

The Anti-Samuelson

BY MARC LINDER

Microeconomics:

VOLUME TWO

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

Digitized by Google

URIZEN BOOKS / NEW YORK
Original from
UNIVERSITY OF MICHIGAN

HB
119
S23
L74
1977
v. 2

Library of Congress Cataloging in Publication Data

Linder, Marc.
Anti-Samuelson.

Bibliography.
Includes index.

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

Copyright © 1977 by Marc Linder

All rights reserved

Manufactured in the United States of America

Chapter 13: Supply and Demand—An Empirical Approach (S's Chapter 20)

In this chapter we shall attempt to illustrate the weaknesses of the empirical application of supply and demand by examining some of S's own examples.

I. A FEW METHODOLOGICAL OBSERVATIONS

In this methodologically chaotic section S says about micro and macro: "We cannot even say which comes first: some books begin with one; some with the other." (378) When someone writes chapter after chapter about money, commodities, markets, supply and demand, national income, etc., without having previously discussed the fundamental concept of value, the reader would like a reason for this procedure rather than a "survey" of how many texts begin with one or the other.

The other point we wish to make here has to do with the nature of the supply-demand curves. The following is a summary of the criticism by a Soviet Marxist in the 1920s of the bourgeois depictions of such curves and of an outline of the Marxist rationalization of this procedure.¹ Although a former Menshevik, Isaak Rubin at the time was recognized in the Soviet Union as the greatest expert on Marx's theory of value. A school was formed by his pupils. Toward the end of the 1920s he came under severe attack; in 1931 he was put on trial with other Mensheviks.

As Rubin points out, since the intersection of the two curves changes with a change in either of them, it seems

that a change in demand can alter the price even in the absence of any changes in the conditions of production; and since price is identified with value, demand can also alter value (see Graph I). Rubín sees the root of this false result in the construction of the supply curve itself; namely, it is based on the model of the demand curve, except that it runs in the opposite direction (starting at the lowest price). A supply curve running through such extremes as still producing at ridiculously low prices or throwing everything the capitalists have on the market at high prices is possible only when considering the market conjuncture of a given day or moment. But if we want to see what the stable long-run average price is, then we must note that below a certain price production would be interrupted, and that above a certain price additional capital would flow into this branch.

Rubín then constructs two graphs to explain his position: A simplified one shows only a demand curve (see Graph II). There is supply only at the value (or production price). This is a straight line which intersects the demand curve. Above this original demand curve there is another one which represents expanded demand. It is Rubín's contention that such increased demand with the concomitant expectation of a price higher than the previous social average will bring an inflow of capital from other branches; in the long run this can have the effect of tendentially unlimited increases in production (as a result of increased profitability). Thus, compared with demand, one can say that at the price of production supply is limited. Rubín therefore merely extends the old supply line further to intersect the new curve of expanded demand. In this example a change in demand can change the supply but not the price.

A more complicated diagram (Graph III) depicts a situation in which the firms belonging to the group with the highest productivity can only supply a limited amount; the remaining units would have to be supplied by the firms belonging to the groups of average and below-average productivity. Here the supply curve would be a line connecting the highest points of the supply lines aggregated for

each price. Thus, for example, if at \$2.50, 200,000 units could be supplied, at \$3.00, 300,000, and at \$3.50, 400,000 (meaning that the average firms can produce 100,000 units at \$3, and the least productive another 100,000 at \$3.50), then the supply line would run through those latter two points to the point representing the group of most productive producers (200,000 at \$2.50).

This means that demand can operate only within very narrow limits, limits determined by the conditions of production in the firms of varying productivity and the quantitative relations among these groups (their specific weights within the total production of the branch).

Actually, much in this section would seem to be true if for supply and demand we substituted the law of value. E.g., we are told that although price is determined by supply and demand, it also depends on other factors, such as gold production and war. However such factors "are not *in addition* to supply and demand, but are included in the numerous forces which determine or *act through* supply and demand" (389). It would seem then that within bourgeois theory, supply and demand, like the law of value, is the fundamental explanatory law of capitalism. Although on the surface it would appear that certain factors also contradict the determination of price by supply and demand, one might think that a good bourgeois economist would want to find the mediating links between essence and appearance.

But we are bound to be disappointed if we harbored such illusions; for shortly thereafter S informs us that in fact supply and demand are "not ultimate explanations of price. They are simply useful catchall categories for analyzing and describing the multitude of forces, causes and factors impinging on price" (390). Supply and demand is thus reduced to a formal classificatory tool, and not even a very precise one.

In this case it would turn out that the above statement was incorrect: the law of value is not a perfect substitute for supply and demand. In the following example it fills that bill more closely. Here, S chastises the neophyte for confus-

ing the state's ability to affect prices with its ability to "repeal the law" of supply and demand: "These governments have not violated the law of supply and demand. They have worked (not always to good purpose) through the law of supply and demand. The state has no secret economic weapons or tricks. What is true for the state is also true for individuals" (390).

Here we could substitute the law of value in the sense that the state can preserve capitalism only with the same capitalist methods that contain contradictions within themselves. And it is also true that the state cannot act vis-à-vis total social capital the way the individual capital agent does vis-à-vis his capital. We have made this point before, but this is the first and probably only time that Samuelson concedes it; for the most part he is too busy extolling the magic powers of state intervention into the anarchic processes of capitalist commodity production.

II. EMPIRICAL APPLICATIONS OF SUPPLY AND DEMAND

A. RATIONING

Now we come to concrete cases of state intervention with respect to price determination. The state decrees that sugar cannot rise above 7¢ per lb. As a result of "prosperity or bad crops let demand be so high and supply so small" that price would have risen to 20¢ had not the state interfered (391). Now this is a strange situation. One could imagine that as a result of a drought or hurricane or whatever, the sugar crop could have been so damaged as to make for a shortage of supply (in physical terms) in relation to the traditional demand. If x pounds are consumed annually, but this year only one-tenth x reaches the market, then the state might well ordain that the price remain at the usual level for this 10 percent that can be salvaged and sold. Otherwise the price would have risen, say, tenfold. (Whether the state would in fact do this is another matter—but it is at least conceivable.) But the case of

“prosperity” is a horse of a different color. This is baffling to the reader until it is revealed that S is talking about a war situation. In any case, at best it is a case of increased incomes *and* shortages. This well may mean that there is a shortage even compared to the prewar income (and solvent demand) level (in this case the depression of the 1930s), so that the prosperity part may be irrelevant; or it may be a shortage compared to the new level of income. (In fact, neither per capita sugar production nor consumption rose between 1930 and 1950.)^{1a}

In any case, the only rational kernel of this whole discussion could be a situation in which acts of God cause a shortage. But notice what S writes: “Consumers want thousands of pounds of sugar in excess of what producers are willing to supply” (391 f.). The “willing” is misleading. The point is, the producers have no more to sell. If they hold out what they have, then they won’t get anything. Although S recognizes that letting prices float will burden the poor, he emphasizes that with the price fixed, someone will drink bitter coffee despite the fact that this someone would “gladly bid the price up to 8 or 9 cents or more.” Then “there follows a period of frustration and shortage” (392). This step is needed for the conclusion: that shortage results from government price-fixing. With the price mechanism “stymied,” the world has ceased to exist for S, because “Patriotism is more effective in motivating to brief acts of intense heroism than to putting up day after day with an uncomfortable situation” (396).

The solution to the nonmonetary distribution of the sugar is rationing: “Of course there are always a few women and cranks, longer on intuition than brains, who blame their troubles on the mechanism of rationing itself rather than on the shortage” (7 ed., p. 377). But it is S who is apparently longer on dollar votes than brains, for he is the one who saw the shortage only after there were people who would have outbid others for the sugar but were not allowed to. And although he recognizes that in a class society price always means rationing by “rising to choke off excessive consumption” (393), he sees economically relevant “frustration and shortage” only for those who have money but cannot

spend it; that there are many who do not have the money and whose nonspending does not therefore result from shortages, S does not recognize as scientifically relevant except in the sense that "there is never enough to give everyone all he wishes" (393).

But what is the "remarkable efficiency" of the price mechanism which we can better appreciate by observing its absence in the "psychiatric ward" of war? (393). It is apparently some sort of super-duper circulation-sphere equality. Not only are owners of money equal in qualitative terms, but each dollar is equal; and apparently a further condition consists in everyone's being able to cast all his dollar votes if he so desires. The efficiency of the market is reflected in the circumstance that where the highest bidders win, those who cannot bid so high ("women") need not spend their time waiting on line. The efficiency of the market allows these women to sit at home since they know there is no point in playing musical chairs at the grocery store.

Next we come to admonitions: state intervention ought not be "squandered on minor peacetime situations" (393). After all, even Adam Smith knew that such mercantilist devices were inefficient. One cannot speak in an undifferentiated manner of monopoly in times of merchant and monopoly capital domination. Nor can one judge the quality, or for that matter the quantity, of state intervention in these different periods in an ahistorical way. That state intervention could have been a positive and necessary force for the formation of merchant capital *and hence* also for industrial capital later, that subsequently it could have hindered the development of industrial capital to the extent that at some point it aided merchant capital when the latter was no longer a precondition but rather a foe of industrial capital, and, finally, that it could be a necessary support for the continued existence of capitalism in our own time and yet hamstringing the development of a society that would develop social relations capable of utilizing the forces of production for the good of the working people—all this remains sealed to S.

B. MINIMUM WAGE LAWS

Let us look at some of these "minor peacetime situations." First we get minimum-wage laws. S needs only three lines and a graph to prove that these laws hurt the very people they are supposed to help—the people S is most concerned about too: black youths. (In this he is in agreement with Milton Friedman.) For the higher wage allegedly is the reason for the "youth" unemployment in the first place.

Let us look at this more closely. Richard Lester points out that there is a need for such laws precisely because the marginal-productivity theory does not correspond to capitalist reality because labor markets are imperfect and labor is "exploited." Minimum-wage rates can "eliminate the possibility of employers' keeping the wage rate low by not bidding up the wage in order to hire more workers, or the possibility of depressing wage rates by hiring fewer workers." Lester indicates that after passage of a minimum-wage law capitalists would be likely to hire more workers at that wage because they cannot obtain labor below that wage by cutting down on hiring.²

It would perhaps be instructive to view minimum-wage laws in a manner analogous to Marx's treatment of maximum-hours legislation in England in the middle of the nineteenth century. Marx pointed out that although the individual capitalist would have liked to work "his" workers to death since there would always be others to take their place, in the long run such vast exploitation would tend to kill the goose that lays the golden egg. Once individual capitalists acceded to workers' demands in this direction it became in their interest to compel all other capitalists to be similarly constrained so that no "unfair advantages" would result in competition.³

It would appear that something like this was also taking place with respect to the minimum wage. A three-volume work on the economics of labor indicates that the problem transcends that of a "minor peacetime situation":

The widespread attempts, in the last four decades, to regulate wages through the exercise of the coercive power of the state have been an inevitable consequence of industry's failure to pay millions of its [!] workers enough to enable them and their families to live in decency.⁴

But as the authors also point out, this was not a comprehensive undertaking to raise the purchasing power of workers generally, but was mainly directed toward particularly outrageous sweatshop situations and below-average wages for women and minors. (It is interesting that back in the thirties blacks did not even rate mention in social policy of this kind.)

At this point the book becomes somewhat more analytical. It notes that "the health, strength, and morals of workers—especially women workers—depend in part upon wages; industries or enterprises not paying living wages are social parasites. . . ." ^{4a} This probably means that the large capitalists are sick of paying taxes to support unemployed and down-and-out workers and their families. The capitalists not paying minimum wages are parasites in the sense that they get the advantage from the social overhead expenditures. The large capitalists find it unfair that their competitors can pay lower wages and get away with it.

Millis and Montgomery go even further:

. . . The minimum wage movement has had underlying it the assumption that concentration of production within those firms able to pay decent wages would not be undesirable. In industries where comparatively little capital is necessary to start a small-scale establishment, a large number of irresponsible [!] "fly-by-night" firms are chronically to be found—firms whose chief source of survival capacity is low labor cost. If minimum wage legislation pushes these firms across the marginal line and production is concentrated in a smaller number of larger and more efficient plants, the result to be expected would be a higher wage bill for the entire industry without necessarily—or at least without proportionately higher—costs per unit of product.⁵

If we disregard some of the efficiency and welfare-humanism verbiage, it becomes clear that at some point at

least in the history of capitalism minimum wages were a conscious move to drive out the smaller capitals.

The First National City Bank asks why minimum wage laws shouldn't be abolished altogether, and replies that although such laws are a political necessity, the "elimination of this legal floor under wages would ease the transition from school to employment."⁶

One explanation for this turn against "liberal" labor legislation might be connected with the move of large corporations into traditionally nonunionized areas (for instance the South) because of the low wages and "good work discipline," and so they might well oppose such extensions of national legislation. To the extent that the small "feeders" or subcontractors of large monopolists might be destroyed by such legislation, this would disturb the present economic and political allegiance of these groups.

The Keynesians have prided themselves on their ability to avoid "politically and socially unacceptable" rates of unemployment. Now all of a sudden the bourgeoisie tells us "historically, the 4% or less jobless rates have always been associated with war periods, and there is no really solid reason to expect a change from this pattern."⁷

But there was never "really" any reason to expect capitalism to do away with the reserve army. What the bourgeoisie is apparently saying is that: (1) the rate and mass of surplus value is not high enough, so that wages will have to be kept down, whether by "freezes" or by hiring people from the reserve army; and (2) given trade union militancy over bread-and-butter issues, it is perhaps more expedient to "work over" those portions of the proletariat which are less organized and less likely to put up strong resistance (women, teenagers, blacks, Puerto Ricans, Chicanos).

That proportionately more women and teenagers are now working is due in large part to the fact that inflation has so eaten into wages that families can no longer get along with only the income of the traditional bread winner. S himself admits this when he says: "The labor force sometimes tends to grow in recession: when a husband is thrown out of work, his wife and children may seek jobs" (577 n. 2).

This would of course refute the standard bourgeois tenet according to which labor is just like any other factor of production: less is supplied at lower rates; for here the lower the wages become, the larger the sections of the reserve army which must be thrown into the factories in order that the aggregate value of the labor power of the nuclear family be reproduced.

On the basis of these findings we might come to the tentative conclusion that since the capitalist class is in need of a larger number of cheap workers at this stage, it would tend to oppose minimum-wage laws more broadly than before because these laws would tend to include precisely those workers whom the capitalists are counting on.

C. RENT CONTROL

S's major complaint against rent control is that it restricts the construction of new housing. Since he uses France as an example, let us look at some other examples of the effects of the free housing market in Western Europe. In West Germany the gradual abolition of rent control began in 1963. From 1960 until 1967, the number of apartments rose by 20 percent while total rents rose 160 percent (from 12 to 32 billion marks annually). During the same period the rent share of total expenditures of families with four members rose 40 percent.⁸

And a study of that foremost Social Democratic country, Denmark, shows that the result of a free housing market neither reduced the price of new housing nor increased production, but rather brought higher rents for the same quantity of housing. The mechanism works as follows: Capital can be more profitably invested in building new housing, if not to create a housing reserve, then to compete the oldest housing (which is already amortized) out of existence. This is the best case for the free market, but it presupposes that those capitalists who are profiting from the old houses are not the same ones who are investing in the new. And this in one of the most "progressive" capitalist countries, where as of 1965 there was at least a deficit of

5.5 percent in housing, 11.4 percent in rooms, and where 40 percent of all dwellings did not have private baths and toilets.⁹

But what about the U.S. where World War II rent controls were long ago abolished? What miracles hath the free market wrought there? The disparity between needs and production in housing has not narrowed since the war, for as the *Wall Street Journal* of January 11, 1971, remarked: "But wanting a home and being able to buy one are not the same." Why are houses (the same is more or less true for apartments) so expensive? Although the bourgeois press and politicians are screaming about "labor costs," these as a percentage of costs in one-family houses have declined from 1949 to 1969 from 33 to 18 percent, whereas land costs have risen from 11 to 21 percent.¹⁰

That the free market is really at the root of the problem is admitted by a Commerce Department official, A. Allan Bates, the Director of the Office of Standards Policy, who in Congressional testimony asserted that it is land speculation which "makes truly low-cost housing in significant quantity nearly impossible" in the U.S. He also recognizes that this is not a result of *the* industrial society: "Within a few years—perhaps a decade—it will probably be generally acknowledged internationally that the best housed inhabitants of any large country in the world are those of the USSR. The political impact of this situation will be profound."¹¹

But perhaps we have misunderstood S all along; perhaps he has a different sense of what needs the free housing market satisfies. Others seem to lead the way to a better understanding. Thus *Forbes* announces that "wherever there has been a great need in the U.S. business has usually found a way to fill it. . . . But that's what American capitalism is all about: It satisfies needs, especially the needs of the middle class."¹² That is correct—if the middle class is the capitalist class and its needs—profits. And one author, E. Fisher, writing in the depth of the depression outdid *Forbes* by asserting that U.S. slum dwellers had neither solvent nor nonsolvent demand for better housing;

it was his considered opinion that among these people there is "contentment with conditions as they are."¹³

If this is what S means—that in capitalism the workers have neither the purchasing power nor the absolute need for better housing, we agree that the free market can satisfy such nonexistent demand.

D. USURY LAWS

As to S's opposition to usury laws that set ceilings on interest rates below what would be determined by supply and demand: first of all he merely repeats what he already said in the case of sugar when he states that "the cheap money you can't get does you little good" because the funds have "dried up" (394). Here too we must reply that "supply and demand" also is a rationing factor so that the available funds you can't get because you can't afford 8-12 percent interest rates are of just as little use.

As usual, ahistoricity runs rampant. Historically, usury served an important role as a powerful tool of primitive accumulation by destroying many independent producers and helping centralize many splintered means of production. Once capitalism was on its feet, it no longer needed usury—hence the laws were done away with.

As Marx points out, interest-bearing capital retains the form of usurious capital vis-à-vis persons and classes and in relations where the borrowing is not in the sense of the capitalist mode of production, that is to say, where one borrows for the purpose of consumption.¹⁴ Why then does S choose examples—mortgages and student loans—which have little to do with the essence of capitalism?