

Marxist Economics vs The New Institutional Economics:

The Ownership Theory

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1.The Fundamental Relationship of An Enterprise

According to the different functions of circulation and production areas, the different characteristics of people's relationship, Marx distinguished between the enterprise's external and internal relations scientifically, and analysed the enterprise functions, then identified the nature.

The enterprise's external relation is the market relation. In the market, we comply with the principle of competition, free consultation, equal exchange. Because there isn't a uniform property right, it is impossible to implement the administrative direction or promptings. Every unit decides the action independently, according to his judgment based on the information that he obtained. Capitalists and workers meet in the market, the different element owners, they compete, negotiate, then capitalists and workers form a labour employment based on the equal-value-exchange principle.

The internal relation is totally different in the nature. The workers entered the enterprise after they sold their labour, integrated with other elements. After that, the role and status of the capitalist and the worker has a fundamental change, one is the employer, the other is the employee. The worker no longer has an independent decision-making right, can't act freely. The capitalist has the right to dominate and use the labour, like other production factors. The capitalist can collocate the labour in the cooperation system, command and supervise the labour in accordance with their rules and regulations enacted (including incentives), making effective use of production factors, to achieve the purpose of an increase in the surplus value. For all the production elements are purchased by the capitalist, the fruits of using the elements—products and the value include, the surplus value—all belong to the capitalist. Since the workers have to sell their labour to the capitalists, and their rights to use the labour force and thus their labor, do not belong to themselves. They

completely lost any right to share the fruit of the work. Thus, in the market the ownership law turns into the capital possession law. This is the dialectical relationship between capital and wage labour.

The new institutional economics considers the enterprise as a organization which is cooperated to save transaction costs through the equal contract by the different element owners, is the “compact assembly”. That fundamentally negates capitalistic wage labour relations. The most broad view is “team production” theory. It believes that the output of the elements’ cooperation is more than “the summation of every resource’s sub-output” but the contribution of each member is difficult to measure. For every has lazy motivation, it requires a supervisor, but how can we avoid the supervisor also lazy? The best way is to let the person who can supervise most effectively to do that, give him “residual claim right” as prompting, and fix other members’ income by the contract. As residual claim right is associated with the team total output, this property is efficient. The enterprise comes to be a voluntary cooperative organization, with no coercive order relation. Eerqin and Demsetz said : "Enterprise does not own all the inputs, nor the order, enforcement, action restriction, extremely same as a common market contract between two persons." Why equal cooperation is the “nature”of the enterprise? Because “the employee can ‘order’his team owner to pay money”,and “can terminate the contract as the employer”.

This is a deliberate distortion of the true relationship. The realities are:(1) workers do not elect supervisors and give them “residual claim right” voluntarily.(2) it is not ture that there is no “the order, enforcement, action restriction”in the enterprise. because supervision can not be implemented without restriction. Moreover, Eerqin and Demusetz also said: “ the word‘supervision’we used means some activities beside the discipline, including performance measurement, prorated remuneration :...and they give out the instructons of what to do and how to do(as we will be shown later, it also includes mandatory terminate or modify contracts)”, “the employer can direct the employee to do something”.That is a paradox. (3) after careful reading,we can found that the so-called free-elected supervisors become “enerprise owner” and “employers”,

others are “employees”, the relation is “a simple remuneration contract”. It is wage-labour relation, isn’t it? In a word, this enterprise theory ignores the complicated and dynamic features of the social relation, do not distinguish the difference between circulation and production areas, confuses the internal relation of the enterprise with market contractual relation. That exaggerates the freedom and equality. If we consider the market action such as wages payment and the contract termination as enterprises’ “nature”, it will deny the great change of status and relation between the capitalists and salary earner in the production area. The enterprise has partly distribution function in addition to production. We can give the worker promptings through the distribution.. Piece-rate wage is a common and important method. Piece-rate wage is the the transformation of hourly wage. That can not only stimulate the increase of production while increasing the intensity of the work, but also significantly reduce the costs of supervision, (sometimes even deduction the wage under the pretext of product quality), conducive to a substantial increase in profits. Zhang wu-chang advocated “enterprise contract theory” that the enterprise is a form of contract arrangement and pricing arrangements, and said that “factory workers obtain income according to his work”. With a superficial vision , he didn’t know that every product under the piece-rate wage contains same or even more surplus labour with the one under the hourly wage. The promptings through the distribution are more flexible more flexible and direct than the market price mechanism, but also more deceptive.

2 The property right of enterprise and the course of formation

Which property rights exist in enterprise, and who own it, these are problems we can’t evite when we discuss property right of enterprise.

Marxism believe that capitalist enterprise is the productive organization to get surplus value, capital is the capital that can bring surplus value, capitalist is the impersonated capital, the property of enterprise is the property of capitalist(investor). So, the property right of enterprise is the capitalistic ownership which include all of rights and responsibilities.the ownership include the ownership in narrow sense, the right to possess,to dominate, to use and to get the economic benefits when impliment

these rights. It is the integrated hank of property right, all of the rights are combined with benefits. Benefit is the main surplus value and possessed by owner. It is obvious that surplus value is endogenetic in the development of propety right, not the “residual claim right” as new institution economics claim

The labourer in enterprise is only the owner of his manpower, don't possess the enterprise property , they are different main body compare to capitalist who own the enterprise. Moreover, they combinate in capital with other productive factor after they sale their labour to capitalist. Property right of capital together with its right, function, benefit belong to capitalist. The labourer can only get wage according to the price of labour, don't have any requirement right.

The root of property right relation in capitalistic enterprise is capitalistic private ownship, the bourgeois monoplize productive factor, the labourer run short of necessary term to product independently and unable to get basic living factor,in order to make a living, they have to sell out labour, yield to give up the requirement for working fruit. Moreover, throught investment, capitalist attain the property right and the right to control and use labour force, direct and supervise worker to work, and finally attain the possession right for suplus value. It Only in the socialist public ownership conditions can develop a system of property rights different from the capitalist enterprises.

New institution school define the ownship as “*residual claim right*” or risidual “*right of control*”. This definition shrinks the meaning of ownship, deny the basical right in enterprise ownship——veating right. No matter in which condition, the dinial of veating right invade the property right and damage the property right system. So, the definition of ownship is inperfect.

How to get ownship of enterprise and the reason why it can get. The theory of new system economics is more irrealistice and against logic.

The theory of *team production* consider the suplus value demanding tight as the result of negotiation,the reason of it is the member of the team enfeoff to supervisor to improve cooperative effect. Such explaintion is indeed eisegetical. Some people may ask, why do employer not someone else in teamwork enjoy the suplus value if they

are equal. The people who insist on such theory avoid to answer question or use some pretense such as the employer more would like to take risk. But will the employer elect employee as supervisor if he is more venturesome. Teamwork theorist can't give correct answer because they avoid the critical function of productive factor ownership. One hundred years ago, aiming at such paralogism, Marx pointed out "*capitalists are capitalists, not because they are industrial leaders, in contrast, they are industrial commanders because they are capitalists*". The reason that capitalist control labour force and occupancy the surplus value created by worker is wage labour system stemming from capitalistic private ownership.

Williamson claim "residual right of control" belong to owner of substance capital because of specialization of capital assets. This kind of explanation is not convincing. Some critics think that the specialization is not the unique characteristics of the non-substance capital. With the development of the division of work, many kinds of labour force is also specialized and bears the employer's moral risks and market risk of enterprise operation. So why can't labor force own the residual claim right? However, it's only one of the flaws of Williamson's views. Moreover, surplus value is not generated by specialization at all.

Regard enterprise ownership as "residual claim right" and "residual right of control", they spring from imperfection of contract. Because of the existence of contract imperfection, it need to negotiate time after time, in order to cut short transaction cost, we have to give the residual right that not explained in contract to material capital owner. Such kind of explanation on the formation of ownership can not justify himself. First, how can contract imperfection explain the reason of giving surplus controlling right to material capital owner not the labour force. Second, it also has self-contradiction between precondition and conclusion. Since one party of negotiation can get "residual right of control", he possess of whole right in fact. This deny the precondition of imperfect contract theory and deny this theory itself.

3 The collocation of property right in modern enterprise

The analysis above on inside relationship in enterprise and cause of formation of

property is on the base of the enterprises which has its property fastening on the owner, namely ancient enterprise. Because of doing this, essential relation is seen more clearly by getting rid of some non-essential factors. Along with the development of productivity and extent of production socialization, and the extension of the scale of enterprises, specialized division in enterprises develops, which promote the development of modern enterprise, especially joint stock companies limited, and results in a series of changes in the property structure of enterprises.

Property relationship in the joint stock companies limited has some traits as follows : (1) it is characterized by dispersing and separability of property structure, inequality of property share and instability of property owner structure, because shareholders, who found the enterprise, have a large number, unequal even wide-gapped shares and can quit from the securities business easily. (2)property and management are separated, and so does the obligation of property and management between shareholders, directors and handlers simultaneously. (3)employees as wage slaves, without any connection to the property of enterprise(no share) or only a little (little share) , have no right to enter the management and share the profit, and accordingly have no responsibility for the management of the enterprise.

The relationship of rights, obligation and interest between shareholders, directorate, supervisory board and handlers of the enterprise must be standardized and put into practice through some forms of corporate governance, which ensure the owners have the right to carry out the common purpose to gain their interests on the one hand, and give a solution for the proprietors to stimulate and restrict the managers on the other hand. A effective corporate governance can give the managers both the required right and enough stimulation to run the enterprise, assure the shareholders of getting the information about the market and enterprise promptly and correctly, especially ensure that the decision-making of managers is consistent with the interest of shareholders to reduce the cost and prevent the “insider control”. Therefore, the most essential problem of setting up corporate governance is that how can the shareholders(client) stimulate and restrict the handlers (assignees) in order to

maximize the interests through the better management.

An analysis on the property relationship of joint stock companies limited indicates that modern enterprises not only have “residual claim rights” and “residual rights of control”, but also the whole property, containing complicated relations of obligation, right and interest. Concentrated property of the owner is separated into parts and then relegated to the non-owners for management, which is one way of relinquishment to the non-owner some of the separated properties by the owners. To release them for whom, in which condition, in what time depends on the owners’s decision-making on their own behalves. In conclusion, the property, along with the separated or derived parts are determined by the ownership, not the cooperated game or incomplete contracts.

In China, some of the economists emphasize “residual claim rights” and “residual rights of control”, according to some of the viewpoints of new institutional economics, and advocate that the obligation should be in favor of the operators. Some others claim that the operators taking possession of their enterprises is a trend of development. They apply these viewpoints to the state-owned enterprises reform, disregard the importance of the ownership of the enterprise, emphasize the stimulation to the operators regardless the heavy loss of the state assets and the supervision upon them, which virtually provide an excuse for the higher operators to take up the rights of control even the ownership. Their viewpoints are condemned universally in “the dispute of Lang&Gu”, which indicates the bankruptcy of their theories.