

The Anti-Samuelson

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Chapter 17: Monopoly Theory (S's Chapters 25 and 26)

INTRODUCTION

Although "orthodox" monopoly theory in the past half-century has come to realize that the concepts of monopoly and competition cannot be treated as mutually exclusive opposites,¹ market or circulation-sphere approach still prevents it from taking account of the processes of socialization of production that underlie modern monopoly. We may exemplify this by using Chamberlin's notion of "product differentiation," to which S attaches central significance (485 ff.). To the extent this phenomenon touches on the question of monopoly at all, it hardly sees it as a cause but rather as a product of competition. Generally speaking, monopolistic structures are created by the processes of capital accumulation and centralization as mediated by the sphere of competition.

S's own hodgepodge classification (489) is but a further application of the circulation-sphere approach whose only virtue is the pedantically accurate, but socially meaningless restriction of the word "monopoly" to 100 percent market control. For even in the everyday language of business journals and newspapers, "monopolies" have come to assume the meaning accorded them in traditional Marxist literature—namely, the relatively few large capitals whose magnitude of accumulation and centralization have enabled them to gain preeminence in practically all branches of production on the basis of their above-average produc-

tivities, high organic capital compositions, integrated production facilities, control over sources of raw materials, etc. It is therefore hardly surprising that in these chapters S devotes no attention to the aggregate "concentration" of capital in present-day capitalist countries. In this sense, monopoly theory remains limited to the study of the individual firm or commodity in isolation from the economic processes as a whole.

MARGINAL REVENUE, THE RATE OF PROFIT, AND MONOPOLY PROFITS

We have cited evidence to the effect that entrepreneurial decision-making fails to utilize marginalist principles. The same holds true for marginal revenue. Thus J. Bain for example states that sellers "do not expressly balance the marginal increments of cost against the marginal increments of sales revenue for each possible extension of output . . . in order to determine precisely that price-output combination . . . which will yield the largest profit."² Another study indicated that many firms operate on the basis of a percentage profit mark-up to their costs. At U.S. Steel, for instance, standard cost is an average weighted by the volumes at respective mills.³

S concedes that this is so: "This theory therefore seems realistic. But it is not very informative. It stops tantalizingly short of telling us *why* the average markup is 40 per cent in one industry and 5 per cent in another . . ." (508). Nevertheless, such an account is compatible with the marginal analysis "so long as the percentage markup is subject to the pressures implicit in *MC* and *MR* analysis" (508). The first edition, instead of this eclectic optimism, had this rather modest follow-up: "There seems to be nothing to do about this unsatisfactory situation but try to specify a number of different competitive and monopolistic patterns . . ." (p. 511).

Let us see whether Marx's theory also "stops tantalizingly short" of the truth. In it, production prices are determined as follows: The first component is the cost of pro-

duction. This includes only the wear and tear of the fixed capital plus the circulating capital times the number of turnovers per year (in bourgeois terms: total yearly sales turnover minus profit). The second component is the total advanced capital times the average rate of profit for the whole social capital. The advanced capital includes all the fixed capital (not just the amount worn and torn), but only the circulating capital advanced (not the total turnover thereof). It is therefore no mystery why the rates of profit as calculated on the costs of production ("mark-ups") are not equal.

Using his total capital advanced and the average rate of profit as a point of departure, the capitalist will calculate the "expected" mass of average profit. The next step in entrepreneurial reckoning will be the determination of the relation between this mass of average profit and the yearly costs of production—i.e., the rate of profit on the costs of production. The third stage is the determination of the price of production for each of the commodities produced by the company. This means that to the costs of production of each commodity is added the "expected" mass of profit in accordance with the general rate of profit on the company's costs of production.

What is particularly important here is that the method of calculating the profit in terms of percentage of the costs of production (or ex post facto in terms of the sum of sales) is a secondary form derivative of the calculation of the profit rate in terms of the advanced capital.

The fact that the rate of profit falls tendentially with the enlarging of the mass of profit has led to two false theories. On the one hand it is said that only the greatest mass of profit is the regulator of production; on the other, that diminishing returns is a universal law of production. Both these theories absolutize certain tendencies operating within narrow limits.

Now certain modifications take place once concentration has reached a given level ("monopoly capitalism"). In the previous chapter mention was made of extra profits obtained for temporary periods within a branch of production;

these were the result of a temporary achievement of higher productivity by certain capitalists which allowed them to sell above the individual value of their commodities but below their social value. With the formation of a few very large capitals within a branch this process takes on a slightly different form. For now certain capitals will assume a monopoly over the most modern forms of technology, the cheapest and most efficient raw materials, and the supply of qualified workers. (This development generates important consequences for the relationship between labor and capital inasmuch as the high and increasing organic composition of capital demands high capacity-utilization rates to make the use of this capital stock profitable. The "fixed costs" must be distributed over as many units of output as possible for unit costs to decline and thus the leeway for extra profits—the rationale for the investment in the first place—increases.) This means that these firms strive to avoid strikes and other potential threats to the continuity of production—at least during upswing and boom phases of the cycle. Because of their huge mass of profits they are in a position to pay above-average wages, which in part are to buy the "loyalty" of the workers. In this connection great pressure is often exerted on labor unions to take care of "discipline" by preventing "wildcat strikes," counter absenteeism, support "productivity" programs.

Several factors counteract this tendency toward consolidation of temporary intrabran­ch extra profits. First of all, competition among the largest capitals of each branch remains and intensifies. And the other type of extra profit—interbranch—acts as a second constraint on such monopolization, for this depends on raising the rate of profit of the entire branch over the average for the total social capital. If this is arranged on the basis of artificially created shortages in order to raise the price, it would conflict with the methods for raising intrabran­ch profits. Also, the extent to which such branch monopolies can be made quasi permanent depends on the possibilities for the flow of capital into them. On the one hand the increasing minimum capital necessary to start, the increasing specific weight of the fixed capital, and the active opposition of the en-

trenched monopolies all tend to preserve the positions of the "ins." On the other hand, the enormous amounts of accumulated profits which can be channeled through the credit system would tend to aid the flow of capital.

As Marx pointed out, monopoly profits are produced on the basis of the redistribution of total surplus value from other capitalists. This means that the capitalists on the deficit end of the redistribution will be making less than the average rate of profit. This can lead to mass bankruptcies and/or to a sort of client status of some smaller producers vis-à-vis the monopolists. These smaller producers then become subcontractors if they are not sucked up entirely.

Empirically this process finds expression in the ubiquitous phenomenon of the declining share of "proprietors" and the rising share of wage and salary workers in the total labor force. One of the prime functions of antitrust legislation is to modify this tendency so that the process of proletarianization is not too abrupt and massive, for this could give rise to undesirable political movements.

In the light of the above analysis S's reasoning appears primitive: "Why do new firms enter the industry in the face of the fact that most existing firms are incurring losses? Apparently, partly out of ignorance and partly out of misplaced hope" (517).

Let us try to summarize the results of the above discussion concerning the relation between monopoly and competition in a different form. Our remarks on the relative consolidation of temporary extra profits do not imply that the essence of capitalism has changed; for extra profits were also present in earlier periods, but they merely shifted more frequently among a larger number of competing top capitals. Even under monopoly conditions individual capitals are now and then toppled; and this holds true also for extra profits derived from intra- and interbranch competition. This is how one author summarized the results of a study of the hundred largest industrial corporations in the U.S. from 1909 to 1960:

Continued economic dominance is not accomplished through any size-generated immunity to market pressure, but rather by ability to respond to that pressure, to develop with developing

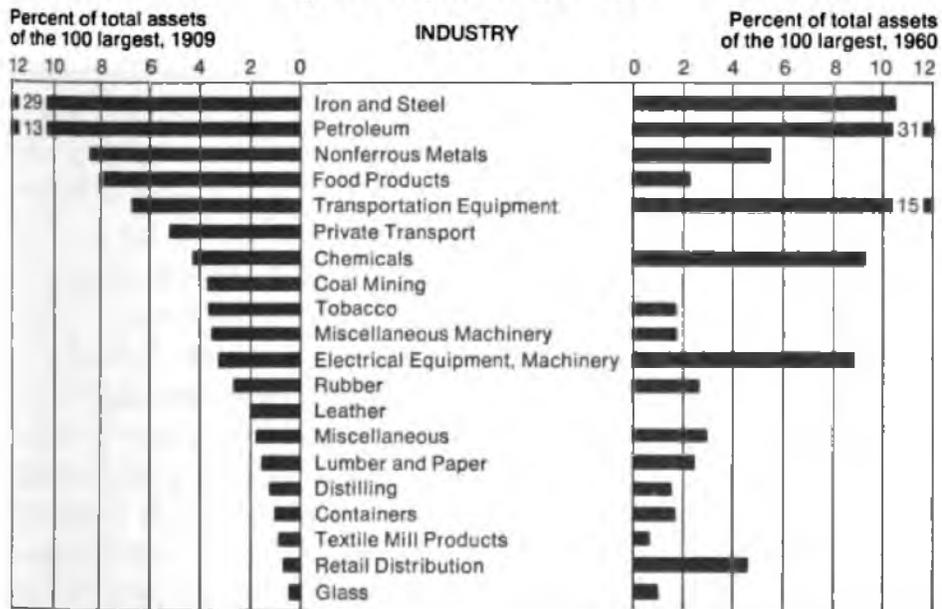
industries and products, to cross product lines where advantageous, and to drop activities where continued investment would fail to provide the basis for sound corporate growth. . . . Perhaps more than any factor, the disparity of economic growth among different industrial sectors has introduced instability among the ranks of the 100 largest.⁴

We must tread carefully here, for S will use such findings for his usual apologetics: "And just as a hotel may be always full—but with different people—so do we find the list of biggest corporations to be a changing one, but at a very slow rate" (112). What S would like to prove of course is that there is no tight-knit clique running the country. Also it would probably aid his thesis that the real "evil" of monopoly is that P is greater than MC , and not that profits are abnormally high, for it would seem to prove that such profits are not concentrated in one hand.

The simplest answer would be that all this is irrelevant—we are interested in the exploitative power of a class, which grows in the aggregate regardless of any shifts within that class. Also we might respond that although the names of the corporations and their commodities may change through the years, the same cliques remain in charge. Furthermore, we could challenge the thesis that "the most efficient engineering knowledge and economic combination of land, labor and capital are brought about by ruthless Darwinian competition" (7th ed., p. 91). The "flows" of labor and capital in the capitalist countries, oriented as they are toward profit, are highly disruptive; since they are not planned, they are indeed "ruthless"—particularly toward the working and unemployed population. The existence of Appalachias throughout the advanced capitalist world makes it appear somewhat doubtful whether "the profit motive is a good motive."

To document the shifts in capital structure we reproduce the following chart:

Assets of the 100 Largest Industrial Firms, by Industry, 1909 and 1960^a



Source: Tables 7-2 through 7-7.
^aTotal assets, 1909, \$8.7 billion; total assets, 1960, \$125.5 billion.

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Thus, for example, in 1909 the percentage of total assets among the largest hundred corporations broke down as follows per industry:

Iron and steel—29 percent; petroleum—13 percent; nonferrous metals—8.5 percent; food products—8 percent; transportation equipment—6.5 percent. Thus these five industries accounted for 65 percent of total assets among the hundred largest corporations. In 1960 we find this structure: petroleum—31 percent; transportation equipment—15 percent; iron and steel—10 percent; chemicals—9 percent; electrical equipment, machinery—8.5 percent, a total of 73.5 percent. We see that some branches have strengthened their positions, others have dropped out, etc.

THE "EVILS" OF MONOPOLY AND ANTITRUST LEGISLATION

The marginalist approach must also be seen in connection with S's assertion that price not profit is the real "evil" of monopoly. In order that the students "see this," S takes the example of the state's taxing the monopoly profit away: since the price remains the same, "the state has now become the villainous recipient of monopoly profit and has failed to correct the misallocation of resources" (517). Now there really is something to this. We can understand this perhaps in analogy to absolute ground rent, which would accrue to the state in case of nationalization of the land. The point is of course what the state does with the rent. It is not to be denied that the misallocation of resources under monopoly is perhaps somewhat different from the misallocation under competitive capitalism in the sense that the gap between actual and potential production is widened. The problem is that S sees this as a technological problem not connected with the capitalist mode of production.

In any event, a capitalist state cannot do anything to alleviate the problem, because to the extent to which it succeeded in easing entry into industries, etc. (520 f.), it would only once again set into motion the same forces of concentration and centralization that brought about monopolies in the first place.

And when S is not confusing technology with capitalism, then he blames the "ills" of capitalism on the psychology of consumers. Thus "if consumers were willing to sacrifice the differentiation of product," we could have fewer firms and lower prices. (Why this is so is not clear; the case at hand is the waste deriving from free entry with many differentiated sellers; if this were then supplanted by concentration of capital within a branch with a so-called standardized commodity, then we would have the "evils" associated with "oligopoly.") "But laissez faire has no way of deciding how much extra people ought to pay in return for the extra variety of products they enjoy" (516). Not only can laissez faire not tell us what "the net balance of advantage over disadvantage" is with respect to advertising, packaging, etc., "a priori reasoning cannot tell us; even study of the facts cannot lead to a conclusive answer independently of ethical value judgments" (515).

The consumer is after all king; and in the last analysis the value-free scientist must take his cue from him. In this sense it is only consistent for S to aver that "consumers should be made to pay for the smoke damage that their purchases make inevitable" (475). Yet one wonders then what the purpose of this book is, since its author emphasizes (7th ed., p. vii) that the "highest praise" of all would be for the student to keep it in his or her pocket when entering the polling booth. If science breaks down every time it comes to making a political decision, how on earth is this book going to help the "citizen"?

Section B of Chapter 26, "Modern Antitrust Problems," is so clearly apologetic, so devoid of any theoretical foundation, that all one can do is point out some of the grosser distortions.

While admitting the "evil" of excess capacity ("the desire of corporations to earn a fair return on their past investments can at times be at variance with the well-being of the consumer" [519]), S directs the blame at a nonexistent "society": "Having made the mistake of building the plants, society ought not to add the further error of failing to use them to best advantage" (ibid.). First of all, this is a decep-

tive and devious use of the word "mistake"; commonly understood it implies corrigibility. Yet this is precisely the reverse of what is happening in capitalism: the overproduction of commodities in the sense of supplying them in value terms exceeding the purchasing power of the consumers, and the cyclical overproduction of capital is immanent in capitalism. It is not a matter of hiring more and better-trained economists in order to avoid the disasters caused by trial-and-error methods of uneducated entrepreneurs.

Secondly, no conscious or self-conscious agent "society" built these plants. They were built under the control of individual capitals. The only thing that "society" may do, in the guise of the capitalist state, is to help these capitalists shift the losses "classically" inherent in overproduction crises back on to the workers—whether as sellers of the commodity labor power or as producers of the commodity labor power (i.e., as consumers) is irrelevant from this viewpoint.

As far as "dynamic research and monopoly" are concerned (520), this allegedly goes to prove that "all is not evil in any field." This is a perfect example of the bourgeois inability to understand the contradictory nature of "progress" in class societies. Bourgeois economists, instead of searching for the real historical process, explain the specifically capitalist form of increasing productivity as some sort of technological "evil." After debating the pros and cons of the matter, such as that research is used for improving the market rather than the technology, and that despite the enormous funds a large share of new inventions do not emanate from the monopolies, S delivers himself of the following warning: "A sensible student realizes this is indeed no black-and-white matter" (520).

In order to convince the reader "what government can do about monopoly" (521), S presents "in detail" a one-page fictitious study of public-utility regulation showing mainly that "the state steps in to protect the consumer by setting maximum rates."

The real purpose of "regulation" is to keep down the costs of production entering into the individual capitals. Since all large capitals use enormous amounts of certain basic "inputs" such as electricity, coal, transportation, communications, these industries are often "nationalized." They are then run on a nonprofit or deficit basis, charging lower prices than private capitalists would, with the working class as taxpayer in large part picking up the tab.

S's description of the development of antitrust legislation suffers from the ahistoricism rooted in the inability to see the societal basis and expressions of monopoly. In this view monopoly becomes an inevitable evil which men of good will can try to alleviate. In this respect S's historical review is reduced to a tradition of voluntarism, and the essential political aspects are neglected entirely.

Historically the function of the *relatively* strict antitrust laws in the U.S. has been to slow down the process of economic centralization which since the end of the nineteenth century has here proceeded further than in any other capitalist country. This course is motivated by the wish to preserve a class of small capitalists and to absorb potentially anticapitalist movements within this class and among farmers and workers.

This function is readily apparent in the antitrust regulations promulgated under Thurmond Arnold during the New Deal. As one rather realistic account of the period recognizes, "the bulk of Arnold's support came . . . from smaller businessmen or dissatisfied business groups unable to compete successfully with their larger rivals. . . ."6 At a time, however, when increased productivity was the order of the day, consistent antitrust policy was sheer phantasy.

Yet for political purposes antitrust could be put on show in a demagogic manner: "In a time when Americans distrusted business leadership and blamed big business for the prevailing economic misery, it was only natural that an antitrust approach should have wide political appeal. Concessions had to be made to it. . . ."7 But behind this façade lurked another reality:

Action could be taken only in special or exceptional areas, against unusually privileged groups that were particularly hated and particularly vulnerable, in fields where one business group was fighting another, in cases where no one would get hurt, or against practices that violated common standards of decency and fairness. . . . The result of such activities, however, could hardly be more than marginal. . . . The Arnold approach . . . could and did break up a number of loose combinations; it could and did disrupt monopolistic arrangements that were no necessary part of modern industrialism. . . . But it made no real effort to rearrange the underlying industrial structure itself. . . .”⁸

In his discussion of U.S. antitrust policy in occupied Germany and Japan, S reveals himself to be the spokesman of the interests of U.S. capital. He presents the U.S. attempts to break up trusts in these countries as a type of good-Samaritan act which the U.S., a “pioneer” in antitrust action had long had in mind—while other countries took “a very lax view of the legality of monopolistic arrangements” (528)—but could only carry out in the wake of World War II. The following contemporary account sheds some light on the real intentions behind U.S. antitrust policy in occupied Japan:

Admittedly, retention of the combines would enable Japan to restore her industrial potential more quickly, and thus make her a stronger potential ally in the event of another war. The question is, however, whether this fact would be equally true for the longer run and, indeed, whether there are not other reasons of immediate application such as our need to establish our right to world leadership of democratic thought [!], which outweigh the temporary expediency of Japanese production.⁹