QUALITY. ITS EFFECT ON PRICES IN A SOCIALIST SOCIETY vs A CAPITALIST SOCIETY.

We are told that the objective pricing system in a socialist society, which replaces the primitive profit system in a capitalist society, cannot possibly take quality into account. More precisely that prices cannot be made to reflect differences in quality. After all, under capitalism, similar products of differing qualities attract different prices. Higher quality products initially attract a premium in the form of a higher price. Competition therefore has a tendency to improve quality because it rewards products of higher quality.

Let us assume this to be the case. Does our objective pricing system do the same: does it reward quality? We shall see that it does. Here we will learn two things. Firstly how competition turns the world upside down. Marx never tired of pointing out how competition inverts the world. In today's language we could say that competition plays the same role as a Hollywood Special Effects department, creating illusions that are taken to be real. Secondly we will demonstrate how an objective pricing system rewards quality.

QAULITY AND PRICES UNDER CAPITALISM AND SOCIALISM.

We will confine our investigation of the relation of quality to price as it applies to means of production and not articles of consumption. The reason is that the former is social and the latter personal and therefore clouded by individual preferences.

We shall start by taking two machines. Each one has the same daily throughput and each one is used by the same number of workers of similar skill. The only difference is that the first machine is more durable than the second; in other words it is of higher quality. It is made from stronger materials with better lubrication of its bearings. It is therefore built to enable the production 150,000 items compared to the second machine which will have worn out after producing 100,000 items.

Let us say the first machine, which is of higher quality, costs £330,000 to produce and the second costs £300,000. This being so the wear and tear passed on to each item (depreciation) will be £2.20 in the first case and £3.00 in the second, a saving of 80p per item. (£330,000/150,000 vs £300,000/100,000) Over the course of the life of the second machine this eventual saving will amount to 100,000 x 80p or £80,000. (We use the second machine costing £300,000 to estimate the saving as this is the saving any buyer will make when comparing machines.)

The seller of the better machine knows he is onto a winner. Although the machine costs £30,000 more to produce it will save the buyer £80,000. So, even if the buyer paid £330,000 for it, he will save £50,000. Of course the seller would be stupid to sell the machine for £330,000 which means passing on the whole saving to the buyer.

On the other hand the buyer would be stupid to buy the machine for £380,000 at which point there is no saving. So somewhere between these two points a deal will be struck such that the seller profits from some form of premium and the buyer profits from the residual saving. The price at which it will be sold will be a combination of the facts and the negotiating skills of both sides.

Now consider. Let us say the price eventually struck is £360,000, yielding a premium of £30,000 to the seller. Depreciation is now no longer based on £330,000 but on £360,000. This yields a depreciation per item of £2.40 (£360,000/150,000) rather than £2.20 (£330,000/150,000). Hence, over the life of the machine, the owner of the machine is enriched by an extra £30,000 – or the premium paid to the seller.

We ignore, for the time being, the question of whether or not the market price for the items produced with the aid of this new machine is disrupted by its introduction leaving the profit margin unaltered. What concerns us is who benefits from this improvement in quality. In this case it is the buyer and seller of the machine. The benefit is therefore strictly limited. And it is a benefit that results from a **price increase** in the machine high enough to reward the seller but not too high as to penalise the buyer.

Now let us examine what would happen in a socialist economy based on objective pricing where products are not bought and sold. Here the engineers will report they have developed a new machine which is more cost effective than the machine it replaces. This will be brought to the attention of the users of this machine for consideration. We can assume there will be no glossy brochures involved, no business lunches at expensive restaurants and or other inducements.

Instead what will take place will be a simple mathematical calculation. If the (consumer led) social need requires the continued production of this item or its increase, such that additional machines are required to replace deteriorating machines or to add to them, then the following calculation will be made. Its purpose will be to assess the total impact on the price of the item. In this case the calculation is simple. There is no reduction in labour time, only a reduction in depreciation. On the one side of the equation we have the increase in labour time needed to produce the machine– amounting to £30,000. On the other side an eventual saving in depreciation of £80,000. Therefore the entire saving is assessed to be £50,000 or around 33p for each of the 150,000 items that will be produced.

As a result of the introduction of these machines, the price of the items so produced will fall by 33p. The lowering of the price of 33p thus benefits all the members of society that consume this product and not only two lucky capitalists. Here the benefit takes the form of a spontaneous **price fall**.

Because of its effect on price, quality is therefore a primary consideration in determining the method of production in a society based on objective pricing. Combine this with production now being carried out by empowered workers who are no longer alienated by the production process, and who therefore take pride in their production because it is now their life's blood, and quality is no longer an issue. (This is the polar opposite of what happened in the USSR where prices were fictitious and workers pretended to work.)

The same cannot be said for capitalism and its history of adulteration, substitution, contamination, pollution and built in obsolescence. That is why governments today are forced to supervise production by setting standards and codes, precisely to prevent the excesses that used to take place (and still do in newly emerged capitalist countries like China.) Given the history of capitalism, surely it is immodest of its apologists to criticise a future socialist society for not attending to the quality of production.

Which leaves us with Hollywood. Competition under capitalism in our example drove up the price above its cost of production, creating the illusion that quality commands a price rise. In a society shorn of exchange and therefore commodity fetishism, (where the property of a commodity appears to belong to the commodity itself), it leads to the opposite, to prices falling immediately. Surely both cannot be right?

And yet they are, because in the first instance, a society based on the commodity belongs to the capitalists and in the second it belongs to the workers. In the first instance price rewards the capitalists and in the second it rewards the workers. To be sure, a working class rewarded by falling prices will be just as determined to improve on and ensure quality production, as capitalists are when they are rewarded by higher profits.

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