

# The Anti-Samuelson

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# Macroeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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A four-volume edition of this book was first published in a German translation in 1974 by Politladen, Erlangen, under the title **Der Anti-Samuelson**. The joint decision of the publisher and author to condense the work was dictated by the desire to reduce costs and thus bring its price within reach of both students and teachers. Inevitably, in so radical a scaling-down, a great deal of textual elaboration, annotation, and bibliographical data had to be sacrificed. Those who wish to pursue the author's ideas and argumentation in greater depth are referred to the unabridged German-language edition.

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## 4 The Capitalist Firm S's Chapter 6

This chapter offers S's idea-type, fairy-tale version of the rise of monopoly-capitalist corporations. He takes us through a trinitarian development: from single proprietorship to partnership to corporation. And although he admits that "one should not infer that all corporations go through three stages" (111), still he insists on offering this fiction as "an extensive case study" (100). It is his contention that "we gain insight into the principal forms of business organization . . . by following the history of a particular business venture as it grows from a small beginning into a good-sized corporation" (101).

Now even if there were some merit in studying business organization before economic structure (and there is not), an ideal type can be set up only if it synthesizes the essential aspects of a phenomenon. However, S's glamorized version bears no relation to reality. Furthermore, it seems senseless to describe the formal, legal structure of economic units before analyzing their content. Why go into detail about stock issues before we know what profit is or where it comes from?

It is significant that S, who tends toward a radical positivist approach to existing capitalist reality, leaving history to others, here finds it necessary to go into the seemingly historical derivation of modern monopoly capital. As we shall find out, this pseudo-historical description serves to conceal the actual historical process and ultimately serves to legitimate the existence of monopoly capital.

The analyses of the “single proprietorship” and “partnership” in particular are essentially meaningless: “At the end of the month whatever is left over as profits—after all costs have been met[!] is yours to do with as you like” (102). But what is profit? And what is cost? He leaves his reader to work with whatever misinformation he has picked up here and there, and since it all sounds somehow familiar, the reader will go along with S’s story. The transition to “partnership” is the result mainly of greed: you want to make more money because “the business is prospering tremendously . . . but you find yourself harder pressed for cash than ever before” (102). Why? Because you are not *paid in advance* for your sales, whereas you must pay your workers and suppliers promptly on receipt of their services (102). Really! The worker’s “services” are the use of his labor power. One might get the impression that a worker, after being hired on Monday and signing a contract offering his “services,” gets paid for the week he has *not* yet worked, while the poor capitalist whom nobody pays in advance has to lay out the wages. But in reality it is the worker who “lays out” his labor power for the week, trusting that he will not starve or be evicted from his home in the interim.

S also introduces other difficulties for this “single proprietor” having to do with credit and interest; these relations have even less meaning at this point than does profit. And so it goes with the partnership as well: it, too, in some mysterious way keeps making profits and outrunning its supply of capital (?), thus necessitating a new form of ownership. The main difference here is that S insists that the “drawbacks” of the legal forms (“unlimited liability,” etc.) bring about fundamental economic changes (105 f.), whereas most realistic people assume that legal forms evolve in response to economic change.

In any event, “we” decide to incorporate. At this point, in an effort to lend some historical validity to all this nonsense, S explains how in days gone by the sovereign conferred the privilege of corporation charters, but that “within the past century, this procedure began to seem unfair [?!]”

and so now almost anybody can form a corporation (106). S obviously does not see that these early monopolies may possibly have been connected with the rise of capitalism, with the need to protect a nascent system against competition, to support merchant capital, and that once capitalism became self-supporting it no longer had need for such props.

On closer examination it becomes obvious that S has not given us a historical view (in all fairness he has never claimed to have done so but merely gives that impression) but rather a description of three types of "business" structure that happen to exist side by side. In point of fact, it is a rare capitalist monopoly that would develop along these lines; by setting up the hypothesis of such a triadic development, however, S implies that this course is the standard; yet very few "single proprietorships" make the jump to "partnerships," just as very few partnerships make it to corporations.

As for the corporations themselves, their origins are a good deal different from the pastoral scene painted by S. A truly historical analysis of the rise of capitalism would have to deal with "so-called original accumulation"—i.e., the historical process of the brutal, extra-economic expropriation of the land and tools of the European peasants and artisans (and in the U.S., of the Indians, small farms, slavery, etc.); it would have to deal with the immanent problems of capital accumulation, the increased exploitation of relative and absolute surplus value, and above all with the class struggles growing out of this enormous exploitation. According to S, the only problems involved in acquiring capital are technical ones which easily can be resolved by technical and/or legal means. The working class, through whose labor and over whose broken bodies the "giant corporation" made it into the "honor roll of American business" (111), is not mentioned even once. S is held spellbound by the magic powers of capital, by its ability to "grow" all on its own.

Marx's analysis of the development of corporations follows a very different course. In Chapter 27 of the third volume of *Capital* he derives them from the role of credit in capitalism. The existence of money as means of payment

made for the abstract possibility of credit (thereby establishing a creditor-debtor relationship), a possibility that became more concrete through the release of money capital, the result of the different time intervals between the labor and circulation periods within the turnover of capital. Credit thus becomes necessary to mediate the equalization of the rate of profit; simultaneously it makes possible a vast expansion of the scale of production that individual capitals cannot match. At the same time the rise of corporations symbolizes the transformation of the functioning capitalist into a mere director, an administrator of other people's capital, and that of the owner-capitalist into a money-capitalist. Thus what Berle and Means<sup>1</sup> et al. were thought to have discovered—namely the separation of ownership and management—had been analyzed by Marx three-quarters of a century earlier. But Marx, more analytical, did not restrict himself to the enumeration of surface phenomena; he pointed out that this process represented the final step in exploitation, for at this point the right to parasitic income (i.e., dividends) ceases to be contingent on any productive activity but turns into the naked appropriation of surplus labor.

The contradictory nature of the corporation finds expression in the renewed state intervention and the creation of a new parasitic financial aristocracy brought on by the rise of monopolies, as well as in the unprecedented overproduction made possible by the availability of other people's capital. S, on the other hand, merely spells out the "advantages and disadvantages of the corporate form": "The corporation has solved most of the problems that bothered (!) you about the partnership. It is an almost perfect device for the raising of large sums of capital" (108).

In his description of the process of incorporation S sees it as a purely legal formality and/or arbitrary procedure. "You" (the use of the personal pronoun is designed to turn the reader into the self-interested capitalist) merely decide how much capital you want, how many shares, at what price, etc., and the investment bank does the rest, whereby the latter's profit, "as with any merchant," "comes from the difference between their [the securities'] buying and

selling prices." If you had been powerful, you could have "held out" for more from the bank, thus cutting its profit margin (107). All the figures seem to be arbitrary. Marx, however, explained that with the rise of corporations capital appeared to double; that is, the capital paid in by the shareholders becomes industrial capital, whereas the shares themselves continue to circulate at a given price; the money needed to circulate these shares has nothing to do with the capital of the corporation, just as the price of the share is not part of the corporate capital. The share is not a title to the capital of the corporation but a revenue title, a title to a part of the profit. Its price depends on the profit made by the corporation and on the prevailing interest rate. The yield is capitalized, and this determines the price of the share. The yield thus appears as a second capital, but that is merely fictitious. Thus the sum of the "share capital"—i.e., the sum of the price of the titles to the capitalized yields—may diverge from the sum of the capital originally transformed from money into industrial capital. For example, a business capitalized at \$1 million decides to "go public"; its rate of profit is 15 percent and the prevailing interest rate is 5 percent; its profit is \$150,000. The yield, \$150,000, is capitalized as an annual revenue at 5 percent interest; this means that at 5 percent interest it would take \$3 million to get a "yield" of \$150,000. On that basis the corporation can sell shares totaling \$3 million because it is sufficiently profitable to offer investors 5 percent on their money. The Marxist economist Rudolf Hilferding called the difference between the \$1 million and \$3 million *Gründungsgewinn* (founding profit), derived from the transformation of profit-"bearing" capital into interest-"bearing" capital.

S for his part sees this as the usual merchant's profit (selling price minus purchase price) and the haggling over the difference as a mere technicality. Hilferding sees a conflict among fellow capitalists:

The stronger the power of the banks, the more fully will it succeed in reducing the dividends to interest, the more fully will the promoter's profit accrue to the bank. Inversely, strong and stable enterprises will succeed, when increasing its capital, in

securing for the enterprise itself a part of the promoter's profit. There ensues a sort of struggle for the distribution of the promoter's profit between the corporation and the bank.<sup>2</sup>

S's reply to all this is that "you need not concern yourself with the people to whom he [the investment banker] has sold the shares or with the fact that they may resell their shares. The names of the owners of the shares are registered. . ." (107). He then launches into a paean to corporate democracy, and here we finally discover where dollar-vote democracy resides, for here we have one dollar, one vote. After trying to persuade us that the capitalists are actually trying to maintain real democracy, S comes to the infamous problem of capitalism: the divorce of ownership and control. First we are told the story of "people's capitalism" (though S does not want to associate himself too closely with it), and then we are given to understand that management owns only 3 percent of the common stock. (Of course, we are not told that about 150 of the country's 500 biggest industrial corporations are owned or controlled by a single individual or family.)

The purpose of this whole account is to convince the reader that managers are less profit-motivated than owners, and that consequently we will have a capitalism with a growing concern for the interests of the people.

On the one hand, so the story goes, ownership is dispersed and therefore separated from control (but S admits that a 20 percent minority ownership is sufficient to maintain working control [113]), and then in a footnote (113 n. 10) S shows how through pyramiding, this working control can lead to control over billions of dollars. Never mind that the one assertion contradicts the other. The phenomenon that is really being described is how small sums of money (even small savings) can be mobilized and centralized—not by the autonomous managers but by the monopoly capitalists themselves, who by gaining minority control are not only able to exploit labor but even do so with the worker's own money (as well as with that of other capitalists).

S admits that "generally speaking, there will be no clash

of goals between the management and the stockholders. Both will be interested in maximizing the profits of the firm" (114), yet he still attributes autonomy to management insofar as it seeks to make the organization "grow and perpetuate itself" (115); also, whereas the old-time capitalist had a "public-be-damned" attitude, the new managers are more "adept" at "handling of people" (114). But as C. Wright Mills has pointed out:

. . . the top man in the bureaucracy is a powerful member of the propertied class. He derives his right to act from the institution of property; he does act in so far as he possibly can in a manner he believes is to the interests of the private-property system; he does feel in unity, politically and status-wise as well as economically, with his class and its source of wealth. . . . They are managers of private properties, and if private property were "abolished," their power, if any, would rest upon some other basis, and they would have to look to other sources of authority.<sup>3</sup>

In sum, the big capitalists do not have to beat the managers into submission: "External authority is not necessary when the agent has internalized it."<sup>4</sup> With respect to the quantitative growth of monopolies, S states that "recent economic research shows the falsity of the widespread view that the giants are gulping up more and more of modern industry. Statistics suggest that, relatively, the giants have probably lost a little ground since 70 years ago" (7th ed., p. 88; similarly in the 9th ed. [112]). The only possible sense in this statement is that if 100 corporations increased their control over industry from 10 percent to 50 percent by 1920, then even if they had gained 100 percent control by 1970, their relative increase would have dropped from 400 percent to 100 percent.

The following table shows the development of the percentage of value added by the largest U.S. manufacturing corporations from 1947 to 1966:

No. Largest Corps.	1947	1958	1966
50	17%	23%	25%
100	23%	30%	33%
200	30%	38%	42% <sup>5</sup>

Thus we see that in 1966, for instance, the 100 largest manufacturing corporations had attained greater specific weight in this area than the largest 200 twenty years earlier. Moreover, since many of these corporations are controlled by the same finance-capital groups (Rockefeller, Morgan, etc.), the degree of concentration is in fact much greater than these figures indicate.

S's discussion of monopoly is similarly superficial:

In view of all the above facts, it is not suprising to find the most important American industries are characterized by a few large corporations whose share of the output of that particular industry is vastly greater than their numerical importance would warrant [?!; 116].

This is either wrong or tautological. S has not bothered to explain how monopolies came into being; he has merely categorized them as "corporations" and informed us that "their power did not grow overnight"; "Large size breeds success and success breeds further success" (112). He is being tautological in that he adduces statistics indicating concentration, but without any explanation. In fact he considers explanations irrelevant: "From an economic point of view it does not much [?!] matter which of the following monopolistic devices cause price to be too high. . ." (116), and then he runs through mergers, cartels, etc. He fails to distinguish between concentration of capital as a result of accumulation (as a matter of fact, he does not discuss accumulation at all here) and the centralization of capital, i.e., the concentration of scattered capitals in one hand, the expropriation of one capitalist by another.

In his documentation of the "worst" aspect of monopoly pricing, S manages to come up with the example of "too many barbers standing around, doing too little—and because of the entry of other imperfectly competitive barbers, the consumer may pay too high a price *without* the monopolist barbers' ending up making any more money than they would under perfect competition!" (8th ed., p. 92.) As if this were a typical problem confronting giant corporations, and as if the corporate bosses sat around all day

“under-utilized.” S’s description of monopoly as of all other phenomena is limited to the sphere of circulation without touching upon production.

## APPENDIX / ELEMENTS OF ACCOUNTING

### A / PROFIT

It is S’s contention that “without some comprehension of accounting, there can be no deep understanding of the economics of the enterprise” (100). Let us see how his accounting explains profit—certainly the proof of the pudding for any enterprise. First we are introduced to the “fundamental identity of the Income Statement”: “Total Profit = Total Revenue minus Total Costs” (122). On methodological grounds such an equation is impermissible since profit, revenue, or cost have never been defined. In fact, earlier in the chapter he stated that a merchant’s profit stemmed from the difference between purchase and selling price (104). This would seem to imply that there exists another type of profit (industrial?) based on some other factors, but we are never told what that might be. In this section he goes back to merchant’s profit, elevating it to the rank of the sole type of profit and thereby establishing a permanent niche for it in the “fundamental identity.”

How does capitalist commodity production itself result in such theoretical inversions of reality? In the first chapter of the third volume of *Capital*, Marx supplies the key to this with his introduction of the cost-price category: cost-price, he said, equals  $c$  plus  $v$ , that is, that part of the commodity value which replaces the price of the means of production and the price of labor power; therefore it replaces what the commodity “cost” the capitalist. However, “What the commodity costs the capitalist and what the production of the commodity itself costs, are to be sure two very different magnitudes,”<sup>6</sup> and that because the surplus value created by the worker “costs” the capitalist nothing. Thus the specifically capitalist cost of a commodity is measured by the expenditure of capital, whereas its real cost is measured by the expenditure of labor.

But, Marx adds, this cost-price category is not confined to capitalist bookkeeping: the autonomization of this part of value is real in the production process itself inasmuch as it must be transformed from its value form through the circulation process back into the form of productive capital (means of production and labor). On the other hand, this cost-price has no bearing on the formation of value or the self-expansion of capital. The point here is that it subsumes two heterogeneous elements—constant capital and variable capital—under one rubric. The value of the constant capital is merely transferred to the new commodity and is preserved; the value of the variable capital, on the other hand, does not enter into the creation of new value, for in the process of production, living labor, the *creator* of new value, takes the place of labor power as value. The value of labor power merely determines how much of the total newly created value goes to the worker. By combining two functionally heterogeneous elements, cost-price eradicates the distinction between constant and variable capital, thus hiding the origin of surplus value: the profit appears to stem from the total outlay of capital (hence the talk about the productivity of capital).

It is these superficial aspects which capitalist bookkeeping perpetuates. What is interesting here is that S, before even theoretically developing the economic relations represented by mathematical formulas, foists contentless mathematics on the student. Having thus buttressed his unscientific method with pseudo-scientific mathematics, he has prepared the student to accept all kinds of nonsense about the productivity of capital and the origins of profit.

#### **B / DEPRECIATION**

It is a revelation to see how S manages to inject a heavy dose of apologetics into a seemingly neutral appendix on accounting, i.e., how he seeks to pass off the rapid early depreciation system as one in which “mistakes . . . will ultimately ‘come out in the wash’ anyway”: “Suppose that the truck lasts 15 years rather than the predicted 10. We have then been overstating our depreciation expenses dur-

ing the first 10 years. But in the eleventh and later years there will be *no* depreciation charged. . . . After 15 years, everything is pretty much the same. . . . That is, except for taxes" (124). He then launches into a discussion about how capitalists like this method because they fear taxes and "hope" that later on corporate tax rates will decrease when the profits are overstated by comparison with the earlier years, when the abnormally high write-offs reduced stated profits.

Here S falls victim to the very same "fallacy of composition" he is forever warning others about (e.g., 14); what is true for the part is not necessarily true for the whole. His assertions are true only with respect to an isolated object of fixed capital: if too much is written off at the beginning, correspondingly less can be written off later. Since it is the function of amortization to insure the simple reproduction of the fixed capital, write-offs that exceed the objective measure of real depreciation encompass a part of the profit accumulation, its transformation into additional capital—investment. This also becomes clear when we look at the entire reproduction process of the fixed capital of a corporation, its total amortization fund, rather than at an isolated machine.

Now if the amortization fund is increased at the expense of profits—that is, if profits are used to expand the business—then the write-offs not only cannot decrease but must increase; this results in a spiral, since additional profit leads to bigger write-offs, *ad infinitum*.

There are two important aspects to this phenomenon.<sup>7</sup> First, since World War II, increasing concentration and centralization of capital have intensified competition among the dominant monopoly capitals, an intensification demanding increasingly larger investments, which in turn depend on ever higher profits. At the same time the increasing concentration of capital impedes capital flow from one investment sphere to another. Thus self-financing, i.e., internal accumulation, is essential if the competitive edge is to be maintained. This is where abnormally high write-offs, facilitated by the development of monopoly prices and profits,

come in. The more powerful monopolies are able to siphon off (i.e., redistribute) the surplus value of the smaller capitals by raising their prices while forcing the others down proportionally. Under these conditions the monopolists can continue to gain higher profits through higher write-offs and, consequently, stimulate internal accumulation.

The other side of the coin is taxes. Since profits (i.e., that portion concealed in higher write-offs) go untaxed, and since the capitalist state needs a good deal of money to tend to the national and international "business" of the ruling class, additional taxes must be levied against—guess whom?