure and, indeed, we can see the spread of the M-form corporation as an attempt to introduce the (short-termist) discipline of the financial markets <u>within</u> the corporate structure.

Whilst arguments about centripetalism, transnationalism and short-termism may be used to justify systematic intervention within the market system, the justification has not before been made on the grounds of the undermining of some notion of consumer sovereignty. Rather it has been made on the basis of a lack of democracy in the organisation of production. Thus the growth of transnationalism has imposed deindustrialisation on the older industrialised nations and unregulated industrial growth on the others, and in both cases it has undermined the ability of people, and the communities of which they are a part, to determine their own future. If allocative efficiency is to be achieved people and communities must make their own choices: if others, for example the transnational corporations, make those choices they will impose their wishes and therefore choose an allocation which suits them. There is no reason why this should correspond to the community's optimum, and every reason why it should differ, simply because resources are scarce and therefore the actual decision-maker can gain at the expense of others.

In theory this requirement for economic democracy fits very easily within neoclassical economics since the neoclassical view is all about individuals making their choices. In practice it cuts across the grain of neoclassical analysis which assumes an even distribution of power, consequently ignoring power asymmetries and therefore failing to grasp the democratic/undemocratic distinction: its very essence is normally assumed away. But the analysis of this paper points to a deeper requirement of economic efficiency: even where individuals are allowed to exercise their decision-making power this will still not secure a welfare optimum because the preferences and choice set available are, to some degree, determined or constrained by the system itself. Allocative efficiency requires <u>both</u> producer, in the sense of individuals as workers, <u>and</u> consumer sovereignty; but the paradox is resolved by recognising that the individual is both producer and consumer, and that sovereignty relates to different levels of decision-making. On both sides, production and consumption, it is also crucial to recognise that individuals can realise their ambitions fully only by acting collectively, given the nature of both consumption and production.

However, it is important to see that many of the inefficiencies on the consumption side actually arise with great significance within the contemporary tendencies of monopoly capitalism previously identified as causative of the inefficient allocation of production. That is, much of our concern with the lack of consumer sovereignty can be located in the same underlaying tendency toward the increasing concentration of decision-making within the global economy. Whilst we can see that any market system will display fundamental dynamic inefficiencies, a market system shaped by the institutions of monoply capitalism may be expected to deviate most fundamentally from the social optimum. This is perhaps most evident in terms of the manipulation of preferences, since the enormous growth of the advertising industry and the increasing concentration of the communications industry have been central characteristics of the growth of monopoly capitalism. Fewer and fewer people are dominating an increasingly intrusive system of communications with an increasingly powerful and all-pervading commercial message. Perhaps less obviously the increasing concentration of control over economic resources, as corporations move successively to national and then international dominance, implies a tendency toward a narrowing in the choice set that is offered to consumers. Of course, the message of the media stresses the dramatic increase in choice being offered, but closer examination typically reveals this description to be quite spurious. Investment in minimal product differentiation is of course substantial, but the provision of real choice seems increasingly circumscribed. This argument should not be pushed too far because worthwhile innovations are constantly being made. The concern is that these innovations cluster along a line of development which may have little correspondence with that sought by specific communities, and that the increasing concentration of control of the use of resources will serve to minimise the degree of experimentation in the provision of real alternatives.

Where does this line of argument take us? We argued earlier that conventional market structure fails to provide the most efficient form of resource allocation and yet provides a strong dynamic tendency for market exchange to develop. Thus the preferences of individuals generally do not guide the historical development of the economy or society. We are now arguing that particular market structures, those that have become increasingly dominant throughout the 20th century, tend to accentuate the problem and that previous analyses, based on production-side arguments pointing to the necessity for imposing on monopoly capitalism a system of coherent democratic decision-making, receive additional and powerful support from our present consumption-side analysis. This would suggest strongly that regulation of the market might be insufficient. In addition to such reactive strategies, communities will need to begin to take on a developmental role within the economy - a proactive stance whereby market forces are shaped to conform with the objectives of producer-consumers. Given the irreversibilities implicit in the development of the capitalist market economy such reshaping will be a gradual process whereby market forces are realigned to be consistent with preferences which will adjust over time as the pressures and constraints of the former system are slowly purged and replaced by the collective expression of the community as a whole.

Similar arguments can be made about most or all of what was actually existing "socialism", given its divorce from a democratic base. Indeed, the performance of this available alternative can be regarded as a strong support for those who wish to see the continuation of monopoly capitalism. Attempts to create conforming preferences within state socialism have been less successful, no doubt because they have appeared less credible than the increasingly accessible messages of capitalism, but also perhaps because they have cut more roughly across the grain of core preferences of the individual. For those erstwhile supporters of state "socialism" who argued that, if nothing else, such a system was required to lift a backward economy through the initial processes of large-scale industrialisation, Brus and Laski (1989) have argued strongly that it was not efficient, even on those terms: democracy is required for efficiency.

VI. Conclusions and Implications for Industrial Strategy.

Our central argument has been that the mainstream or orthodox neoclassical economic approach is flawed because it abstracts from the reality of monopoly capitalism whilst hypothesising rational economic behaviour by individuals to be atomistic and based on an exogenous set of fixed preferences. Once we relax the assumption of fixed preferences and allow a role for social norms we undermine the crucial foundations of the neoclassical welfare theory of consumer sovereignty and Pareto optimality. Without consumer sovereignty, there is no longer a clear-cut presumption against the legitimacy of regulation and intervention in the market place as arms of economic policy.

Furthermore, a monopoly capitalist market economy is associated with a set of social norms which are inimical to, inter alia, collective action. Individuals are thereby disempowered as the expression of collective voice and the freedom for collective action are essential elements for economic democracy which is, in turn, a key determinant of economic efficiency. To empower collective voice and action requires an economic policy which goes beyond mere regulation of market forces. In particular, democratic structures of local decision-making should be supported and sponsored.

We have argued that an implication of our analysis is that policy-making should be developmental in character, as well as regulatory. Such developmental policy has to be articulated as a strategy for consumption as well as a strategy for production, given that under capitalism or existing "socialism", we have neither consumer sovereignty, given that the controllers of monopolistic organisations act to shape markets, nor producer sovereignty, in terms of the individual producer, or community of producers working within the hierarchical organisation. Policy-making institutions should include communities as locii of consumption as well as production (work). We should not be formulating a policy for key industries whose output is to be foisted on an unsuspecting world, whose demand is then constructed to meet the new availability of supply. Rather, our vision of industry has to be based on our vision of the structure of consumption, the use of time, the content of work: in other words, based on individual development within the community. Our industrial strategy is derivative from that basis in community welfare and is required to allow for the full expression of the nature of that community's desires and ambitions.

The basic point is that the "market" in the late twentieth century has been substantially subverted. It is shaped by powerful private institutions which impose their strategy for production and consumption. A counterveiling strategy has to be constructed which requires the harmonisation with it of the strategies of the powerful. Economic democracy requires not only participation in the organisation and planning of production, but also in the planning and organisation of consumption, with the former being derivative from the latter[7]. Community economic planning implies going back to the old sequence, which has been reversed by the concentration of decision-making in production. What is required is an industrial strategy springing from community wants and ambitions rather than private planning springing from the search for profit.

Industrial strategy needs to be dual track. The first element, essentially regulatory in

[7]Diane Elson (1988) gets into these issues in the context of "socialising the market".

nature but backed up with tax incentives, should be aimed at securing a change in the framework within which companies operate. This should incorporate a new companies act, directed at opening up the firm to a wider range of interests including representatives of all the producers within the firm, the community within which the firm is located and the consumers of the output of the firm [for ideas see Knight and Sugden (1990)]. This will be most important, and generally most manageable, in the case of bigger companies, whereas in the case of small companies it may be more feasible to open up federations of producers to the broader interest. Such legislation could be bolstered by a restructuring of taxation favouring small firms, participation and devolution. In addition, a stringent anti-merger and anti-monopoly policy, coupled with a serious attempt to monitor and control the transnationals, would serve to protect both dynamic, young firms and consumers. Lastly, we would need to encourage the long-term commitment of finance to industry with the appropriate incentives and the creation of a new range of public/private institutions.

The second element of industrial strategy should be based on the developmental role of government at all levels. This, first of all, will require government to take the leading role in the creation of an efficient infrastructure. Best (1982) provides interesting examples where corporate strategy has implied the substitution of inefficient for efficient infrastructural investment: witness the case of General Motors, in association with Standard Oil of California and Firestone, taking over trolley and transit systems in the US and acting to replace them progressively with, first, 'bus transportation and, eventually, car transportation. The very inefficiency of the new system guaranteed a bigger market for cars and trucks than for buses and locomotives and thus private corporate strategy dictated this solution, once control was established. Arguments about the inefficiency of market processes in the provision of infrastructure are well known so this matter is not pursued here. However, the reality of moves to privatisation point to the real necessity to address more adequately the principal agent problems whereby communities can secure adequate performance from state bureaucracies. Democratic control is again the nub of the problem.

The more controversial aspect of the developmental role of government concerns its intervention within and across the broad span of the market system - the reshaping of the market. We have established theoretical grounds for democratic planning of the market economy, but there remain the practical questions of how this is to be achieved. As Reich (1984) has pointed out, Americans do not like planning - especially by government/business/labour elites - and this might be true in varying degrees throughout the world. Suspicions are understandable given the record of government intervention in many economies. This points to the fundamental requirement that the planning processes be democratic and transparent. They have to build on participation and develop organically, but within a coherent structure. It is also important, in creating a consensus about a different way forward, to emphasise the nature of the existing planning system, privately controlled by a business elite. The term "market" is an effective way of disguising the power and purpose of corporate strategy-making which itself emphasises the pursuit of profit, very often on a global basis. We live in a world of planning, but it is not the sort of planning which is rooted in the preferences of individuals and communities; it is more the sort of planning in which such preferences are often manipulated and constrained by the narrower ambitions of certain privileged groups within the economy.

One criticism commonly adduced against democratic intervention within the market economy is the problem, as it is put, of "picking winners". Those dubious about the whole process, including most professional economists - certainly within the neoclassical tradition, at least - will typically express their doubts about the superiority of civil servants compared with private entrepreneurs in such activity. We believe it is wrong to pose the matter in this way. The central issue is the "creation of winners" as a result of the continuing and careful nurturing of strategic industries and enterprises. Government will never be able to claim any special ability not held by private entrepreneurs, although it may act to redirect the talents of some to the arena of public entrepreneurship. The essential difference between the public and private selection process lies in the difference of perspective - in the ultimate objectives of such a process - rather than wholly in the efficiency whereby any specific objective is pursued. The aim of the government in the area of economic policy is to create a dynamic and productive national economy responsive to the collective needs of its citizens; private decision-making within the monopoly capitalist system might not be consistent with this.

We have been arguing for democratic intervention within the market system on the grounds of inefficiency within the spheres of both consumption and production, and current developments within Europe give an especially dramatic context to our conclusions. The forces unleashed by the approach of 1992, coupled with those unleashed by the opening-up to the East, which can be seen as redirecting and amplifying the forces of 1992, imply the washing-away of much remaining community autonomy and its replacement by a considerable extension of the ambit of the market. Recognising that this process of industrial integration is being, and will be, orchestrated largely by the dominant transnationals, an argument has previously been made for the development of a democratic strategy within which the strategies of these giant centres of production can be positioned [see Cowling (1990b)]. The complementary arguments from the sphere of consumption add support to this view. A tension exists within Europe between, on the one hand, the development of meaningful regional/local economies based on the community [see Sabel (1988)], and the sweeping away of these structures within the internationalisation of production of the major corporations. The forces of 1992 and the opening-up to the East will tend to undermine the former and facilitate the latter. As a result the abilities of communities throughout Europe, but especially those with litle experience of the market, to experiment with Third Ways, reliant neither on authoritarian planning nor the unregulated market, will be decisively curtailed. Scitovsky (1990) discusses a fundamental asymmetry in the market between expert seller and inexpert buyer and this is likely to have even greater force within the larger Europe. Indeed, the opening-up to the East is integrating into the market individuals, communities and governments who are inexpert consumers of the <u>system</u>. This is surely sufficient reason for being cautious about moving in the direction of a system with fundamental flaws and one with built-in dynamic irreversibilities.

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