

ON MARGINALIST PRICING – The so-called principle of marginal-cost pricing is not sensible for a socialist system.

The classic model example of marginal cost determining the price of a product is different pieces of land that differ in fertility and that are owned by different farmers all producing exactly the same product. For a farmer to continue production, they need at least enough revenue to make ends meet, so the price of what they are selling has to at least cover the costs of the farmer with the least fertile soil.

In that story nobody cares about anybody else. The farmers on the better soil gladly take the higher income that isn't due to them working harder without sharing any of it, and the consumers don't care about what's going on behind the prices. Some economists in the USSR shilled for pricing things in such a way; it was and still is a “common-sense” position for people teaching basic economics in the west that this is similar to how pricing actually happens in general, but with marginally decreasing efficiency inside each single company, even though support outside of fictional text-book examples for this is scarce. Marginal-cost pricing seems to be the exception in the real world, but for people willing to consider radically different societies from the one we live in, this isn't a sufficient argument against using it. The question is whether it would make sense to use it. My answer, as a rule of thumb: NOPE. And here is why.

1. People like to be able to plan things in advance. People have budget considerations. People don't like prices changing drastically all the time. People like price stability.

Let's admit, if there are several basically identical facilities producing a thing at a same cost and there is an idle facility with outdated or less specialized machinery and we increase the quantity by also putting that stuff into use, it can make sense to slightly rise the unit price of the product so that total sales of it can cover this quantity's total production costs. But why should the price represent only the least efficient facility (which in this example would also mean a much bigger price rise than using average costs)? Should we not look at whether the process as a whole can be sustained, should we instead pretend each facility is like a sociopathic farmer? For what purpose? Let's think instead of the natural resources and machinery of different quality producing the same product as an **undivided whole**, owned by a monopolist. What minimum price does the monopolist need to charge in order to sustain the production of this quantity? That's my answer. (In capitalism, what the monopolist does actually charge can be far above that necessary minimum, of course. Let's not emulate that.)

2. Small inaccuracies in data and subtle changes in categorization shouldn't drastically change our picture of the whole.

Suppose we do the “rational” marginal-cost pricing, then even with a given technology and a given quantity to be produced our pricing decision can drastically change based as the representation in planning of what's at the facilities gets made more *detailed*. One and the same facility has machines of different quality, so suppose we change from looking at the average productivity each facility is capable of and taking the worst facility's performance as reference for pricing, and we now look inside the worst facility and see it has machines of different quality, and we now look at the worst machines they have in use. So our “rational” price must rise. And why stop there? Why not look at what the least productive workers do with the shittiest machines still in use during the work-hour of highest exhaustion? Again, with more detailed data we'll have to raise the price. (For comparison: If the pricing policy is just based on the average across facilities instead, surely making more fine distinctions and recording them helps us with reorganizing and updating, but the current unit price of a given produced quantity at the current particular arrangement stays where it is.)

Suppose for the production of a particular thing that is produced in various combinations of workers of different fitness and machinery of different quality, we can *rearrange* these combinations so that the marginal cost of the worst combination gets lower while still producing the same total quantity. What does it mean for the total cost? It's a trick question, since you don't have enough information to give an answer. Following the goal of reducing the cost of the worst combination can result in total cost getting lower, staying the same, or even rising. Suppose you have information that a particular possible rearrangement for producing a given quantity comes at higher average cost, but a lower cost according to marginalist “reasoning”. Are you now for implementing that change? Surely not.

3. Pro-marginalism baboons can't explain themselves.

Let's think again about actual quantity of a product changing in the short term by starting to also use less specialized machinery and less optimized processes for producing it. The difference between the average unit cost of a product and the unit cost of the least productive machinery-process combination in use to produce it can be *small or drastic*. For different products the gap between average and marginal can come in all sorts of sizes. Imagine we live in glorious socialism with marginal pricing for consumer items, and it is your task, comrade economist, to explain to consumers of one particular product why they have to pay prices drastically above the average cost of producing it while consumers of another one pay a price pretty close to its average and how that's the fair and rational and transparent way to do things _('▽')_

If we do pricing of consumer items based on the least efficient machinery-process combination in use, then *where* does all the then necessary extra consumer spending on some quantity of an item above that quantity's total production cost go? The least efficient machinery-process combination in use covers its operation costs with the price, more efficient combinations can of course also be covered, and what do we do then with the surplus above that? Should the particular surplus from marginal-cost pricing of a particular product go into improving the efficiency in producing that particular product? But there is no reason to believe that a big surplus will only occur where the costs for updating the less efficient machinery are big. If the people own the means of production, *shouldn't the surplus go to the people?* And if this surplus from marginal-cost pricing minus covering each facility's costs happens to be in very different sizes for different products, shouldn't a big part of that go back to the consumers, so that the consumer of product A gets back a share of the above-coverage surplus specific to product A, and a consumer of product B gets back a share of the surplus specific to it and so on... and doing that just brings us back to pricing based on average production cost.

Even some economists who are pretty good at math swear by marginal pricing. Well, I normally have a lot of respect for the mathy type of people, but on the other hand there are also very mathy astrologers out there. One should not expect great wisdom to come out of rigorous logical thinking if the assumptions one starts with are completely wrong. Socialism is not about playing a game where we pretend to act in the interest of farm-owning assholes whose souls got transferred into machines by voodoo magic, socialism is about consciously and rationally controlling what and how we produce.