

The Anti-Samuelson

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Chapter 25: The Development of Imperialist Trade Policy (S's Chapter 35)

The monopolization of the noncapitalist areas of expansion in the old capitalist states as well as outside in the overseas countries became the slogan of capital, while free trade, the policy of the "open door," has become the specific form of defenselessness of the noncapitalist countries vis-à-vis international capital and of the equilibrium of this competing capital—a prestage of their partial or total occupation as colonies or spheres of interest. If until now alone England has remained true to free trade, then primarily because it as the oldest colonial empire found in its enormous possession of noncapitalist areas from the very beginning a basis of operations which until most recent times offered almost limitless prospects for the accumulation of capital and which in fact placed it beyond the competition of other capitalist countries. Hence the general rush of the capitalist countries to isolate themselves from one another through protective tariffs, although they are at the same time commodity buyers of each other in ever greater measure, are more and more dependent on one another for the replacement of their material conditions of reproduction, and although protective tariffs today, from the standpoint of the technical development of the forces of production, have become completely dispensable, indeed, they frequently lead on the contrary to the artificial conservation of obsolete modes of production.

—Rosa Luxemburg, *The Accumulation of Capital*, Ch. 31; German ed., *Gesammelte Werke*, VI (Berlin, 1923), 366

HISTORICAL FUNCTIONS OF TARIFFS

Here again the most prominent feature of this chapter is a radically ahistorical point of view which finds expression in the failure to offer even a skimpy review of the development of capitalist trade policy. It is not merely for the record that we insist upon the need for at least some historical analysis; for although trade policy has doubtless undergone considerable change, there is a very definite historical continuum essential to an understanding of contemporary policies and views.

However, this chapter does contain a modicum of realism insofar as it deals with the explicitly political topic of "group interests" pressuring the state; and even though he cannot ignore them, S—and here he is joined by practically all other textbook writers—does his best to minimize the problem. Thus with respect to the reason for generally harmful tariffs, S posits the traditional concentration of producer interests against scattered consumer interests (695). The point about these explicitly political discussions is that they are meant to depoliticize the issue by shifting attention to individual motives without focusing on the specific social causation and its broad historical and national base.

Thus it is only in the context of areas where the connection between economics and politics can no longer be ignored that S can afford to make such a statement: "Most arguments for tariffs are simply rationalizations for special benefits to particular pressure groups and do not stand up under analysis" (704). We would say that all bourgeois theory is one large "rationalization" of "special interests" for the capitalist class; but even with respect to free trade we find that "rationalization" abounds, both within one country and among various countries. S himself admits that there is but one argument for free trade—namely that it is beneficial for everyone. Yet as S has also admitted in one of his scholarly contributions: "Free trade will *not* necessarily maximize the real income or consumption and utility possibilities of *any one country*. . . ."1

To return to the historical aspect, we would like to re-

view briefly the development of the relationship between free trade and protectionism to see what changing underlying political-economic factors are at work. The following lengthy quotation we believe offers great insight into certain historical changes that find reflection in the ideological sphere:

When the nineteenth-century liberal spoke of the greatest good of the greatest number, he tacitly assumed that the good of the minority might have to be sacrificed to it. This principle applied equally to international economic relations. . . . The modern utopian internationalist enjoys none of the advantages, and has none of the toughness, of the nineteenth-century liberal. The material success of the weak Powers in building up protected industries, as well as the new spirit of internationalism, preclude him from arguing that the harmony of interests depends on the sacrifice of economically unfit nations. Yet the abandonment of this premise destroys the whole basis of the doctrine which he has inherited; and he is driven to the belief that the common good can be achieved without any sacrifice of the good of any individual member of the community. . . . It is for this reason that we find in the modern period an extraordinary divergence between the theories of economic experts and the practice of those responsible for the economic policies of their respective countries. Analysis will show that this divergence springs from a simple fact. The economic expert, dominated in the main by laissez-faire doctrine, considers the hypothetical economic interest of the world as a whole, and is content to assume that this is identical with the interest of each individual country. The politician pursues the concrete interest of his country, and assumes (if he makes any assumption at all) that the interest of the world as a whole is identical with it.²

In fairness to Carr's own views it must be noted that he wrote this during a period of world capitalist depression—that is to say, at a time when the national capital's inherent drive to "look after itself" manifests itself most strongly as a result of the shrinking world market; when it is no longer a matter of the competitive division of the profits but rather of the losses; when "competition is transformed into the struggle of the hostile brothers."³

But in an objective sense it is not "unfair" to focus on the

attitudes prevailing during this period since they marked an important developmental stage in the history of international capitalism. The periodic crises of the nineteenth century were in large part reflections of the internal crises of British capitalism; to the extent that Britain occupied a historically unique monopoly position on the world industrial market, its crises became those of the world market. During the last quarter of the nineteenth century this hegemony came under strong attack, especially from the U.S. and Germany; this meant of course that the world market would begin to assume more of an autonomous cyclical shape precisely because it was now for the first time becoming a *world* market.

This fourth quarter of the nineteenth century is (at least in Marxist literature) associated with the transformation of competitive into monopoly capital. But we have to be more precise in delineating this change. First of all, the world market was characterized by the breaking of the British monopoly position; with the development of several powerful national capitals, competition was first now becoming possible.

But what about the national level? This was of course a period of great capital concentration and centralization; and one must of course also take into consideration that with the then less developed state of the forces of production, certain production processes could be monopolized for a longer period of time than is possible today. It was the time of the formation of the oil, steel, tobacco, meat, and aluminum trusts in the U.S. At the same time, however, there is no absolute long-run monopoly under capitalism and thus this period was also marked, for instance in the U.S., by the fiercest competition.

Now let us see how tariffs fit into this development. In the earlier part of the nineteenth century tariffs had in the main fulfilled the function of "protecting young industries" from the all-powerful industrial hegemony of Britain. These tariffs fulfilled their function and world market competitive industries did arise. (We attribute no absolute significance to these tariffs; that is, as S rightly points out, protection

beyond a certain level may impede advancing productivity, whereas free trade might force domestic procedures to adjust themselves to the most advanced state of productivity. This was apparently the case with Denmark; until the middle of the nineteenth century this was one of the least productive agricultural nations, but it was also one of the few without agricultural tariffs; this forced the Danish farmers to become more mechanized while the formerly advanced nations fell back.)

In other words, enormous dumping was taking place: monopolists, freed of foreign competition, could raise domestic prices to enable them to undersell their foreign competitors abroad. Given this general trend stemming from structural changes in capitalism, it is not very enlightening to portray the desire for tariffs on the part of these large industrial exporters as merely "irrational" as S does. Engels, for instance, agreed that it was "stupid" for German exporters to ask for tariffs at a time when they were already very competitive; this was tantamount to giving away the surplus value to foreigners and compensating oneself by lowering real domestic wages through monopoly high prices. But Engels was not surprised at the "stupidity" of these exporters; for availing oneself of short-run profits at the "expense of national rationality" is the rational mode of capitalist behavior.

We do not intend to pursue this description of the history of trade policy. Suffice it to say that protectionism of varying degrees characterized the period up to World War I and then again the period between the two World Wars, in particular the Great Depression.

TARIFFS AMONG ADVANCED CAPITALIST COUNTRIES

S admits that "certain noneconomic arguments . . . may make it desirable national policy to sacrifice national welfare in order to subsidize certain activities admittedly not economically efficient" (692). But there is more here than meets the eye. First of all, there is the definition of "economic": reduced to its simplest terms this means de-

termining whether “the benefit to consumers” later “would be enough to more than make up for the higher prices during the period of protection” (701 f.). The key here is “benefit to consumers,” for S apparently there is nothing “economic” in the process of production itself—at least not for the workers involved. Thus S would probably consider it a noneconomic decision, that is a decision based on noneconomic criteria, if in a postcapitalist society the workers were to decide to consume less and work less, or if to discontinue the use of certain machinery from the capitalist era despite its greater efficiency because working on such machinery was so debilitating that the extra consumption would not justify it.

There is of course a certain rationale for S’s approach—namely that in capitalism the workers have no such choice; first, because their power to limit the work week is limited; and secondly, because their standard of living is so low compared to what they *know* it could and must be under the given development of the forces of production that they cannot afford to reduce consumption.

As for S’s distinction between tariffs and subsidies, this is largely irrelevant since such subsidies are usually regarded as no less of an interference with free trade than tariffs. That S recommends subsidies on the basis of their being more transparent to the “public” and thus allow it to “decide whether the game is worth the candle” (693) can only be regarded as tongue-in-cheek demagoguery. First of all, a sudden price raise would make it very clear to consumers that they were paying more for domestic development, whereas a subsidy, given the general taxation and appropriations approach of “modern” taxation, would in fact hide the extra expense from everyone except those who pored through pages of individual entries in the government’s revenue and expenditure sides of the budget. Thus S’s recommending the proposal which would conceal the “real cost.” Secondly, if S were really so interested in making the “public” aware of its contribution to the “national defense” his opportunity to speak came in Chapter 9, where he briefly mentions direct and indirect taxes; but he

made no such plea on behalf of direct taxes on the basis of their being more transparent.

We shall skip over most of the material on the “grossly fallacious arguments” partly because we have dealt with this above. But just to give an idea of the “special” interests lobbying tariffs, we produce the following figures showing exports as a percentage of GNP for leading capitalist countries in the year 1971:⁴

Belgium	44.1%	Sweden	21.0%	Italy	15.0%
Holland	38.0%	Finland	20.8%	Australia	14.1%
Ireland	29.7%	Canada	19.7%	France	12.8%
Switzerland	23.9%	FRGermany	18.0%	Japan	10.6%
Denmark	21.7%	U.K.	16.5%	U.S.	4.2%

These figures are not to be understood in any absolute sense; that is to say, we are not asserting that there is any one-to-one correspondence between the degree of export orientation of any economy and its tariff policy. This should be obvious from the data for Japan and the U.S., which are often cited as the most protective nations. Our purpose in presenting these figures was merely to give the reader some impression as to the relative trade dependency of various national economies on the world market.

One reason for this lack of one-to-one correspondence between export orientation and trade policy lies in the concrete structure of production; as we have had occasion to note before, one must also investigate which branches are heavily committed on the world market, which firms among those branches, how heavily concentrated the domestic market is, whether these branches are key for the industrial cycle, etc.

Beyond this one must consider that a nation which exports a large share of its national product is also likely to be importing a similarly large share. (Certain oil-exporting nations are an exception). This would lead one to expect that such countries would also be interested in raising their tariffs so as to keep import prices down. It would seem plausible, for example, that they would want to keep down the prices of raw materials since this would keep industrial

costs down. But here too one must look at the specific conditions instead of judging globally.

In this context it would be instructive to look at the chart S provides (703) along with its astoundingly meager commentary. But at least the chart does provide some historical comparison for at least one country (though the source is not given). All we are told is how U.S. tariffs evolved in the aggregate; and it is asserted that "if comparable figures were compiled for other countries" we would see that the U.S. is no longer a laggard in free trade (8th ed., p. 679). Of course such statistics do exist although they are difficult to compile and one finds various measures (in part determined by varying methods of calculation in various countries).

Beyond this comparison it is also necessary to look at the specific commodity structure of the tariffs, which S neglects to do. It is common policy for the U.S. and other advanced capitalist nations to establish a hierarchy of tariff rates; in other words, the average tariff rates for nations conceal varying rates for different types of commodities. In general, industrial raw materials are burdened with the lowest tariffs since these enter into the costs of production of industrial firms and higher tariffs here would impair the competitive position of exporters on the world market. There is, however, also a complicating factor here: namely, where domestic producers of these raw materials or synthetic substitutes for them exist, there is pressure to raise tariffs. In the U.S., tariff policy has been created—on this issue—on the basis of a compromise between the interests of domestic users of raw materials and the U.S. multinational firms producing or marketing these materials on the one hand, and domestic producers on the other, whereby the tendency in recent years has been to make tariff policy more in line with the interests of the former while giving subsidies to the latter.

With respect to foodstuffs, similar contrary interests exist. On the one hand the capitalist class as a whole is interested in cheap food imports which help to keep the cost of living and thus variable capital as low as possible (whereby here

again one would have to differentiate: those branches with above-average organic compositions of capital—i.e., “capital intensive”—would be less interested than those with lower organic compositions); on the other hand, the capitalist class also has an interest, especially in Europe where this tendency manifests itself clearly in Common Market agricultural policy, in preventing mass destruction of the small farmers for reasons of political stability.

TARIFFS AND THE “THIRD” WORLD

The advanced capitalist countries also tend to raise tariffs according to the degree of fabrication or processing a product has undergone; this has a particularly unfavorable effect on exports from “developing” nations with respect to raw-materials processing and manufactures. This subject has been engaging the attention of those capitalist forces concerned about not killing the gold goose that laid the golden egg.

Even within the discussion now underway on how to integrate the “developing” countries into the world market without causing undue harm to the established imperialist interests, it is obvious whose interests will be paramount. Thus commenting on the “costs” involved in implementing a plan to grant “Third” World nations temporary tariff preference, one author has noted “that the developing nations will be induced to produce those manufactures which the governments of the rich countries feel their countries can import with least injury to their own producers rather than those goods in which the developing countries might be most efficient.”⁵

But here as elsewhere in a society built on antagonistic interests, one should not be surprised if certain surface phenomena seem to contradict what some Marxists have often portrayed as the monolithic “interests of capital.” Thus respect to the proposed measures to grant “developing” nations temporary tariff relief, it seems that other nations may also be pushing this proposal for their own reasons.

Since we now have some notion of how comparative advantage is “violated” by the imperialist powers when it is to their advantage, let us see how S treats this. Although he spends little time on the matter, he does enter into the discussion when he specifies some conditions under which interference with free trade may “begin to score some weighty points” (699). The first such argument S labels “diversification to reduce terms-of-trade risk”; under this scheme countries will cut back on the production of the agricultural commodity they are heavily committed to on the world market in order to develop production of some other commodity for export. Even S’s language is revealing: “To avoid the perils of ‘monoculture,’ Latin American economists advise the use of tariffs” (700). First, the use of quotation marks around monoculture presumably expresses S’s dissociation from the term—possibly because it is used by opponents of comparative advantage theory, even though it well describes many economies. Secondly, despite the fact that S acknowledges that the argument “certainly deserves careful attention,” one wonders why only “Latin American” economists are pushing it. Could it be that economic theory’s “technical concepts . . . are no more than codified common sense,”⁶ or perhaps, more likely, that economic theory, especially on the international level, is greatly affected by whose national interests are at stake?

Thirdly, S’s own interpretation of this strategy as being similar to that pursued by an investor who does not want to put all his eggs in one basket would seem to miss the point. It is not so much the risk reduction that must be emphasized here but the content: namely, industrialization as a method of raising living standards which is not open to many agricultural notions.

The remainder of S’s discussion appears to miss the point entirely. First of all, it is entirely unclear why he insists that the whole argument is based on the assumption that government knows better; could there not be a case where capitalists desirous of starting up new production induce the government to introduce tariffs on this commodity? The argument becomes more incomprehensible as S

goes on. Next he states that "if the future risks are genuine and are foreseen by private investors, those investors will not be misled by temporarily high profits into investing in these few industries." So convinced is he of the "law" of comparative advantage that he asserts that since these industries have no "genuine long-run comparative advantage . . . there will be no effective tendency to specialize in them" (701). Let us go through this strange reasoning slowly. The first sentence would seem to be a tautology: if an investor foresees a loss, he just won't invest. So why is it that "investors" are "misled" into these ventures? These terms themselves prejudice the argument, for while they may be adequate to the task of describing how a trust fund allocates its wealth, it has absolutely nothing to do with the concrete situation in "underdeveloped" countries. First, who are the "investors"? If we are speaking of the typical agricultural producers for the world market, then these may in large part be very poor peasants who produce small quantities and sell them to local dealers. These are not investors; they are in large part subsistence farmers who are not getting high profits, whether temporary or not.

So why do they remain in "business" instead of "diversifying"? Why do they insist on engaging in industries with no "genuine long-run comparative advantage"? Answers to questions such as these are not S's forte. Instead, there is the implied answer that the phenomenon does not even exist. Our answer is that these producers have basically no alternative, for there are few cases in which a Thai rice farmer is going to make it big by opening a steel plant.

S might say, then let him become a worker in that steel plant. Fine, but who will open the plant? The whole point is that imperialist trade structure makes it extremely difficult for "Third" World nations to enter the world market in manufactures. This is precisely why the state must intervene to provide the industry with the most favorable initial conditions possible. S's argumentation here is disjointed: on the one hand he urges extreme caution concerning state intervention since its "comparative-advantage forecasts," if

wrong, may hinder development (701). Although S finds it necessary to issue this warning concerning government intervention, he implies that the "market" is never wrong about future comparative advantage; he devotes no attention whatsoever to the developmental blocks thrown up by concentrating on one or two agricultural exports. The problem here is bound up with the strategy of agricultural exports as a means of gaining foreign exchange needed to buy industrial products. If these prices are not stable, or if they show a downward trend, then development programs based on them will be in trouble. Here then are two connected issues: the long-term decline in the terms of trade for agricultural products on the world market, and the short-run fluctuations. Both afflict "developing" countries who are stuck with the commodities imperialism under the guise of the natural law of comparative advantage foisted upon them.

Now to proceed to the other side of S's disjointed argument against state intervention: this is offered in the context of a discussion of tariffs for infant industries. While admitting in theory the advantages of such a tariff, S sees as the major drawback the practical problem of the industry's failure to gain the government support needed to overcome the entrenched power of the already dominant producers (702). If this were really the problem, then why did S feel compelled to issue all the caveats about state intervention? In fact, the most likely case is that of a national bourgeoisie's taking over state power precisely in order to push forward some sort of national industrialization program.

The rest of S's discussion is ambiguous. Although he admits that the infant industries argument had more validity for the U.S. in the past century than today, and more for "underdeveloped" nations today than "developed" ones, he does not make the crucial comparison: its validity for the U.S. in the last century versus "underdeveloped" nations today. On the surface it would seem that if it worked so splendidly for the U.S. then why not for Brazil today? With respect to "infant economies" S cautiously agrees that "a strong case can be made for using moderate

protection" (702); yet we find this standpoint wishy-washy at best. In the first place, this runs counter to S's facetious attitude toward "Third" World industrialization programs in Chapter 38. Secondly, this avoids the whole issue as to whether such industrialization attempts can be regarded as analogous to those of the nineteenth century. We do not doubt that a certain amount of industrialization will be pushed through by these "developing" nations and that for a variety of reasons and points of interest the imperialist nations will not oppose certain directions. What we are saying is that along capitalist lines it is impossible for the "Third" World countries to break through the hegemony of these imperialist powers similar to the way in which the U.S., Germany, and Japan broke through Britain's domination in the nineteenth century. That is to say, the industrialization will in large part be effected in terms which will cause the least disruption to imperialist interests. The autonomous interests of capital in the "Third" World nations—let alone the interests of the people—will not be able to assert themselves as did those of the U.S., etc., in the nineteenth century.

TARIFFS AND THE WORKING CLASS

With respect to tariffs designed to raise labor's share of national income S is constrained to concede that according to the Ohlin proposition the relative share in national income falling to the scarce factor will be lowered by the introduction of free trade.⁷ After mentioning this as a possibility for the sake of "objectivity," S proceeds to pooh-pooh the notion since with American labor "such an important and flexible factor of production, it seems likely that other laborers would gain from expanded trade more than those hurt would lose" (697).

S supplies the justification for this several pages later when reviewing the case for tariffs to prevent unemployment. The answer: "rational macroeconomic management" (alias the neoclassical synthesis) makes it unnecessary to "tolerate a gap between actual and potentially producible product" and thus provides jobs in other industries (700).

We may first point out that S himself adopted a rather different position on tariffs a quarter-century ago:

It is perhaps not so obvious, but it is none the less true that free trade has had the same harmful effects upon the vested interests of the whole laboring class in America (and land-owning class in Europe) as would the removal of all immigration barriers. What maximizes world or national output will in this case lower the absolute real returns to even so "important" and "versatile" a factor as (American) labor. . . . Advocates of freer trade—and I consider myself in this class—must not overstate their case. Protection can help special groups; it can even help special large groups.⁸

Well, S might reply, no one ever denied that certain groups might be hurt by free trade, but I wrote that at a time when the neoclassical synthesis had not yet proved itself. It would then seem that the answer lies in the efficacy of "rational macroeconomic management."

But it is precisely this "tool" that has been called into question lately. This is not the place to offer a detailed account of the success or failure of the neoclassical synthesis as a practical tool in maintaining full employment. But we should at least be made aware of the theoretical approach underlying S's concern with unemployment. He does not deny that free trade will cause some unemployment; this is fine as long as new jobs are created. (Actually this is a generous interpretation: more precisely, S implies that the unemployed textile worker may not find another job, but that his "hurt" will be outweighed by other workers' gains.) This approach is summarized more generally in a book not uncritical of U.S. capitalism:

Concern with diagnosing the causes of original unemployment leads to a theoretical dead end. The diagnosis must be based on reasons for lack of re-employment after disemployment occurs or after new labor force entrants are not newly employed. The reasons for the original disemployment are of no concern if re-employment is assured.⁹

By refusing to investigate the causes of "original disemployment" one is neglecting a very important feature of

capitalism; for although even in postcapitalist society production of certain products will be eliminated or reduced and that of others introduced or increased, such changes being planned will be foreseen, and thus the "structural manpower" problems associated with "creative destruction" and "external diseconomies" will not prevail. And such problems will not prevail for another important reason as well: the very narrow education and training characteristic of capitalist wage workers can be eliminated.

The point, however, is precisely whether capital accumulation rates are high enough to overcome (temporarily) the increasing organic composition of capital attendant upon increasing productivity so that new surplus-value creating labor can be employed. The current "Buy American" legislation sponsored by U.S. trade unions appears to be based on the thesis that U.S. capital has more or less reached the end of the line as a great capital-accumulating society, for it contends that U.S. productivity can no longer compensate for the higher wages in the U.S. and that capital accumulation can no longer create enough new jobs in new branches for those thrown out of work by foreign competition.

On the one hand the labor unions are realistic enough to see through "business" arguments to the effect that U.S. trade deficits and consequent lost employment are necessary in order that foreign countries be in a position to acquire dollars to pay profits to U.S. multinational corporations abroad. On the other hand, the acceptance of the capitalist mode of production by the unions involves them in a contradictory strategy.

Their answer is to reduce the impetus to produce abroad by taxing such profits more heavily. In the end, however, this increased domestic profitability will come only at the expense of the American working class.

Thus, by accepting the framework of capitalism, and by understanding "labor" merely as a coequal "factor of production," trade unions may easily wind up fighting particular interest struggles and even abandoning the interests of the working class within capitalism, although, given their assumption of a declining competitiveness of U.S. capital, there is something to their protectionist strategy.

