

The Anti-Samuelson

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VOLUME TWO

Microeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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Chapter 16: Price Theory (S's Chapters 23-24)

THE U-CURVE

Perhaps the most important point of attack here is the ultimate refutation of diminishing returns, that ubiquitous tool of bourgeois economics. A close reading of the cost theory indicates that it stands and falls with this "law."

In explaining why marginal costs rise, S himself refers the reader to the discussion of the production-possibility curve, which, though not immediately related, is connected with other topics soon to be discussed (such as opportunity costs). Here the model presupposes fixed amounts of everything—the point is to allocate them. "The economy must really decide" WHAT, HOW, etc. (20). For "dramatic purposes" we are given a military situation in which "society" has to choose between different amounts of guns and butter. This is of course not a "dramatic" but distorted example, inasmuch as it concentrates on a case in which the aggregate capitalist (the state) does in fact make a conscious choice "for" society. This has application to a later alleged reason for increasing costs: namely that long-run equilibrium price will rise after satisfying an increased demand level, "because when a large industry (which has already achieved the economies of large-scale production) expands, it must coax men, ships, nets, and other productive factors away from other industries by bidding up their prices and thus its costs" (386).

S unfortunately confuses two unrelated processes. Al-

though such reconversion problems do exist, they have nothing to do with increasing costs. The changed proportions of commodities take place by building new factories, etc., and not by converting cornfields into rubber plantations if the demand for automobile tires increases. And if there are such conversions, the resultant increasing costs last only for the length of the period of adaptation.

But S avoids the problem by admitting that when excess capacity is present "our economic laws may then be quite different" (21). "Different" from what? In the entire "peacetime" history of our mixed Keynesian economy the U.S. economy has never reached the frontier.

When S gets around to explaining and "proving" diminishing returns he always manages to come up with an example from agriculture (25 f., 539 ff.). In a further attempt to weasel his way out, S asserts that "increasing returns to scale" is not a "direct refutation" of the "law" because the latter presupposes that at least one "factor" remain constant, while the former deals with increasing all "factors" at the same time and in the same degree (28).

Here we encounter a controversy among bourgeois economists. S, following in the tradition of J. M. Clark and Joan Robinson, apparently sees diminishing returns as a part of the logical make-up of the universe, which later enables him to formulate other universal laws regarding rational choice. More precisely, Joan Robinson claims that the law of diminishing returns is a tautology which results from the definition of a factor of production: increasing doses of one factor added to a fixed factor must eventually bring about diminishing marginal and average productivity of the variable factor. "The Law of Increasing Returns differs from the Law of Diminishing Returns in that it cannot be reduced to a tautology. . . . The Law of Increasing Returns is a matter of empirical fact."¹

That S shares this view is revealed by the fact that he relegates the latter "law" to the status of a digression (he does not even elevate it to the rank of law, a real insult considering his wonted largesse, but merely speaks of the "phenomenon" [28]).

For Clark, the law of diminishing returns "holds good,

not as a purely technical principle, but as a principle of human choice."²

Schumpeter on the other hand sharply criticizes this view: "The law of diminishing returns is of course an empirical statement—a generalization from observed facts that only further observation can either verify or refute. It is interesting to report that theorists have almost unanimously displayed an aversion to admitting this."³ Schumpeter is partially correct: There is no theoretical underpinning to the law. There is however a theory to back up increasing productivity. And as we shall see shortly, empirical studies have not dealt kindly with the universal "law."

Since returns diminish, we are told, costs (both average and marginal) must increase. Historically, diminishing returns was a Ricardian theory of agriculture (refuted by Marx in theory and by statistics in every advanced capitalist society), which was then transported into industry. Bourgeois dissatisfaction with neoclassical price theory was given sophisticated expression by Piero Sraffa. In a now-famous article he suggested that it would be best to return to the classical emphasis on constant returns and/or costs. Sraffa gave this description of the quasi-conspiratorial situation of the time:

In the tranquil view which the modern theory of value presents us there is one dark spot which disturbs the harmony of the whole. This is represented by the supply curve, based upon the laws of increasing and diminishing returns. That its foundations are less solid than those of other portions of the structure is generally recognised. That they are actually so weak as to be unable to support the weight imposed upon them is a doubt which slumbers beneath the conscious of many, but which most succeed in silently suppressing. From time to time someone is unable any longer to suppress the pressure of his doubts and expresses them openly; then in order to prevent the scandal spreading, he is promptly silenced, frequently with some concessions and partial admission to his objections, which, naturally, the theory had implicitly taken into account. And so, with the lapse of time, the qualifications, the restrictions and the exceptions have piled up, and have eaten up, if not all, certainly the greater part of the theory.⁴

From S's text and from others it would seem that this silencing has not yet ceased. How do we account for this? On a somewhat vulgar level we might discover the following circumstances which would make the increasing cost theory attractive to the capitalist class; for it justifies (1) a policy of high prices; (2) the capitalists' aversion to paying higher wages ("our costs are eating up our profits"); and (3) the capitalists' resistance to higher taxes (for the same reason).

In a revealing study by two economists, several hundred manufacturing capitalists (with factories "employing" from 500 to 5,000 workers) were sent graphs of eight cost curves and asked which one represented their firm's. Of a total of 334 replies, 18 indicated one of the three graphs corresponding to the marginalist U-curve; 316 indicated diminishing costs. Even more interesting were the written responses by some of the more articulate industrialists: "The amazing thing," wrote one, "is that any sane economist could consider No. 3, No. 4 and No. 5 curves [the U-curves] as representing business thinking. It looks as if some economists, assuming as a premise that business is not progressive, are trying to prove the premise by suggesting curves like Nos. 3, 4 and 5." And another said: "Even with the low efficiency and premium pay of overtime work, our unit costs would still decline with increased production since the absorption of the fixed expenses would more than offset the added direct expenses incurred."⁵

The point of these chapters, presumably, is to tell us that a "perfect competitor picks the quantity he will supply by referring to his marginal cost curve, so that $P=MC$ " (453). Here profit will be maximized.

But this statement of course depends on the marginal-cost curve: it presupposes the U-curve. In this sense the entire price theory rests on the theory of costs. Or more precisely, it "depends heavily on three sorts of basic assumptions: concerning the psychology of buyers, the technological relationships of factors used in production, and the motivation of enterprisers who produce and sell goods."⁶ Let us review these three pillars of price theory.

As for the psychology of buyers (by which is meant consumers of Department II commodities since capitalistic buyers when transforming the money form of their capital into its productive form are subject to a different sort of "psychology"), the notion of consumer sovereignty seems to be on its last legs. Thus Alvin Hansen expresses disbelief that any economist could still take this stuff seriously: "The process of consumer brain-washing has become a branch of psychoanalysis. Consumer wants are no longer a matter of individual choice. They are 'mass produced.'"7

Of course, not all bourgeois economists have seen the light. Aside from S and his King Consumer, there are other ideological throwbacks, like Chicago's Stigler, who are sticklers for obsolete notions and will stick to the "assumption" that consumers maximize utility with "mathematical consistency" "until a better theory comes along."⁸

As for the second pillar, technology, we have already dealt with this. At least we now know enough to state that where diminishing returns and the U-curve fall by the wayside, so must $P=MC$ too. Since MC is usually a straight line ("L-curve"), $MC \neq P$, but the difference between MC and P remains constant with different volumes of production, since P is by definition constant. On the other hand, the difference between price and average cost increases with production, and thus too the profit per unit of commodity. Every factory tries to maximize profit, but since the MC curve is L-shaped, the maximum profit is reached not by equalizing MC and P, but rather is obtained by the greatest production at the lowest costs of production.

Given this situation, one might wonder why S continues to feed us this model. He does not really provide an answer, but he is likely to concur with his oligopolistic competitor Bach, who adduces these answers: "the purely competitive model" could serve as a "norm," and "ideal," an "ought" for private enterprise; secondly, "We have to begin somewhere, and the pure-competition case is in many respects the simplest and easiest to understand."⁹

Pricing then in "pure competition" leads to "an organization of society's scarce resources that looks amazingly as if

it had been guided by some invisible hand for the welfare of society as a whole."¹⁰ In other words, it is the "optimality property" of MC (460) that makes the study of pure competition important. In his magnum opus S puts it this way:

Marginal cost is not part of cost which must be met, and the equality of price and marginal cost has nothing to do with a recovery of full costs, determination of fair return on investments, correct imputation of factor shares, etc. Its purpose is to secure correct factor allocation, and avoid anomalous product allocation.¹¹

Thus although the textbook purports to be an introductory *analysis*, we seem to be inundated with value judgments on how "society" ought to be organized.

The third pillar of price theory is the motivation of entrepreneurs—another psychological element. Now although in Chapter 23 S asserts that capitalists do in fact "refer" to their marginal-cost curves in making their production decisions, in Chapter 26 he says that "even if the firm is not itself tackling the problem with conscious awareness of the particular marginal tools of the theoretical economists, *to the extent that it is truly making a fair guess as to where its highest profits are realized*, it will be succeeding in making marginal revenue and marginal cost approximately equal" (507). This is analogous to the view in Chapter 22 on consumer behavior: although individual (consumer or entrepreneurial) behavior is the foundation, and although marginal-utility theory explains this behavior, even if behavior diverges it really does not matter (or better yet: it really does not diverge) since in fact it must be so because good vibes or profits are being maximized. But, unfortunately, this time bourgeois logic has outwitted S; here is the argument of the two authors whose survey of businessmen was quoted above:

The reasoning of marginal price theory is valid if businessmen *believe* curves to be shaped as theorists assume, even though the curves are actually shaped as opponents contend; con-

versely, orthodox price theory is not valid if businessmen believe curves to be shaped so that their least cost points are at or near capacity, even though the curves really have the shape which conventional theorists maintain. Hence, marginal price theory stands or falls depending upon what businessmen think, because their short-run decisions to expand or to contract are based upon what they believe rather than what is actually true.¹²

In other words, if one wants to construct a subjectively oriented theory, then one must either explain motives or renounce subjectivism. And with that, all three pillars of price theory—psychology, technology, and motivation—are seen to crumble.

COSTS

We will now proceed to a closer examination of S's cost notions. Before doing this, however, we must first establish that S has failed to develop any general concept of cost on the basis of which the various cost components can be discussed systematically. To be sure, he states in a footnote that average cost "corresponds to the man in the street's rough notion of costs" (7th ed., p. 442 n. 5), yet we are not provided with any precise understanding of the concept of cost. (Two other footnotes (452 n. 3 and 470 n. 5) concede that in the "long run" price will equal average price and/or that marginal cost will be constant. This amounts to a renunciation of marginalism and the U-curve based on diminishing returns.) In point of fact, S has elaborated a notion of cost—albeit one that "the man in the street" probably is not acquainted with—namely "opportunity cost"; here cost is defined in terms of other commodities which we would have to sacrifice in order to obtain the one(s) we want (29).

Excursus on Opportunity Costs and the Backward-Bending Supply Curve for Labor The plausibility of the notion of opportunity cost allegedly derives from the fact that the economist "realizes that some of the most important costs

attributable to doing one thing rather than another stem from the *forgone opportunities* that have to be sacrificed in doing this one thing" (473). As usual, of course, this is supposed to be another universal, with no relation to capitalism, money, etc. This principle describes what we might call a society of spilt-milk-weepers and/or sour-grapesters; for in fact everyone would appear to be preoccupied with whether or not he had attained more or less vibration or profit from a given decision.

The secret of the opportunity (as well as the implicit) costs is that it describes the reactions of capitalists to the equalization of the rate of profit. It is what Marx called the compensations grounds of the capitalist. In the third volume of *Capital*, he explains that once capitalism has reached a certain stage of development the equalization between the various profit rates in different industries and a general rate of profit for society does not take place solely on the basis of the movements of capital reacting to changing market prices; at this point the individual capitalists become conscious of the various differences that are being equalized so that they include them in their mutual calculations from the start. This means that every factor that makes a capital investment more or less profitable than another is calculated as a valid ground for compensation, without competition having to furnish repeated justification. However, the capitalist, able to see the world only from the upside-down vantage point of competition, does not understand that all these grounds for compensation relate to the fact that every capital of equal magnitude has an equal claim to the total surplus value produced. It *seems* to the capitalist (because in general the amount of profit he receives is different from the amount of surplus value "his" workers in fact produce) that his grounds for compensation *create* the profit, whereas all they do is equalize the share in the total surplus value.¹³

Actually, such a critique does too much honor to S, since this notion of opportunity cost is much more vulgar than the ones Marx was confronted with. To see just how vulgar, let us consider one example S mentions. He states that the cost of working "can be thought of as the . . . sacrificed

amount of forgone-leisure" (473). This is integrally connected to Jevons' determination of wages by the "final equivalence of labour and utility." Since S does not use this as the main determinant but merely as one, we might as well deal with it here.

Jevons' scheme was as follows: "the larger the wages earned, the less is the pleasure derived from a further increment"; thus the marginal utility curve slopes down to the right. As for the labor or disutility curve, it first rises ("At the moment of commencing labour it is usually more irksome") or rather there is pain at first which is then relieved by a period of pleasure, and then toward the end of the day by some more pain. When the utility of the wages equals the disutility of working, the worker will quit for the day.

First we must point out that Jevons is dealing with the case of a small commodity producer (or natural economy producer), not a wage worker, for he presupposes that the worker receives the total produce. But even if we "correct" this item by substituting capitalist wages, the "model" is still nonsensical. The two curves are independent of each other—at least subjectively in the mind of the worker. That is, *regardless* of the pain involved, he must work as long as is necessary in order to get enough money to keep him and his family alive. He has no alternative; he is not free to choose whether to enter into this exchange or not (nor for that matter is the capitalist in the long run, as long as the total production of capitalist society is to be secured).

Jevons' examples all refer to precapitalist or incipient colonial-capitalist situations, in which an "undisciplined work force" will really only work part of the week to make enough to maintain its traditional-historical standard of living. Unable to grasp the differences between socioeconomic formations, Jevons seeks refuge in racism: "A man of lower race, a Negro for instance, enjoys possession less, and loathes labour more; his exertions, therefore, stop sooner."¹⁴

Objectively, Jevons' scheme does reflect, albeit in a very distorted and tenuous way, something real: namely that the

wage must be high enough to reproduce the labor power of the worker ("pain"). But this refers to the total utility of the means of subsistence and not to any "final equivalence of labor and utility." Also, given the historically formed subsistence level of workers, it appears that Jevons is wrong on his own grounds: the utility curve of wages would—under real conditions of capitalism—never taper off; "absolute" (i.e., non-price-related) needs are so little satisfied that workers' wages would never be high enough to satisfy these needs under capitalism.

Plausibility could be obtained in theory only by letting the worker slave twenty hours a day (though even here he could still not make enough to satisfy needs)—a physical impossibility in the long run and with no relation to marginal utility.

As far as wage theory is concerned, Jevons' formula serves the very useful purpose of justifying abysmally low wages; for the lower the wage, the higher the marginal utility of the commodities purchased with it and, therefore, the greater the readiness of the worker to endure a greater disutility of labor.¹⁵

In and of themselves the categories "fixed and variable costs" can be useful when analyzing structural tendencies in the costs of individual firms as long as one is careful to relate them to the underlying causal tendencies of the total economy. Unfortunately S does not do this, so these two rubrics degenerate into sterile arithmetical relationships.

Although fixed and variable costs stand in no immediate relationship to either of Marx's pairs—variable and constant capital, circulating and fixed capital—they do reflect *some* of the phenomena of Marx's concepts. On the one hand, the attention devoted to fixed and variable costs within the individual firm—as opposed to certain marginalist notions—is rooted in the increasing organic composition of capital which finds expression in the increasing weight of the fixed costs vis-à-vis the variable costs. On the other hand, the increasing organic composition of capital cannot be directly reflected in the relative rise of fixed costs, because the former is a category of production, whereas the latter re-

presents a peculiar mixture of elements of production and circulation. In the latter sense it shares some of the characteristics of Marx's "fixed capital." Thus, since variable costs include wages and raw materials, a relative increase in fixed costs may be said to reflect an increasing organic composition of capital by expressing the above-average growth of the plant and machinery component of constant capital.

From the point of view of the individual firm making the investment, increased fixed costs are incurred with a view toward raising productivity and thus lowering costs; if a firm is in the forefront of such an investment wave, it will be able to realize the goal of receiving (temporary) extra profits because its individual costs will be lower than those of the branch in general; this will in turn set off a chain-reaction among the other firms, which will be forced to follow suit if they wish to retain a significant capital-accumulation ability.

Once the forces of production as mediated by the specific developments in any particular branch have attained such a level that the fixed costs begin to dominate the cost structure, the goal of extra profits via diminished costs can be realized only if the increased fixed costs are distributed over a sufficiently large number of units of output; in other words, the number of commodities produced with the new machinery and plant must be so large that the depreciation costs charged to each commodity produced become small enough to justify the investment compared to the previous smaller-scale, more labor-intensive production methods.

This compulsion to attain a relatively high-capacity utilization rate is tantamount to a rise of the "break-even point" (455, 470) for the individual firm, which may even result in further expansions of capacity in the hopes of increasing productivity and lowering costs sufficiently to compensate for cyclically diminished demand. On the total social level, the result is a loss of "flexibility" in crises, since cutting back on the variable costs becomes increasingly ineffective.

COST, AVERAGE RATE OF PROFIT, AND COMPETITION

In this section we will examine the ramifications of S's inclusion in " 'full competitive minimum costs' a normal return to management services, as determined competitively in all industries; and a normal return to capital, as determined competitively by industries of equal riskiness" (472). In order to evaluate this definition with respect to its factual content, we must first summarize briefly some of the major elements of Marx's theory of price.

Cost-price, according to Marx, is what the commodity costs the capitalist—constant plus variable capital. But cost-price is not a real category of value production insofar as it contains two heterogeneous elements: the constant capital value is merely transferred from the means of production to the new commodities, whereas the variable capital does not enter into the value of the new commodity at all; for labor as creator of value takes the place of the value of labor power in the functioning productive capital. Now the cost-price and the value of the commodity are obviously different, namely the latter contains the value of the constant capital plus the entire value created by the living labor (value of labor power plus surplus value). In other words, what the commodity costs the capitalist and its production cost are not identical. In this sense one might say that Marx was the discoverer of the concept of social costs. And capitalist competition involves the possibility of selling a commodity at a profit below value precisely because of the difference between value and cost-price.

In other words, the existence of surplus value gives the capitalist a certain radius of action within which he can lower his selling prices in order to drive out his competitors without taking a "loss" himself. If the capitalist received back in the selling price (realized) less than the cost-price, he would then be forced to cut back production (unless he had additional capital or took out a loan) by not replacing obsolete machinery or by firing workers.

S's "break-even point" is totally different, since "breaking even" in this sense means obtaining the average rate of

profit. Moreover, *S*'s average rate of profit is determined by fiat without any objective explanation. To say that companies are breaking even when in fact they are making an average profit means to restrict competition to the garnering of (temporary) extra profit; although of supreme importance, this is definitely not the only type of capitalist competition. Extra profit is appropriated in a competitive struggle among capitalists in the same branch—and it is doubtless for this reason that bourgeois economists deal primarily with competition within a branch; the main exception to this is competition between substitutes (e.g., steel and aluminum). This is also important, but it is restricted to use-value.

But this is not so. There is also a competition between or among branches (not in use-values) for the splitting-up of the total surplus value produced each year. Various industries have different organic compositions of capital—that is to say, some have much greater expenditures for machinery and raw materials than for labor power, while others may have other combinations (e.g., fifty-fifty). This organic composition will in the last analysis be determined by the current technological structure of production in that particular industrial branch. It is clear that with an equal rate of surplus value in all branches, those branches with lower organic compositions, i.e., with relatively more variable capital, will produce more surplus value—alias profit—in relation to total capital invested and will therefore have a higher rate of profit. These differing rates of profits are equalized through competition among branches; this is done through a redistribution of the total surplus value, so that each branch receives a share proportionate to its total capital regardless of how much surplus value was actually produced within it. To effect this transfer, or rather as the consequence of this redistribution, the “original” commodity values are transformed into prices of production which comprehend the cost price plus a share of the surplus value proportionate to its share of the total social capital.

Without this equalization capitalism would collapse because (1) the resultant enormous disruptive disproportions

between or among branches would make the use-value foundation of capitalism incapable of reproduction; (2) on the subjective side the psychological impetus essential to the whole operation (both on an individual and class-wide basis) could not be generated. This second point is clearly the rational kernel of "full competitive minimum costs."

Because it fails to understand this mechanism, bourgeois economics has nothing to say about the competition between branches which sets the average rate of profit.

What about competition within a branch? Here a market value is established which is the average value of the commodities produced in this branch. This will of course depend on the specific weight of the various producers: if the most efficient producers can supply most of the total demand, then the market value will gravitate toward the value of the commodities produced under those conditions. All producers will have to sell at this "price." But as long as there are less efficient producers, there will always be a gap between the individual value of the producers who are most productive and the average or market value (simply because the supply furnished by the less productive producers will raise the average); this means that there will always be an extra profit for those producers who increase their productivity before the others do. This extra profit is only temporary—it lasts as long as the other producers remain behind in "rationalizing" their productive organizations. This also means that within a branch there is no equalization of the rates of profit, for the capitalists belonging to the most productive group will always "beat out" the smaller, less productive capitals.

Here we also see the interaction between inter- and intrabranch competition. The question arises by how much the temporarily leading capitalist should cut his price. This means that the individual value of his commodities is now lower than the previous average (and lower than the previous low), and that he would "like" to continue selling his commodities at that old average, since this would bring about the largest profit per commodity unit. Of course he will have to lower the price at least a bit so that he can at-

tract more buyers; how much will depend on how much of the total demand he can satisfy and on whether the total demand will increase as a result of the drop in price. The latter of course depends on total solvent demand and in particular, if we are dealing with a mass-production consumer-commodity industry, on wages. Now this limitation of solvent demand expresses itself in the limitation of demand for different commodities of various branches. To our individual capitalist this appears as the competition with other branches. Thus this interbranch competition affects the intrabranh competition by forcing the capitalists of that branch to adapt themselves to the new, most productive arrangement.

This latter mechanism has a specific cyclical appearance. During the upswing, demand always appears unlimited (or, as S describes the surface appearance: "an air of optimism begins to pervade the business community"—[260]), so that the more productive capitalists are not forced—in this short run—to lower their prices to the average social value. But once Department I has overproduced in terms of capital's ability to self-expand, a severe shake-up takes place via bankruptcies, mergers, acquisitions (in short, centralization of capital), which forces the industry to adapt itself to the most productive conditions. Those capitals that try to buck the trend will be forced out by the more productive capitals. In the end a new round will begin with even larger capitals which can produce even more productively.

Now the process of increasing productivity cannot be overlooked by bourgeois economists. Thus when S gets around to mentioning the situation we have just outlined, he admits that $P = MC$ has lost its validity and that we will have to deal with the imperfect competition in some other way.

Nevertheless, S's presentation of the historical insight of bourgeois science leaves something to be desired as far as truth is concerned. S notes that "economic textbooks of years ago" used to adduce the case of long-run industry-wide decreasing costs. This is followed by the word "actu-

ally," indicating that this approach is incompatible with perfect competition. Later he states that with external economies, all firms could expand together without rupturing perfect competition, but that this does not refute the destruction of such competition by "internally" decreasing costs (473).

Whose books is he talking about? How did the truth finally prevail among value-free scientists? As usual, S prefers to represent the neoclassical synthesis as timeless.

P. Sraffa provides some interesting material on this subject. He points out that originally Marshall derived the law of increasing productivity directly from the division of labor within a factory which in turn depended on the size of the factory. This Marshall propounded in *Economics of Industry*, first published in 1879. But when he noticed that all this was incompatible with free competition, Marshall abandoned this tack in his *Principles* in favor of external economies. This radical change passed almost unobserved, while the theory of value based on the "fundamental symmetry" of the forces of supply and demand remained unchanged; thus the foundation was substituted without causing any shock in the superstructure. Sraffa opines that Marshall's cleverness consisted in concealing this transformation. Marshall tried to deemphasize the novelty; in fact, he tried to pass it off as something commonplace, and he succeeded in having it accepted as a compromise between the necessity of a theory of competition, with which decreasing individual costs are incompatible, and the necessity of not departing too far from reality which was hardly a model of perfect competition. That external economies peculiar to an industry, which rendered possible the desired conciliation between scientific abstraction and reality, were a purely hypothetical and unreal construction was neglected.^{15 a}

Bourgeois explanations of competition-monopoly suffer from their insistence on the primacy of the market: they do not see that the sphere of circulation is merely the mediator of compelling forces which have their origin in the sphere of production. Competition is not an explanation but merely a reflection, a surface expression, of these forces.

But Marx, unlike bourgeois economists, whether contemporary or classical, developed a societal explanation for the transition to monopoly.

EXTERNAL ECONOMIES AND DISECONOMIES

An external economy of diseconomy is defined as an "effect on one or more persons that emanates from the action of a different person or firm" (474). Although this is not entirely clear, it appears that external effects are understood as a universal phenomenon. Whether they exist in socialism also is not clear, but probably they do, inasmuch as S avers that centralized planning must be transformed via decentralization experiments (634).

External effects obviously presuppose the existence of an inside and an outside. Inside and outside of what? Well, that we are really never told, since bourgeois economics cannot understand the dialectic of a commodity-producing society. Actually this question is not as simple-minded as it may seem, for bourgeois economics insists on centering the "what" on the firm, whereby the workers of the firm become part of the firm. Thus external effects are seen mainly as capitalists hurting or harming one another or as "consumers," or as "social overhead capital" rechanneled through the state. However, progress in capitalism very often takes place on the backs of the working class. What about the "harm" caused by productive activities *within* a firm? Is this an external "diseconomy" or is it "within the family"?

This is a very significant phenomenon known as social costs. But S, "coldly objective scientist" that he is, brushes this matter off as one which "can shift firm cost curves" and thereby "alter supply curves" (476), but which after all is one of those "evils" which "can be ameliorated by appropriate policies, within the framework of the mixed economy" (7th ed., p. 618).

Let us return to the workers who have suffered from external (or is it internal?) diseconomies as a result of activities within a firm. Now we know that as far as the con-

stant capital is concerned, the capitalist recoups its gradual deterioration in the form of depreciation charges. Say that chemical vapors in a plant corroded some machines, an everyday occurrence in such factories; or that within a certain cycle machines will be used more intensively than is recommended. Given such conditions, these factors will be reflected in the depreciation figures.

But what about the worker? If he corrodes or is overworked, will he also have a compensatory depreciation fund? In Marx's theoretical "model" the answer is "yes." This may surprise those who think of Marx as a mindless supporter of the proletariat; however, Marx operates on the assumption that a worker's wage is equal to the value of his labor power. This means that if the production process is intensified, the worker would receive a higher wage because he would need more food, more relaxation, etc., to restore his labor power.

In practice, of course, things just don't work that way. In fact, depressing the price of labor power (the wage) below its value constitutes a source of enormous additional surplus value. And although this source of supplementary exploitation is not needed by Marx to "prove his case against capitalism," it is his concern with such phenomena that sets Marx against "pure" economists like S.

"Optimality Property" of $P = MC$

Let us now look at the "optimality" property of $P = MC$. One of the startling aspects of this discussion in S (460) is its naked apologetic intention: Isn't capitalism wonderful! But even when we deviate from $P = MC$, we have institutional stabilizers. Such an optimistic outlook was not always shared by bourgeois economists. Thus J. M. Clark expressed the fear that "unless private business can transcend its purely private character and absorb sufficient social accounting to keep these wastes within bounds, the result will be the discrediting of the system of private enterprise and a transition to some other system."¹⁶

Not so S. He is convinced that under perfect competition

where $P = MC$ we have a Pareto optimum, that is a situation in which " 'you can't make any one man better off without hurting some other man' " (632). In other words, it is a situation in which "a planner could not come along with a slide rule and find a solution, different from the laissez faire one, which could improve the welfare of everyone" (ibid.). But as Dobb points out, the Pareto optimum does not provide any criterion of choice within the area in which it is possible for one person to gain more than another loses: "It merely expresses how the utility of any one individual can be improved on the assumption that the utilities of all other individuals in the community are held constant at some arbitrary levels."¹⁷

Something along these lines is admitted by S himself when he states that the existing distribution of income and property are the result of "past history" having no optimal property without a value system (640): "Only if abilities and *dollar-wealth votes were originally distributed in 'an ethically optimal' manner—and kept so distributed by nondistorting, nonmarket interventions—could even perfectly competitive pricing be counted on (a) to produce an efficient configuration of production out on society's production-possibility frontier (and not inside it) . . .*" (632). Now S, as one of the "defenders of the capitalist system," believes that deviations from optimum income, etc., distribution can be corrected by the state (640). Yet it is clear that no capitalist state has ever significantly interfered with the distribution of the means of production, for as S points out, this would lead to "our capitalist system's having to incur some costs (like ceasing to be capitalist). Since the distribution of "dollar votes" depends on the distribution of the means of production, maintaining the "original" distribution of the former would entail constant "nondistorting, nonmarket interventions" excluding the accumulation and centralization of capital—in other words, excluding the very system we all know and love so well.

Since, as S so generously admits, "laissez-faire perfect competition *could* lead to starving cripples; to malnourished children who grow up to produce malnourished chil-

dren . . . for generations or forever" (632), he has not proved

that the common welfare is in some sense necessarily served in the working of a competitive capitalism. . . . Of course, if persons received by way of income exactly the value, whatever that might mean, of services rendered, all would (Bastiat-like) indeed be harmony. Mathematical elaboration serves merely to disguise the irrelevance of the argumentation once this critical assumption has been made.¹⁸

The production-possibility frontier and its alleged optimality under perfect competition provides a fine example of the inability of bourgeois economics to understand the socio-historical nature of what they are describing. As Schumpeter noted, such theories involve "the creation of an entirely imaginary golden age of perfect competition that somehow metamorphosed itself into the monopolistic age."¹⁹ Or as Joan Robinson put it, since there is such great income inequality under free competition, "Our world of monopolists therefore has not after all such a very high standard with which to compete."²⁰

Bourgeois economists concede that the alleged optimality properties of competition are being chipped away, yet since they do not present the rise of monopoly capitalism as any sort of historically necessary process, but merely as the result of a conglomeration of technological and psychological factors, they can still offer the baffled reader "hope for limiting monopoly" (520).

Thus on the one hand bourgeois economists do not understand that monopoly is an expression of the constantly growing socialization of production, socialization of labor. In this sense monopoly is by no means something "external" to so-called competitive capitalism. On the contrary, it is an example of dialectical sublation: capitalism is negated, preserved, and raised to a higher level. Monopoly takes its roots in the most advanced sectors of capitalist industry. At the same time it further develops the (of course capitalistically antagonistic) socialization of production by uniting larger and larger capitals, producing different commodities

on an ever-increasing scale with the exploitation of ever-larger concentrations of workers. On the other hand, to the extent that bourgeois economists do see the increasing socialization of production, they identify it wholly with the capitalist *form* of that socialization. In a socialist society there can be a complete monopoly over production without the problem of how to share the increased fruits of productivity improvements.

Blindness to changes in social-historical forms of relations of production permeates S: "If entry is really free, not only has perfect competition the nice property of ensuring that *each firm* ends up on an efficient curve and at the minimum point on it, but in addition the Invisible Hand ensures that the industry gets its Q from the proper number of firms as some are squeezed out or attracted in" (472). But as S himself admits in the footnote to this assertion, if there are diminishing costs, then, as Bain notes: "any industry can be highly concentrated consistent with efficiency."²¹

But we did not need S's curves to know where capitalism was leading. And if such mathematical "precision" adds nothing new to Marx's theory of capital accumulation and concentration, it does have optimal obfuscatory property: namely, it looks upon monopolization as a process that can be rolled back in order to synthesize the best of it and competition. This obfuscation has two aspects: first, it is theoretically false, inasmuch as it looks only at the "untoward" class consequences of the capitalist form of socialization of production, whereby it suprahistorically attributes "nonoptimality" properties to the content of that socialization per se; secondly, on a practical policy level it is demagogic, because it makes the reader believe that "our neutral state" can halt the process. Yet insofar as this process is immanent to capitalism, a bourgeois state would no more try to stop it than abdicate.



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