

# The Anti-Samuelson

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## Microeconomics:

VOLUME TWO

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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**URIZEN BOOKS / NEW YORK**  
Original from  
UNIVERSITY OF MICHIGAN

HB  
119  
S23  
L74  
1977  
v. 2

**Library of Congress Cataloging in Publication Data**

Linder, Marc.  
Anti-Samuelson.

Bibliography.  
Includes index.

1. Samuelson, Paul Anthony, 1915- Economics.  
I. Sensat, Julius, 1947- joint author. II. Title.  
HB119.S25L5 330 76-20796  
ISBN 0-916354-16-4 (v. 2)  
ISBN 0-916354-17-2 (v. 2) pbk.

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Manufactured in the United States of America

## Chapter 22: Theories of Profit (S's Chapter 31)

**In the end, business profits can be regarded as a fee. A fee for financing, maintaining and managing the U.S. economy.**

—McGraw-Hill Advertisement, "The \$400-Billion Misunderstanding," in *Business Week*, July 22, 1972, pp. 70-71.

Since profit is allegedly a residual magnitude whose "components" we have dealt with, we will restrict ourselves here to the various "views" which S describes. (The fact that S has abbreviated this chapter in the ninth edition is of ideological interest, for this doubtless marks an attempt to pacify those whose "hostility toward profit" (8th ed., pp. 599 f.) has so disturbed S. This is clear from the fact that he has now added a new little section: "Sixth View: Profit as Marxian Surplus Value"; however, proof that this is a half-hearted addition is delivered in form of a footnote telling the teacher that this part may be skipped [622 n. 3].)

### IDEOLOGICAL MISSION

Whereas the classical bourgeois economists still understood profit in class terms, S sees it as a "complex" matter; for the most part this complexity consists in so gross a distortion of the category of profit as to sever it from its social base. In the end, not only capitalists but workers too make profits. This idea is not of course original; it has been around at least as long as the Holy Trinity—the notion that

wages, interest, and rent are actually created by corresponding "factors"; since profit could no longer be identified with capital (this honor fell to interest), new "sources" had to be invented. This chapter merely goes through some of them.

The key sentences in this chapter, and in a sense in the whole book as far as its social "mission" is concerned, follow S's description of three "views" of profit as implicit factor returns, returns to innovation, and for risk-bearing:

If you point out the above to a person who feels vaguely critical toward profit, you may confuse him and make him uncertain as to what it is that he is against. His hazy notion of a capitalist as a fat man with a penchant for arithmetic, who somehow exploits the rest of the community, calls attention to a fourth possible meaning of profit, *namely profit as the earnings of monopoly* [8th ed., p. 597].

It is no exaggeration to claim that this is in fact a function—if not the conscious purpose—of this whole book and of all bourgeois education: to confuse those who are "vaguely critical" of the profit system. This "source" of profit is thrown in as a sop, but we must remember that the chapters on monopoly have already asserted that the profits associated with monopoly are not the evil.

### THE VARIOUS "VIEWS"

The chapter opens with a discussion of the "statistician's" view, which breaks down into several kinds. Let us see what they are: Implicit factor returns have already been discussed in connection with opportunity costs and the hybrid nature of the income of small commodity producers (or service producers). Since S himself admits that "much of what is ordinarily called profit is really nothing but interest, rents, and wages under a different name" (619), we can exclude this category from the discussion of profit as a discrete category. In any event, this first "view" does wonders in dispelling the "hostility" toward profit by letting wage "earners" share it.

We have also met, and criticized, the second rubric, profit as “reward to enterprise and innovation,” in connection with temporary extra profit. This profit exists, we are told, because perfect competition does not now exist, never did, never will, and never could. The “heroically abstract assumptions” (630) involved in perfect competition are not transparent in their function. On the one hand, they seem designed to give the reader the impression that he is being confronted with a pair of categories (perfect—imperfect) analogous to the Leninist pair—premonopoly and monopoly capitalism. Yet this is obviously not right, since premonopoly capitalism did exist. Maybe one could change the analogy to the distinction Marx made between commodity production and capitalism, or between surplus value and profit. This would gain some plausibility from the statement that the “model . . . is not a picture of the real world as we know it when we step outside the library” (630). Yet this is similarly invalid, for Marx’s distinction is based on the Hegelian understanding of the relation between essence and appearance: surplus value is “there,” whether you see it on the surface or not. Perfect competition is not.

In any event, from the admission that perfect competition is a dreamworld S makes a quantum jump to: “In real life somebody must act as boss and decide how a business shall be run” (620). The justification for the eternal nature of the capitalist authority structure of production is of course lacking. But then in an equally unmediated way we are brought back to capitalist innovators “in the world as we know it” (620). This then leads into the discussion of the distinction between wages of management and innovational returns. S reports that Schumpeter ruled out the former as a part of profit. S seems to agree with this because he adds: “Although these executives run the business they are paid wages much like anybody else. Management of this type is a skill not different in kind from other skills . . . . People who possess this skill are bid for in the market place . . . .” (620).

Now this managerial wage has had an interesting career.

Called wages of superintendence in the nineteenth century, it was an attempt to justify profit as an income deriving from labor. This had become necessary once the Holy Trinity had established itself as an integral part of vulgar economics. Since interest was now connected with capital, it was essential to find out where profit came from. On the other hand, interest now became attached to capital as possession—it had nothing to do with capital in production. The managers could point to their own “wages” as uniting them against those anonymous forces of capital. But this is not dangerous, because interest-capital, although it assumes the role of the social existence of capital, no longer has anything to do with labor, no longer represents exploitation of labor. The ownership of capital appears as a relation between two capitalists.

S states that, as a result of huge corporations and managers, it is easier to understand Schumpeter’s distinction today than it was fifty years earlier. Yet one hundred years before that the utopians had developed this insight. We quote Marx’s paraphrase of these authors because it is almost precisely what S says:

The labor of superintendence can now be bought on the market like every other labor power and is relatively just as cheap to produce and therefore to buy. Capitalist production itself has brought it about that the labor of direction, completely separated from capital property, whether one’s own or others’, runs about on the street. It has become totally useless for the capitalist to execute this labor of direction.<sup>1</sup>

If S did in fact subscribe to this view, he would be forced to explain the extremely high salaries of corporate executives as a result of “the tremendous qualitative differentials among people” (580). But it is not only Marxists, as S hints (625), who understand these salaries as a part of total profit (or surplus value):

The high incomes of top executives can in fact be understood only if we bear in mind that they are in a position in which they can fix their own remuneration. Supply and demand do

not take us far here, nor does the concept of “productive contribution,” dear to the hearts of economists. Here “power” is a more enlightening term than the forces of the market.<sup>2</sup>

As far as the innovative aspect is concerned, its rational kernel is already familiar to us within the framework of the concept of extra profit. The personalization of this phenomenon in the “innovator” is misleading in that most inventions belong to the corporations in which the researchers are salaried employees—or they stem from independent inventors who sell their patents to corporations.

The next “type” of profit—“monopoly profit”—has already been dealt with on a general level, so here we will concern ourselves only with the new aspects S inserts into the discussion.

This section provokes a significant admission, which like all other such statements is relegated to a footnote: “If there is great inequality in the distribution of ownership of factors of production, then even under the most perfect competition (where pure profit is zero) there can still result a very rich, possibly idle, minority of plutocrats surrounded by masses of lower-income people” (623 n. 4). The “if” is a generous concession. This in a nutshell actually constitutes a self-refutation. The whole theory of perfect competition was held up as a model of efficiency against which any society could be judged, and now it is conceded that because one class owns all of the means of production in their objectified form there must be a class-income dichotomy.

The purpose of this section was to show those doubting Thomases that what they objected to was monopoly profits. For this reason S once again finds it necessary to haul in the unique factor of production story so that workers can be the large monopolists just like the capitalists. But after reducing monopoly profits to rent, wages, and interest, he claims that “*much of the hostility toward profit is really hostility toward the extremes of inequality in the distribution of money income that comes from unequal factor ownership*” (8th ed. p. 600), a source which must be kept apart from monopoly.

In the first place this merely strengthens the case of our

“vague critics”; for they should not restrict their “hazy notions” of fat-cats to monopoly, but extend it to the whole system since there is *in fact* enormous “inequality of factor ownership.” What S does not seem to grasp is that it is the ownership of the “factors”—the fact that some people own capital and others labor power—that brings about the inequality in ownership, and through that the inequality in income. This S himself more or less admits in the chapters on monopoly when he indicates that concentration and centralization of capital are a continuously self-reproducing process into which it is necessary to intervene again and again so that matters do not get out of hand. Thus the hostility toward profit is really the hostility toward the whole profit system.

S is thus being consistent when he claims that “it is misleading to talk about ‘a profit system.’ Ours is a profit-and-loss system” (8th ed. p. 599). Pity the poor capitalist who gets “a kick in the pants from unions or from fate in general” (586). If S means the workers get what the capitalists lose, then this would indicate that there is a real struggle going on for the division of the pie—a fact which is denied throughout this entire book; but if he merely means that one capitalist loses what another gains, then this is totally irrelevant as far as a theoretical analysis of the profit system is concerned—because this refers to a whole class.

S’s last line of resistance is that everyone wants a piece of the action; this means that the “pursuit of profit” is merely “trying to get as much as he [the businessman] can for the resources at his disposal. (This is not different from what a worker is doing when he changes occupations or joins a union.)” (8th ed. pp. 599-600).

At this point S treats us to a hitherto secret definition of profit: unnecessary surplus earned by factors. But S can hardly blame “people” for this understanding since it was bourgeois economics itself which created the notion of profit upon alienation: namely that profit was a mark-up created in the sphere of circulation by selling at a higher price than one buys at. In this sense “unnecessary” is wrong; it is also wrong in the sense that the capitalist sys-

tem could do without these “surpluses”—this is the correct part of S’s dislike of profits taxes. But it must be emphasized that the surplus over and beyond what the worker gets is “unnecessary” today—there is a class that pockets the difference and this is unnecessary today, as is their sole power to decide what to do with the part of the surplus that is reinvested.

### THE SOCIETAL SIGNIFICANCE OF THE PRAISES OF PROFIT

The “sermon on profit” must rank as one of S’s supreme displays of stupidity and infamy. One might still accept the assertion that “profit seeking is simply seeking of self-advantage” (8th ed., p. 601), for these two characteristics of the bourgeois epoch are not unrelated. But S is not promising any utopia: “shirkers get low incomes. And earnest people, born stupid and with weak muscles, also get low incomes for all their earnestness. Smart go-getters get high incomes. . . . So it goes” (ibid.). If this is the best of all possible worlds under nonexistent perfect competition, the real world is even worse. S does not seem too disturbed about what the shirkers, the inherently stupid and weak would do if they ever heard him talk about them in this way. Nevertheless, to the extent that capitalism keeps producing “shirkers” and the genetically “stupid,” dealing with them becomes a political problem. The tax system is the answer: “democracy” can redistribute income. If in fact the tax system does not redistribute income to the poorer people, we are forced to conclude that we either do not have a democracy or that the poor—the majority—are altruists intent on increasing the incomes of the rich. There is a rational aspect to S’s claims: if a radical left-wing government were to reduce the income of the capitalist class, it is very likely that this class would experience a “distortion of incentives” which would lead to open civil war. But what S wants to prove is that profit is an eternal aspect of human nature, and that to block that pursuit is bound to interfere with efficiency whatever the economic system.

The description of profit as a “coordinating device” is not

quite correct in the sense that it guides *all* of us; for it gives the impression that capitalism is one gigantic “profit-sharing” system. Although it is true that wages may be higher in branches where profits are greater, the “rationality” in seeking a higher paying job so that one may keep one’s family above water is hardly to be equated with the transformation of one’s capital from one form into another in order to accumulate more. And when S asserts that both workers and capitalists get “penalized” when they “over-do” the satisfaction of consumer wants, one must really ask whether the Ford family suffered the same penalties when the Edsel folded as did the workers who found themselves out on the street.