

# The Anti-Samuelson

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VOLUME TWO

# Microeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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## Chapter 21: Interest

This chapter will be relatively short since much of the material dealing with interest—particularly the division of profit into entrepreneurial profit and interest—has been analyzed elsewhere. Moreover, S himself admits that he is merely summarizing in “an uncritical way” traditional theories of capital/interest (596).

### PROFIT AND INTEREST

If the (nonclassical) bourgeois notion of profit is somehow connected with that which Marx calls extra profit, then interest in some way resembles profit (this is confused because it also refers to the market interest rate of banks). Already in Marx’s time it was possible to see from the orientation of vulgar political economy that the main ideological “benefit” of “correlating” capital with interest lay in the eradication of the connection to the *production process*: all we now have is a sum which begets a larger sum. Whether the agent of self-expansion appears as money or as the “thing” (that is, physical object) capital is irrelevant: both ignore social reality and both are adequate automatic fetishes.

We already know the marginal productivity of labor and capital theory in its major theoretical outlines. In that connection it was pointed out that Clark had a weird notion of capitalism inasmuch as he assumed a total break between “capitalists” and “entrepreneurs.” But since the entrepreneur is not assumed to own any capital, he must exert a

demand for all the capital he employs. But this is obviously incorrect inasmuch as total demand for capital is much smaller than the existing capital. There is then in general a confusion between capital and loan capital.

But it is impossible to explain the demand for capital if one denies that this capital bears profit for the demander. Either the entrepreneur demands means of production as capital, in which case it is impossible to limit "capital productivity" to interest (for then the entrepreneurial profit would disappear and with it the *raison d'être* of the demand); or he demands means of production as commodities, in which case both the entrepreneurial profit as well as the interest on the capital disappear (for the means of production merely have their value transferred to the new commodities).<sup>1</sup>

#### FACTORS OF PRODUCTIONS AND REVENUES

The first piece of business in this chapter is "a rather arbitrary division" of the so-called factors. Land and labor are given; capital is produced by the "economic system itself" (596). But then we are told that "capital goods . . . can be rented out in the competitive market just the way acres of land or hours of labor can be rented out" (597). Without belaboring the point, we must point out that labor is an activity which does not belong to the worker but can exist only when combined with objects and instruments of labor; and even if *S* meant labor power this is also misleading, since a worker does not have the choice between renting out his ability or using it for himself—what should he do with the ability to operate a crane while sitting home. (*S* cannot possibly answer this by asking what the capitalist should do with the crane at home, because the whole purpose of this discussion presumably is an attempt to pass off the capitalist as someone who has all this "stuff" which he could employ himself but which he for some reason prefers to "rent out.")

Then we come to the section on the capitalization of assets, one containing very misleading notions. As Marx explained, the form of interest-bearing capital brings about a

situation in which every money revenue of a regular or periodic nature is transformed into interest; if the interest rate is given, one can then "calculate" the capital which *would* bear that sum. Capitalization is necessary to understand the forms and movements of fictitious capital (stocks, bonds, government securities, etc.); Marx also uses it to determine the "price" of land, which is really the price of the ground rent determined on the basis of the interest rate. Although Marx does use the "device" of capitalization, he is careful to emphasize the theoretical foundation and causality. But with S all we get is a formula: plug in! And if you don't believe it, "check our formula"—do the arithmetic. This is what Marx meant by interest as "automatic fetish" totally removed from the real process of self-expansion of value.

Is it then true that "to see how assets get capitalized" we should look at the "simplest case of a piece of land"? This will allegedly clarify how "capital goods get priced in the market at their "capitalized value" (597). But as we have seen, capitalization is the formation of fictitious capital (bonds, etc.) or of a *fictitious* price (land): it is senseless to reverse this process and use it for real capital: one does not find the value of capital by empirically determining its periodic money revenue and then plugging it into the interest rate! The value of capital is determined independently (by the value of the commodities making up the constant and variable capital); similarly, the expanded value of the capital—the surplus value it "creates"—is determined by how much surplus labor is appropriated. This method of determining the value of capital represents an advanced stage of bourgeois disintegration: so deeply has the origin of profit been weeded out of its concept that the method for determining fictitious capital values is now transformed into the model for the real capital values.

#### EXCURSUS ON "HUMAN CAPITAL"

While implicitly conceding that wages do not lend themselves to capitalization treatment, S does extend it to slave wages and to educational investment in human capital.

What we just said about the superficialization of the category of interest—every periodic money income is transformed into, or to use S's phrase, "may appear as," interest (597, n. 2)—is repeated now for the category of capital. Since bourgeois economics would not be bourgeois economics if it had a sociohistorical concept of capital, it is not surprising that capital becomes—"may appear as"—any "thing" that spins off money income. As for slavery, it was involuntarily entered into; S would doubtless say that the "revenue" received from the slave's work would be the interest on the capital "invested" in him by the slaveowner; this, of course, makes a mockery of any attempt to distinguish between socio-historical epochs.

### "PRODUCTIVITY" OF CAPITAL

Having set the stage with one total irrelevancy, S puts the reader in the mood to accept further superficialities by posing a "now we ask ourselves this question" which has nothing to do with what preceded or what follows: "Why do people ever bother to transform the primary factors of labor and land into intermediate capital goods or into capital? The traditional answer is: It is a technological fact of life that you can get *more future consumption product by using indirect or roundabout methods*" (598).

First, "people"; and then "bother." Which people in which society? In our wonderful mixed-economy society only one class of "people" make any decisions about capital formation, and for them it is really no "bother." Now these "people" do not make their decisions on the basis of whether future consumption will increase as a result; in fact, as monopoly shows, future production and consumption may even be cut back—the point is what is happening on the profit side.

"From this basic technological fact" S now makes a super-duper leap to "an important economic conclusion": "capital has a net productivity (or real interest yield)" (598). We must watch carefully at this point because S has cleverly strung out a series of definitions of net productivity of

capital which begins from a technological fact of increasing productivity of human labor and winds up with vulgarization.

What do we know about the first stage? All S has done is to apply the appearances in their uncomprehended form of capitalism to noncapitalist societies. The productivity of capital consists first of all in the formal subsumption of labor to it: this is the compulsion which it exerts on the workers to work beyond the fulfillment of their immediate needs—not in the sense of fulfilling these other needs, but rather in making them work a longer period of time than is necessary for the production of the use-values they customarily need. The extra labor goes to the production of two elements: use-values for the nonworking, capital-owning class; and means of production for expanded reproduction (accumulation). Capitalism shares the first of these elements with other class societies (slavery, feudalism, etc.); the form of this exploitation is, to be sure, essentially different, but the aspect of class exploitation is the same. This is not why Marx viewed capitalism as progressive. Its real productivity consisted in accumulating in a production-oriented manner the objective results of previous exploitation of labor: the products of labor now are marshalled in a massive manner over against the laborer as the basis for more and increased exploitation.

But this is only a relatively primitive stage of the rule of capital. The really mysterious relation between labor and its objectified products arises (this is partly associated with the thrust toward the development of relative surplus value) when not only the product, but also

the forms of societally developed labor, cooperation, manufacture (as form of the division of labor), factory (as form of societal labor organized with machinery as its material basis) present themselves as *developmental forms of capital* and therefore the productive powers of labor developed from these forms of societal labor, therefore also science and natural forces present themselves as *productive powers of capital*.<sup>2</sup>

This is the first stage of S's saga of capital productivity as

“that annual percentage yield which you could earn by tying up your money” in any particular “project” (599). By this time we can begin to see how productivity and profitability diverge. It finally dawns on us when S states that a synonymous definition would be “that market rate of interest at which it would just pay to undertake” the investment.

S is quite clever. He sandwiches capitalism in-between two nonclass societies, imputing to the latter the relations of capitalism and to capitalism their relations. Thus like these societies, capitalism becomes a society in which there is collective, conscious planning on what to produce to satisfy needs; and these societies in turn use the anarchic “device” of an interest rate they have no need of because they can plan directly.

No discussion is of course complete without dragging in our old friend the law of diminishing returns. It tells us that “as more and more capital goods . . . become available to work with the limited supply of natural resources and land and with the more slowly growing number of workers . . . society and the private investors will run out of new projects with as high net productivities as the previous ones” (599). As a result interest rates and investment yields will fall.

Since bourgeois interest is related to the notion of profit in our terms, this would seem to be an expression of the falling rate of profit. And in fact it resembles Adam Smith’s explanation of the falling rate of profit from accumulation and competition. It also shares with Ricardo’s conception the feature of declining productivity. Marx rejected both insofar as he showed how the rate of profit drops even though, or rather precisely because labor, in its capitalist form, has become more and more productive (it can set more and more objectified labor in motion but relatively less surplus labor time).

#### EXCURSUS ON INFRASTRUCTURE

Let us look at S’s example of a bridge with a net productivity of 10 percent, while the market rate of interest is 11

percent. He states that until the rate drops to 10 percent, it will not be "worth" building the bridge. For whom? For "a community," for society, or for private investors?

Let us look at this more closely. First of all, his chosen example is bound to obfuscate matters; he has hit upon a type of operation which involves so much capital, and so much constant capital in relation to variable capital, that it has traditionally been undertaken only by nonprofit state organs; or more recently also by large joint-stock corporations which must be satisfied with interest (dividends) instead of the full profit. Such operations (railroads, highways, bridges, ports, etc.), today called infrastructure, can be undertaken by private capital only when it can be done with a "profit" (i.e., when it throws off at least as much as bonds, etc.); furthermore, capital must be sufficiently concentrated to attain the size needed by enormous projects which take a long time to complete (slow turnover of capital); such transportation/communication projects must correspond to a certain level of the productive forces of those industrial capitals which will consume them: in other words, they must be "worth" their exchange value.

However, even when such a project is not "attractive to private investors" because they can find more "productive" investment opportunities elsewhere, it may nevertheless be undertaken because it is an essential use value for the society which needs it "at any price." In that case the operation is undertaken by the state: it is "financed" not by capital but by revenue in the form of taxes. This can be done only if the society has the labor-time available for it without withdrawing any from that needed to reproduce the aggregate labor power of the society.

Here we can see the productivity of capital in action. Let us say that it would take one hundred workers one year to build the bridge; the value of labor power is such that it would take six months of labor to create that value. The productivity of capital consists in forcing the worker to work twelve months while paying him for six. Nevertheless, the capitalists do not make the workers work twice as much just for the fun of it: the extra labor is needed both to do the job and to make it profitable. If the subsumption of

labor under capital were still incomplete, that is, if the workers were still in a position to refuse to work the surplus labor-time, then the state of course could not work magic: it cannot build the bridge with one hundred times six months of labor. The other half of the labor would have to be provided by another contingent of workers who would receive their wages from taxpayers; these would either have to work a little bit extra in order to pay their taxes without causing their labor power to go unreproduced in full, or because of taxation they would be indirectly working surplus time by having part of their necessary time siphoned off to the state.

### “WAITING” AND “ABSTINENCE”

Since Chapter 12 has dealt with the Keynesian conceptions of the interest rate and its determinants, there is no need to go into details here. Clearly the alleged supply determinant is a bunch of apologetic nonsense: those who “do” the capital formations are in reality demanding that other people “abstain and wait”; of course this sort of waiting is self-reproducing.

S cunningly avoids this issue—when he mentions the two magic words he sets them in quotation marks (604). Otherwise he speaks of patience and impatience (605). But as we already know from the discussion of consumption and saving, S likes to “aggregate” and thus make the class relation one affecting society as an undifferentiated whole. Thus in the text, “the community” is the subject that is sacrificing, saving, consuming, etc. Only in the fine print of the appendix does S indicate that interest is as much caused by capital productivity as by “the fact that savers must be paid for the unpleasant task of ‘abstinence’ or ‘waiting’ ” (611).

It would have been nice if S had bothered to tell the reader something of the history of these terms, but alas he is a “modern” economist for whom time begins with the mixed economy. So let’s fill in a bit. The venerable Nassau Senior (1790-1864) made the term abstinence fashionable for obvious apologetic reasons. Marshall, not quite so ignorant

of political-social issues, thought the term was misunderstood and believed "with advantage" to be able to replace it with waiting. It was misunderstood, he wrote, because the "greatest accumulators of wealth are very rich persons, some of whom live in luxury," and can thus not be thought to live abstinently. "What economists meant was," he continued, "that, when a person abstained from consuming anything which he had the power of consuming, with the purpose of increasing his resources in the future, his abstinence from that particular act of consumption increased the accumulation of wealth."<sup>3</sup> In other words, Marshall set waiting against "impulsive grasping at immediate satisfactions." What nonsense! Can Rockefeller really be said to have abstained from guzzling billions of barrels of oil so as to increase his wealth? And even if we translate the natural form of their means of production into money, is it really possible for someone to spend billions of dollars? "Waiting" is equally absurd—they are not waiting for future enjoyment because they will never consume it.

### PRECAPITALIST INTEREST

In a section entitled "ancient misconceptions about interest" S throws together a good deal of ahistorical material which makes him look very critical as compared to his predecessors. Aristotle was rather silly because he didn't realize when he "said it was unfair to charge positive interest for loans," that since capital is scarce and hence productive, "if I did not pay you interest, I should really be cheating you out of the return that you could get by putting your own money directly into such productive investment projects!" (602 f.).

As for "cheating," that is true—but suprahistorically it is not correct. As Marx noted in reply to a nineteenth-century English author who also viewed interest as a principle of natural justice:

The justness of transactions which take place among agents of production rests upon the fact that these transactions derive from the relations of production as a natural consequence. The

legal forms in which these economic transactions appear as acts of will of the participants . . . can as mere forms not determine this content itself. This content is just as soon as it corresponds to the mode of production, is adequate to it. It is unjust as soon as it contradicts it. Slavery on the basis of the capitalist mode of production is unjust; similarly cheating with respect to the quality of the commodity.<sup>4</sup>

As for consumptions loans, it is not enough to say that because they are “less important” than production loans the latter determine the rate of interest. In a self-reproducing capitalist system it must be obvious that interest can be paid only if there is a mechanism through which the capitalists pay back their loans without causing a diminution of their capital stock—otherwise capital could not accumulate and there would be no capitalism. That this was not the case in precapitalist societies, that usury under certain historical circumstances became a lever of dissolution of previous economic formations, etc.,—all this finds no mention in S. Moreover, S inverts the real meaning of “Biblical utterances against interest and usury” when he characterizes them as “loans made for consumption rather than investment purposes” (603); for the ruling classes lent slaves and poor peasants money to be able to exploit their labor directly when they could no longer pay back their debts. What is true is that the loans of the *ruling class* during the Middle Ages were primarily for consumption, and this in fact is still the case today in many Asian countries.

#### INTEREST RATE “MANIPULATION” AND “CRISIS MANAGEMENT”

Clark confused the demand for loan capital with the demand for capital. S reproduces this error to the extent that he talks of “the existing stock of capital” as being “auctioned off” by the rate of interest (600). This is no quirk on S’s part, since one of the presuppositions of Keynesian theory is that control over the interest rate is an essential point. To the extent that the investment decisions of many

corporations are not made on the basis of this rate, much of the Keynesian bag of tricks is neutralized.

Tucked away in a discussion of zero interest rates is a “qualification” indicating that perhaps our mixed economy isn’t so wonderful after all. Thus not only in 1932, but “Even today, if the profit rate (pure interest rate plus premiums to cover risk) got forced down to 8 or 10 per cent before taxes, business as a whole might be unwilling to undertake an investment level equal to desired full-employment saving” (604 n. 8). We are told that once the Fed had shot its bolt and gotten the interest rate down to zero, its power to “coax out” more investment would have dissipated:

Therefore it is conceivable that an impasse, a kind of Day of Judgment for our mixed system . . . might arrive when conventional measures to stimulate investment could not restore full employment and let our optimistic managed money” work itself out smoothly and fully. . . . And if that unhappy day should ever approach, more extensive remedial programs (such as insurance of risk loans or new institutions to provide venture capital) would have to be imaginatively explored [613].

This is the first and only time in the whole book that S hints that perhaps a repeat performance of the 1930s may be a possibility.

Of course, S is not saying that the case is hopeless; he does present some new “policy tools.” But the admission is significant because in general he denies the possibility of crisis.

The point of course is keeping capitalism alive politically—by political means. S never explains these Keynesian policies in class terms. They are always good for everyone. Keynes at least possessed the optimism of a bourgeois—he spoke openly in class terms, as exemplified by his description of the measures taken to finance World War I:

The war inevitably involved in all countries an immense diversion of resources to forms of production which, since they did

not add to the volume of liquid consumption goods purchasable and consumable by income earners, had just the same effect as an increased investment in fixed capital would have in ordinary times. The investment thus required was . . . on such a scale that it exceeded the maximum possible amount of voluntary saving which one could expect. . . . Thus forced transferences of purchasing power were a necessary condition. . . . The means of effecting this transference with the minimum of social friction and disturbance was the question for solution.<sup>5</sup>

He goes on to reject the proposal of "the financial purists" which would have raised the entire sum by taxation on the grounds that it would have

to be aimed directly at the relatively poor, since it was above all their consumption, in view of its aggregate magnitude, which had somehow or other to be reduced. It would have meant, that is to say, a tax of (say) 5s. in the £ on all wages, perhaps more. No government engaged in war could be expected to add to its other difficulties the political problems of such a tax.<sup>6</sup>

Then Keynes opts for rising prices rather than lowering money wages because this would provoke less working-class opposition while the effect—"the resources released would not accrue in the first instance to the Government . . . but to the entrepreneurs in the shape of exceptional profits . . . because the margin between the money-proceeds of production and its money-costs would be widened"<sup>7</sup>—would be the same.

It is interesting that in admitting that this whole process is similar to capital formation in peacetime, Keynes is also admitting what we have wrung from him before—namely that consumption is not the goal of capitalism inasmuch as "the psychology of the community is such that" the marginal propensity to consume would cause losses to capitalists if the capitalists used all of increased employment to satisfy the "increased demand for immediate consumption."<sup>8</sup>

We might say that S's refusal to speak in open terms is another example of how the cash value of a doctrine lies in its vulgarization.

S has been so impressed by the crises of recent years that he has—together with the term “neoclassical synthesis”—also deleted his previous “confident reply” from later editions, according to which this synthesis “can successfully fight off the plague of mass unemployment and the plague of inflation” (7th ed., p. 581). But this development cannot surprise S, for he appreciates the tremendous significance for capital theory of the fact that “each night we go to bed realizing that the next morning will have some surprises for us” (606).

