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The Anti-Samuelson

BY MARC LINDER

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Chapter 24: World-Trade Theories (S's Chapter 34)

One tells us, for example, that free trade would bring into being an international division of labor and therewith assign to every country a production harmonizing with its natural advantages.

You believe perhaps, gentlemen, that the production of coffee and sugar is the natural attribute of the West Indies.

Two hundred years ago nature, which pays no heed to free trade, planted neither coffee trees nor sugar cane there.

And it will perhaps not take a half-century before you will no longer find either coffee or sugar there, for already the East Indies through cheaper production have successfully taken up the cudgel against this allegedly natural attribute of the West Indies. . . .

One more circumstance must thereby never be lost sight of: namely that, just as everything has become a monopoly, there are today also a few branches of industry which dominate all others and assure the peoples primarily producing them dominance on the world market. . . . It is truly ridiculous how the free traders point to the few specialties in every industrial branch in order to throw them onto the scales against the products of everyday use which can be produced most cheaply in those countries where industry is most developed.

If the free traders cannot comprehend how one country can enrich itself at the expense of another, we should not be surprised, since the same gentlemen want to comprehend even less how within a country one class can enrich itself at the expense of another.—Rede über den Freiliandel (Speech on Free Trade), January 9, 1848, in Marx-Engels Werke, IV, 456 f.

SPECIALIZATION: AN UNINTENTIONAL BOURGEOIS ANALOGY BETWEEN THE OPPRESSION OF THE "THIRD" WORLD AND THE OPPRESSION OF WOMEN

S begins his discussion with this assertion: "Again and again we have seen how specialization increases productivity and standards of living." This chapter will allegedly extend this established fact to the international sphere (668). We cannot agree that S has really provided the reader with any proof other than the dubious "mathematical proofs." He has previously stated that specialization rests on "interpersonal differences in ability"; these he takes to be "natural," whereas the "differences" specialization "accentuates and creates" apparently are "acquired" (52 f.). In this chapter, it is the former that absorb practically all of his theoretical and policy-making attention; the latter recede into the background.

Since S himself explicitly extends the advantages of specialization to "regions" (52), we must follow up the negative side.

S might maintain that the banana producers can barter their bananas on the world market for other goods and second, it does not really matter whether the emphasis is on coffee beans or steel. However, as we shall see, this might be true in a world of "harmony." Secondly, it "just so happens" that the countries concentrating on a few agricultural export products belong to the poorer nations. Thirdly, one must pay attention to the use-values under consideration: no major power is going to suffer irreparable harm if its supply of bananas and coffee is cut off; and although substitutes for unobtainable raw materials can be found, there are certain limits beyond which the power aspirations of any nation would be severely restricted.

The peculiar manner in which use-values are lost sight



of, and individual and collective processes mixed, can be seen in S's exemplification of the principle of comparative advantage. He resorts to the "traditional example" of the best lawyer who is also the best typist in town. Although he is better than his typist, rather than "give up precious time from the legal field" he magnanimously lets her type.

Before we make the leap to nations, let us analyze the subtle logic at work here. First of all, S has both stacked the deck and destroyed his own emphasis of the difference between comparative and absolute advantage by "endowing" his characters with a certain "package" of "resources"; for in the vast majority of cases the secretary has no hope whatsoever of becoming a lawyer—her productivity in that area is zero. One important point here is that certain social power attaches to certain positions; no one, not even S, would deny that capitalists have greater social power than their secretaries. And, to quote S, "So with countries" (669).

But to continue with the secretary: this division of labor is not optimal with respect to world production; for, as many bourgeois economists readily admit, "The principle of comparative advantage does not call for having each task done by the man who can do it most efficiently. That would mean having Jones divide his time between fishing and coconut picking, while Smith does nothing."

The only reason S comes to the conclusion he does is that, contrary to his stated method of sticking to barter and production functions, money wages have been sneaked in. Presumably the reason lawyers do not do their own typing is that secretaries "come so cheap."

The "traditional" example points up the logic of oppression inherent in bourgeois economics; just as women may continue pecking away at the keys while the men folk take care of business, so too the developing countries of the "Third" World may resign themselves to producing coffee and bananas relaxed in the thought that the ruling class of the steel-, chemical-, etc., producing countries will run the world for their benefit.

Thus the basic tenor of the theory of comparative advan-



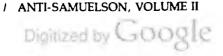
tage is that nations, like "people," are better "suited," "fit," etc., to produce certain commodities than others. How they got to be that way is not germane to S's reasoning: similarly, the fact of one-sided development itself is taken for granted rather than explained (specialization will obviously not suffice inasmuch as certain countries seem to be able to specialize in more items and with less deleterious results than others); and finally, the power relations inherent in the production of certain use-values is altogether neglected and, in fact, implicitly denied in this world of harmony.

"NATURE" AND COMPARATIVE COSTS

Let us now look at how S explains why certain countries are (not how they got to be) better suited for some activities than for others. "The first link" in comparative-advantages thinking, according to S, is the "diversity in conditions of production between different countries" (668); by this he means that each country is "endowed with certain quantities of natural resources, capital goods, kinds of labor, and technical knowledge or know-how" (ibid.).

The first thing that strikes us here is the use of the term "endowed"; on a fairly superficial level this is a static approach. But let us look at the enumerated factors more closely. With respect to the natural resources one might be inclined to agree that here we are indeed dealing with endowments. Thus, certain mineral deposits, bodies of water, etc., do indeed predate human activity. But even their being "endowed with certain quantities of natural resources" in itself says little; if a society's development is such that it does not know what to do with these resources, then they are irrelevant; on the other hand, an "advanced technology" may compensate for the absence of certain raw materials by manufacturing synthetics; and finally, the colonial or imperialist control of a raw-material source in a formally sovereign state may also go a long way toward overcoming such "faulty" endowments.

As for the other factors S mentions (labor, capital, and



"know-how"), these reveal even more clearly the static nature of comparative-advantages theory. Obviously they are not "endowments" in the sense of "original" natural resources; they have been developed in the course of a specific social and historical process; the mere fact that on the basis of a certain development one country at a given time may, according to the tenets of comparative advantage, be better suited to produce a certain commodity than another in no way implies that the processes leading up to this condition were not a misdevelopment; in other words, the fact that some countries produce rubber and others use it does not in itself mean that somebody must be doing something right.

An interesting situation arises: so convinced are bourgeois authors of their theory as a guide to practice that actual trade patterns are taken to be expressions of the "law" of comparative advantage, which per se means that a world optimum is being attained. Thus Bela Balassa admits that there is not sufficient information to explain reallocation of resources as dependent on comparative costs; instead he uses as an "alternative solution" "'revealed' comparative advantage": "Since the commodity pattern of trade reflects relative costs as well as the influence of nonprice factors, such as goodwill, quality, and the availability of servicing and repair facilities, the 'revealed' comparative advantage of the industrial countries may be indicated by their trade performance with respect to individual industries."²

Having set down "the first link," S goes on to say that this is why different countries have different "production possibilities"; from this he deduces that although every country could try to produce everything, not all could succeed and/or only "at a terrific cost" (668 f.). However, except for certain items which a nation may be unable to produce at all, it would take an extremely complicated analysis to determine which "costs"—producing or not producing—are greater in the long run. We use the word analysis here not in the post factum sense of determining why a country specializes in some commodities, but rather in the spirit of

the bourgeois myth that such "national cost" calculations are actually made prior to "deciding" in favor of one of the alternatives.

That capitalism does not "plan itself" and that comparative advantage is a theoretical expression of this phenomenon insofar as it avoids dealing with the origins of a given "product mix" can be seen in the following statement by Kindleberger:

Differences in comparative costs come about not only because of differences in factor endowments but also through specialization in different commodities. To a degree the choice of whether the US or Britain specializes in one kind of an [sic] automobile or another . . . may be determined by historical accident. The fact is that, with each specialized, a basis for trade exists, since each can produce one good cheaper than the other.³

Kindleberger's choice of such a relatively innocuous example as different cars is a curious one; it would appear much more important to investigate why one country produces sugar "best" and another steel. We have italicized "historical accident" in the cited passage to emphasize the nonplanned aspect; we can accept "accident," whether historical or otherwise, only in a limited sense. A science of the international division of labor would have to study the conditions under which the currently dominant structure originated; this would mean for example showing that the noncapitalist world did not make a "policy decision" in favor of sugar, cotton, etc., on the basis of its favorable production factor "mix," but rather that economic and in some cases direct military coercion on the part of European capitalist powers were instrumental in making the "decision" for these countries.

In a different context S himself has conceded that the usual textbook approach leaves something to be desired:

No one will deny the importance of iron, coal, power, rainfall and fertile plains as localizing factors. But there is little that the proportions-of-the-factor analysis can add to our understanding of the matter. We should be giving the show away if we were



to descend to such fatuities as: the tropics grow tropical fruits because of the relative abundance there of tropical conditions.4

As long as comparative advantages and its "modern" variant, factor proportions, remain on the surface of society and history they will indeed remain bogged down in "fatuities," unable to explain either the use-value or value aspect of foreign trade. Although it is true that in a "rational" world not every area would produce everything, S has definitely not proved that, other than for the very shortest run and within the narrowest of calculations, "it pays" for all countries to specialize in what they happen to be specializing in.

RICARDO'S THEORY AND ITS MODERN BOURGEOIS DISTORTION

This is one of the rare passages where Ricardo receives mention, let alone praise. We will forgo any discussion of S's introduction of Ricardo and instead provide our own by citing a passage from Ricardo indicative of the uncommonly harmonistic tone of the principle:

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically; while by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.⁵

And finally, as Ricardo notes, "it would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries" that wine and cloth be made in



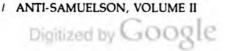
Portugal by transferring English capital and labor thither; alas, "the fancied or real insecurity of capital" will thwart such an absolute optimum.⁶

Now let us look at S's explication of Ricardo's theory. First we are told that just as Ricardo worked with two countries and two "goods" "for simplicity," he also "chose to measure all costs in terms of hours and labor" "for simplicity" (670); and lest we become apprehensive about using a theory Ricardo himself recognized to be "unrealistic" (8th ed., p. 27), S reminds us that the Appendix will show us how modern advanced treatises avoid this pitfall.

First of all, it is not accurate to say that Ricardo "chose to measure all costs" in terms of labor time. The term "cost" itself is misleading. Cost within the tradition of bourgeois international economic theory has meant either subjective cost in the sense of the pain of labor or abstinence attendant upon saving or, in the "modern" version, opportunity cost (this notion underlies S's production possibility frontiers). Ricardo was not an adherent of this notion of cost; and his notion of cost of production also referred to the labor embodied in the means of production.

In any case, it is false to assert, as does Gottfried Haberler, that the labor theory of value "assumes that the factor 'labor' is the sole means of production." If by "means of production" is meant "factor of production," then this is palpably false, since it refers to the production of use-values, in which land, labor, and means of production all participate; and if by this is meant, as S charges, that "labor would get all the income" (7th ed., p. 29), it is equally false. However, in Ricardo's treatment of foreign trade, profit is in fact left out of consideration, not because he imputes all income to labor, but because he reasons in terms of fictitious nations instead of the concrete processes of capitalist commodity production.

S in his presentation talks exclusively in terms of wages and/or countries, although completely gratuitously he speaks of international trade as being mutually "profitable" (669); doubtless the word is used in its nonscientific sense here to mean some sort of gain, yet nowhere do we find



any discussion of the role of profit in international trade. The gains he speaks of are higher wages and lower prices, whereby the latter must again be reduced to higher real wages, since "America" is constantly being identified with its workers as consumers. Does it appear likely that any "law" of capitalism, such as that of comparative advantages, would forcefully bring about higher wages? Some light may be shed on this topic by looking at the intentions of those who were associated with the origins of this theory. As Jacob Viner observes in his standard study of the history of international trade theory:

The classical theory of international trade was formulated primarily with a view to its providing guidance on questions of national policy. . . . This was . . . more conspicuously true in the field which is sometimes called "the theory of international value," where the problems were expressly treated with reference to their bearing on "gain" or "loss" to England, or on the distribution of gain as between England and the rest of the world.⁸

And bringing the issue more up to date, Viner adds that comparative advantage "has continued to command attention mainly because of its use as the basic 'scientific' argument of free-trade economists in their attacks on protective tariffs."9

Marxist theory not only criticizes "modern" comparative advantages theory, but also sees the roots of contemporary apologetics in this sphere in the original structure of the theory in Ricardo. To begin with, Ricardo emphasized the use-value aspect of foreign trade to the exclusion of any investigation of the value aspect. It is of course true that to the extent that a "nation" can receive use-values which it otherwise could not have produced itself, or can consume a greater quantity of use-values without increasing the number of labor hours it must expend, it has "gained." In other words, foreign trade based on comparative advantages can, under certain circumstances, be one way to economize effectively on the expenditure of living and dead labor on a national scale. Whether this happens under



capitalism is another matter. That it is not so intended by the economic agents themselves would be admitted by all bourgeois economists from Smith to S, but this would not bother them as long as there are forces at work in capitalism that bring this about regardless of the subjective motives of these agents. Where in fact such economization of national labor time does take place, we may say that the rational kernel of comparative advantages has manifested itself; to the extent that it does not take place, or is overcome by other "perverse" factors connected with the current international division of labor, we may say that the theory is apologetic inasmuch as it claims overall gains for everybody and the whole world.

We agree with Ricardo's discovery that, from the point of view or use-values, comparative advantages can be a useful guideline to national foreign-trade policy. S states that "trade is indirect production. It is efficient production. Efficient production is always better than inefficient production" (691). The first two assertions may be true; the last, characterized by claim of universality, is not. This may seem ridiculous given the general meanings of efficient and inefficient, but we shall see otherwise.

There are certain ironies involved in the bourgeois theory. Although Ricardo explicitly refers to the exchange of one hundred hours of labor for eighty, he does not investigate the possible consequences of such an exchange on a continuing basis; and S, although he explicitly refers to foreign trade as indirect production, persists in treating foreign trade problems as essentially belonging to the sphere of circulation. But at the same time that certain countries are "gaining" on the basis of comparative advantages, a process of absolute advantages and disadvantages is also taking place; this stems from the fact that the relative advantages are not necessarily distributed evenly between the exchanging countries. To the extent that such absolute advantages and disadvantages accumulate at different poles, something very different from the harmony imagined by bourgeois theory ensues. In the long run such transfers of national labor from one country to another can



represent a significant source of accumulation for the one set of countries and of drain on accumulation in the other.

One of the major weaknesses of Ricardo's theory was its unreflective use of national labor time. This may strike the reader as a strange objection coming from a Marxist. The reason for this objection is this: although labor is the foundation of capitalism as well as every other economic formation, labor does not appear as the creator of value in capitalism and therefore the economizing of labor is not the major goal, but the enhancement of profit. We know that there are competitive forces at work within a national capitalist economy causing each individual capitalist to increase the productivity of "his" workers precisely in order to increase his profit. But we also know that what is true for the individual capitalist need not be true for the aggregate national capital. Thus it is precisely this process of increasing profits for the individual capitalist that leads to the falling rate of profit on the aggregate capital. Not in an analogous manner, but nevertheless based on the same totality of relations between the aggregate and the individual capital, increasing productivity for the individual capital does not necessarily lead to increasing aggregate productivity. What is particularly important here is the absence of an economic agent concerned with increasing "national" productivity.

It is true, of course, that a higher position on the scale of universal labor will enable a national capital to operate more profitably on the world market (in the sense that each individual component of the national capital involved in exporting will "enjoy" extra profits). It is possible for the national capitalist state to work in the direction of improving the competitiveness of its national capital, yet most often this takes the form of improving or maintaining the position of certain branches regardless of international productivity comparisons. This does not stem from a "perverse" refusal to bow to the "law" of comparative advantages, but rather from the fact that capitalist productivity does not coincide with the economizing of national labor.



This does not mean that a capitalist economy that transfers its labor time without equivalent receipt of foreign national labor time is not undermining its source of capital accumulation; nor does it mean that the "country" receiving the "extra" labor time has not come into possession of an additional source of such accumulation. It merely means that such transfers can take place concretely only through specific branches, and within them through specific capitals; and to the extent that this is so, we are then dealing with the productivity peculiar to capital which is essentially uninterested in the global reduction of national labor time in the sense of allowing the workers to consume more without having to work more.

Thus in order to grasp the specific processes of comparative advantages, we would have to go beyond national labor time saved. By looking at labor expenditure alone Ricardo fails to see national values and prices which include both costs and profits. However, when we look at matters on this more concrete level we see that individual capitals can sell their commodities on the world market profitably without appropriating the whole of the surplus labor embodied in the surplus value; in other words, part of the national surplus labor may be transferred to capitalists of other countries. This might result in lower consumer prices, although if it does so too successfully the national capitalist state may intervene with tariffs, quotas, or subsidies. In the case of raw materials not in competition with domestic production, lower costs and higher profits for the domestic capitalists consuming these raw materials productively result. If the market expanding strategy fails to boost capital accumulation in the exporting country, then a stop may have to be put to the global transfers of national surplus labor.

A relevant concretization appears to be absent in S, but others have felt compelled to present the theory in a more realistic form; thus Charles Staley employs the following pedagogical approach:

The Ricardian approach is very abstract and stark, which bothers students. Traders make decisions on the basis of com-

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paring money costs and prices, not ratios of amounts of resources used. Money costs are influenced by wage rates and by exchange rates when one purchases abroad. By ignoring these, might we not have left out something important? How do we know that we come out with the correct answers if we consider only comparative costs? To answer these questions, it is necessary to *recast* Ricardo's data into monetary form.¹⁰

Staley then proceeds to do the "recasting" so that the theory retains its validity through the influence of supply and demand on exchange rate.

Another author, Peter B. Kenen, exemplifies the theory by using changes in wages, prices, etc. Let us see how this mechanism works. Kenen sets up a situation in which the U.S. has an absolute advantage in coal vis-à-vis the U.K., whereas both have equal productivity in potatoes; this causes U.K. capitalists to buy U.S. coal, bringing on unemployment (of coal miners) in the U.K. and excess labor demand in the U.S. (since during this transitional stage potato farming continues); this will cause wages to drop in the U.K. and to rise in the U.S.; hence, U.K. potatoes become cheaper and production is shifted to them from the U.S., resulting in a new equilibrium. In summary Kenen states: "The wage-rate changes will have offset America's higher productivity, allowing Britain's comparative advantage in potato-growing to show through as a lower price." 11

For our purposes it is irrelevant that Staley and Kenen (as well as S) continue to regard wages as the only costs in this "simplified" model; we might just as well substitute national values for wages. As we have pointed out, it is not sufficient for any given branch of industry of the nation exhibiting the highest productivity and intensity of labor (i.e., to be at the top of the scale of universal labor) merely to appear on the world market as it were and to expect to be competitive on the basis of the good name of its national capital; in other words, mere participation in the national capital does not guarantee success on the world market for all individual capital components.

Rather account must also be taken of its specific productivity vis-à-vis this branch in other countries. If for example



the relative productivity advantage of America's clothing industry (to use S's example) vis-à-vis Europe's is less than the average productivity and intensity advantage of the U.S. national capital vis-à-vis Europe's (i.e., their relation to each other on the scale of universal labor), then despite America's absolute advantage (that is to say, despite the fact that it can produce the clothing in less national labor time), its clothing commodities will appear on the world market with higher international values and will thus be in a weak competitive position.

This then is the rational kernel of the theory of comparative advantages. But there are a number of phenomena that we have to consider here. First, a basic tenet of this theory consists in the allegation that it "makes it possible for everyone to be better off" (673); that as a result of it "the sum total of human happiness is increased" (675). This is not necessarily so either within a nation or among nations. Within a nation this modification of the law of value on the world market tends to sharpen the uneven development of the various capitals, because in the upper-half of the scale of universal labor only those capitals can prosper on the world market which produce with a productivity and intensity at least corresponding to that of the national capital as a whole; those that do not will be crushed in international competition. These branches will not, of course, disappear as rapidly as the "simplified model" suggests; in fact, despite comparative advantages they will probably not disappear at all. As merely one example among thousands, consider the U.S. textile industry; rather than being a dying industry, textile production has increased, though not so rapidly as U.S. manufacturing in general. It is not among the most productive U.S. industries; it has the lowest "assets per employee" figures of all industries and its international productivity position is deteriorating. Consequently, the U.S. has been a net importer of consumer textiles since 1955, and of industrial textiles since 1963.12 None of this has prevented the industry from "earning" about \$250 million dollars in profits in 1971, although its 6.2 percent "return on net worth" was only about two-thirds that of some

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5,000 "leading corporations." A major ingredient in the survival of this industry is the relatively low wage level made possible by mass migration of production facilities to the largely unorganized South. Thus in 1972 gross average hourly wages in textile mills amounted to \$2.73, or approximately 72 percent of the \$3.81 for all manufacturing workers. 14

This points up a real problem with bourgeois comparative advantage theory: it identifies low production costs with high efficiency or productivity; yet these low costs may in large part stem from low wages—not necessarily lower than that of competitor nations, as the U.S. example shows, but lower than the average wage level in that country. In the "Third" World nations these wages are of course also absolutely lower, but here we must also take into consideration that a part of their competitiveness on the world market derives from the monopsony low prices they receive.

S's answer to all this is: that may be so, but the point is that the U.S. would be better off by scuttling its textile industry and getting into some expanding, dynamic new industry. Here again we confront the problem of the fictitious national interest. On one level we can answer that the economic and political problems inherent in such a "phasing out" of such an enormous investment (net worth of \$4 billion; more than 2 million workers) might well be the straw that breaks the camel's back in a country with more than 5 million unemployed. But more fundamentally on another level we would have to answer that in order for comparative advantages to have significance beyond the moral appeals to greater efficiency for the "whole" nation, it must prove that there are processes at work which also act on the individual agents of production so that the objective "law" may find expression in the actions of these subjects. For capitalism this means of course that the individual capitalists are forced by the "market" to abandon the production of clothing and go into food production; to prove this S would have to show that the rate of profit would be higher if this step were taken. Does such an

equalization in fact take place? It is possible and in fact inevitable that surplus value (and in the "national sense," surplus labor) will be redistributed through the world market, so that the more developed capitals will appropriate part of the surplus created by the workers in the less developed countries. If S has admitted that it is possible for a country to price itself out of the world market by "skyhigh" wages or profits (667), then in another context he has also admitted that "it is simply not true to say that the theory of comparative costs proves that one country cannot continue to 'undersell' another in every commodity'' (and let us add—by "bargain basement" low wages or profits). If the national rate of profit is lower than that of the competitor countries, then it is possible to accept that rate from foreign trade, thus surrendering part of the surplus value in order to retain or expand market shares; it is also possible that a branch will accept less than the national rate of profit simply because there is no alternative. Furthermore, it is also possible for a firm to make more than the average rate of profit on foreign trade; in other words, on the basis of foreign trade according to the principles of comparative advantage:

The advantaged country receives more labor in return in exchange for less, although this difference, this more, as in general with the exchange between labor and capital, is pocketed by a certain class. 15 a

By failing to take into account any of these "finer details" S is able to state so emphatically that all gain from free trade takes place according to the "law."

"OTHER CAUSES OF INTERNATIONAL TRADE"

Although the "law" of comparative advantages should presumably be sufficient to decree trade, S does find it necessary to introduce more realistic "other causes"; yet here too we find the inability to present causality properly. In this context S adduces "decreasing costs," since specialization with mass production "is most fruitful when there is a widely expanded market"; such a consideration "would



strengthen the case for international exchange of goods" (674).

There is obviously something to this description, but with S it appears as if this complicated political-economic process were a matter of humanitarian choice designed to bestow upon the world a cornucopia of goods, a suspicion confirmed by S's lighthearted remark that even with no differences in comparative costs between two countries "it might pay for them to toss a coin to decide who was to produce each of two goods," subject to decreasing costs (674). There is no understanding here of the circumstance that the proliferating growth of the domestic market is not the harmonious picture which derives from looking only at use-values. In the first place, this process does not only result from the technological considerations of mass production; the fact that much of the national product must be sold abroad also reflects the limited internal purchasing power.

Perhaps even more significant than the absolute limitation of the domestic market is the uneven development of the various branches of a national economy which forces some of these to seek markets abroad. As long as the world market as a whole is expanding, or at least as long as the industrial cycle of the major capitalist countries has not become synchronized, there will be no crisis; but when the market is shrinking, the struggle for who loses least intensifies. It is hardly a case of "nations," let alone individual capitals, flipping a coin to determine who will be allowed to specialize.

S's attempt to move this proposition with the formation of the Common Market only testifies to the weakness of his position. The EEC was created at a time of cyclical upswing; the development of the basic electrical and chemical industries in particular pointed up the need for a larger market; the quest for markets was felt even more sharply by these countries once they had recovered from the war destruction at a time of a shrinking world capitalist market, the result of the creation of socialist states (especially Eastern Europe). S's assertion that "freer international trade is



often an efficient way of breaking up monopoly positions" (674) must be looked at in this context. S hedges with the "often," and then adds this footnote: "Still, one must concede that violently decreasing-cost situations might under free trade lead to bigger monopolies . . ." (674 n. 3). The "still" of course contradicts the text; and it is interesting that S places the refutation of tariffs in the text and leaves the "advanced" student the choice of hunting out the cons in footnotes.

In any event, this is quite relevant to the Common Market; for one of the main effects, if not goals, of the Common Market was to guarantee the markets of the six countries "their" own monopolies and to create further concentration and centralization of capital so that these monopolies would be in a position to compete more favorably with U.S. capital.

Unlike S, we do not posit an absolute antithesis between monopoly and competition; in fact, monopoly is an expression of increased competition. Thus on the international level increased trade may lead to increased concentration and centralization of capital, which at the same time means greater competition within the national capital and among national capitals.

COMPARATIVE ADVANTAGES AND TARIFFS

The remainder of the chapter is devoted to a discussion of tariffs. We will do well to approach this section by way of a sentence which was dropped from the 8th and 9th editions, i.e., that comparative advantage is an "oversimplified" theory "as far as our rushing out to make immediate applications to real life is concerned" (7th ed., p. 657). Yet the whole book is allegedly oriented at precisely such "applications," and the chapters on trade indicate very strongly that policy recommendations as well as analysis of reality are implicit in the theory. In fact, however, reality and policy largely run counter to the text.

The discussion of tariffs moves only within the realm of



short-term consumption optima; that any serious long-run structural "problems" may arise from constantly adapting to the "law" of comparative advantage is simply not considered. Although S agrees that the theory was unrealistic in the 1930s, in view of the chronic unemployment, he carries on the discussion on the assumption that such a situation will never arise again: "To the extent that we can in the future . . . count on the successful macroeconomic management . . . to banish chronic slumps inflations—to that extent will the old classical theory of comparative advantage retain its vital social significance" (680; apparently, what has been "banished" is the neoclassical synthesis itself, which from the 7th to the 8th editions has been replaced by various circumlocutions).

We do not claim that the protectionists are "right" and the free traders "wrong"; on the contrary, they are both "right" to the extent that they call attention to different real aspects of the contradictory situation of a national capital. S is "right" in saying that protection among developed capitalist countries is a sign of inefficiency; and doubtless in the long run no major capitalist country could withstand the international pressures. On the other hand, S is wrong in his blanket assessment to the effect that protection will hinder "potential growth" (680); as a succession of countries including the U.S., Germany, and Japan has shown, protection may be a necessary element of growth at certain historical points.

What we are concerned with here is the fact that S's analysis provides the reader with no standards by which to judge actual trade policy. The manifold forces that might be at work in tariff policy are ignored.

Appendix: The Factor-Proportions Theory of Trade S's presentation is eclectic insofar as he fails to distinguish between comparative advantages and factor proportions. The essence of this theory is to be found in Point Number 1 of the appendix summary (690): namely that a country will specialize in the production of labor intensive commodities if it is "labor-rich."



We may mention here three types of critique: empirical, immanent bourgeois, and Marxist. To begin with the empirical: The factor proportion theory sailed along quite nicely from the 1920s until the 1950s, when it was put to empirical test. The first and most famous of such studies was done by W. Leontief, who determined that

an average million dollars' worth of our exports embodies considerably less capital and somewhat more labor than would be required to replace from domestic production an equivalent amount of our competitive imports. America's participation in the international division of labor is based on its specialization on labor intensive, rather than capital intensive, lines of production. In other words, this country resorts to foreign trade in order to economize its capital and dispose of its surplus labor, rather than vice versa. 16

This came as quite a shock, since everyone agreed that the U.S. was capital-intensive, rather than labor-intensive. Leontief tried to save the factor-proportion theory by conjecturing that one man-year of U.S. labor was equivalent to three man-years of foreign labor, and thus the U.S. was labor-intensive. Ever since, an enormous literature has begun to accumulate concerning the Leontief "Paradox." We need not enter into a description of the further course of this debate, especially since it is still in full swing.¹⁷ Our sole purpose was to show that on an empirical level serious objections have been brought forth against the orthodox theory and that it is incumbent upon S at least to mention the existence of such an imposing body of literature.

Situated as it were half-way between theoretical and immanent bourgeois critique is another type of approach we will illustrate with two authors. The first is the Swedish economist Staffan Linder, who has pointed out that industrial countries import an increasing amount of manufactures from one another rather than producing them domestically and that such trade bulked larger than similar trade between industrial and "developing" countries. He was of the opinion that, given these circumstances, the factorproportion theory was no longer of relevance. 18 S implicitly recognizes this objection but without making it clear to the reader. Again the admission comes in a footnote in the subsequent chapter. First he asserts that comparative advantages teaches us that "we benefit most by trading with countries of the Far East or the tropics which have economies very different from ours" rather than with similarly industrialized nations (696). Then the footnote follows: "This argument must be qualified and amplified. Backward countries, so poor that they have little real purchasing power with which to import, at best can export little to us. Most trade today is between industrialized countries" (696 n. 3).

S seems to have a very dialectical conception of "qualified and amplified" since a contradition always results from these footnotes. All it means is that the theory does not explain trade movements. And if these countries have "little real purchasing power" to buy our imports today, then they must have had little in the past as well, and thus the theory never had any validity; or, one could salvage the theory historically by admitting that these countries have grown relatively poorer—but S of course cannot do this, since he in fact asserts that factor prices tend toward equality internationally.

Like Linder, a German author has noted the trend to ward specialization in manufactures among industrially advanced capitalist countries; in other words, these countries are increasingly exporting and importing the same commodities. 19 It would appear that the aim is a type of monopolistic competition, with certain firms producing a very specialized type of commodity making import necessary. But we should keep in mind that the competitive aspect is still strong. Thus it was recently reported that at a time when German machine-tool exports were booming and about to replace the U.S. primacy on the world market, imports were gaining an ever-growing share of the West German domestic market; in fact what had happened was that West German producers concentrated on "highly profitable sophisticated machine tools, such as numerical control models," leaving the home market "open for the less expensive standard tools."20

There is no need to go into a separate Marxist critique of



the factor-proportion theory inasmuch as it is only an application of marginal-productivity theory already criticized in Chapters 18-22. (Since the immanent bourgeois critique has become very technical we will not go into it. We will merely summarize that the major objections relate to the assumption that production functions are everywhere the same—that factor reversals are empirically insignificant. [See B. S. Minhas, "The Homohypallagic Production Function, Factor-Intensity Reversals and the Meckscher-Ohlin Theorem," Journal of Political Economy, LXX (1962), 138-56; Romney Robinson, "Factor Proportions and Comparative Advantage: Part I," Quarterly Journal of Economics, LXX (May, 1956), 169-92. Staley, International Economics, op. cit., Chap. 5, offers a good summary of this literature.]) We will confine ourselves to pointing out that Marx emphasizes that such a theory is caught up in the confusion of distribution and production, that it cannot distinguish between value production and income distribution to the "factors of production," and thus does not see how production lies at the base. To refer to "factor prices" as the determinants of international competition fails to consider that it is the development of the productive force of labor as reflected in the production of surplus value and that the accumulation of capital determines international competitiveness regardless of the subjective motivation of the agents of production according to local factor costs; here Marx shows how the latter merely confirms the already existing bourgeois notion that value is determined by factor costs also on the international level.²¹

FACTOR-PRICE EQUALIZATION

This section (690) presents Ohlin's argument that even free commodity trade without factor movements will tend to equalize factor prices. It is curious that S's modesty prevents him from mentioning his own contribution to this subject—a "proof" that complete equalization must result.22

But whether one adheres to the "strong" or "weak" case for factor-price equalization, it is clear that this theory has



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no relation to reality, and that when, as in Chapter 38, it is implicit in policy recommendations to the "developing" countries by the imperialist powers, its apologetic content becomes manifest.

On the basis of the discussion in this chapter we are now ready to look at S's analysis of trade in his next chapter and in Chapter 38. As a preliminary to this, especially in light of the fact that S gives the reader the distinct impression that international trade is actually guided by the "laws" laid out here, we offer the following research results by Jan Tinbergen, who determined that on the basis of capital resources, capital-labor proportions and manpower availability:

The Soviet Union would be the world's producer of computers, which means that IBM would have other things to think about. And it may provoke a wistfully pacific thought or two (even a wry smile) to learn that it would seem efficient, given the availability of capital and labor, for weapons to be built in the US and ammunition . . . in Eastern Europe. Professor Tinbergen is not irrational enough to think this rational finding will be adopted. . . .²³



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