The Anti-Samuelson

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Macroeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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A four-volume edition of this book was first published in a German translation in 1974 by Politladen, Erlangen, under the title Der Anti-Samuelson. The joint decision of the publisher and author to condense the work was dictated by the desire to reduce costs and thus bring its price within reach of both students and teachers. Inevitably, in so radical a scaling-down, a great deal of textual elaboration, annotation, and bibliographical data had to be sacrificed. Those who wish to pursue the author's ideas and argumentation in greater depth are referred to the unabridged German-language edition.
7  The Theory of National Income  
S's Chapter 10

In the notion of a "national income" most difficulties of economics culminate. The "Wealth of Nations" has been the prime concern of economists as long as there has been any systematic writing in economics, and so it will be for the future. Neither the conceptual nor the statistical problems in this field have been resolved to anyone's satisfaction. . . .


INTRODUCTION

In evaluating the role of this chapter within S's book we must consider the twofold plan its author had in mind: "the unifying summary of Part One's introduction to the basic economic processes and institutions of modern mixed societies" and "the introduction to the treatment of macroeconomics of Part Two" (179). Thus by S's own admission, this is a crucial chapter.

However, let us not simply accept his claim at face value, but rather examine to what extent he carries out his plan and also determine precisely what the key role of the chapter is. For it appears that S is vague on this point. With respect to its retrospective function as a synthesis of the preceding material, this chapter wraps up the discussion of Big Business, Big Labor, and Big Government. The national-income account presumably represents the statistical sum-
mary of the economic activities of these three sectors as they express themselves in their peculiar forms of income. The "statistical-technical" treatment accorded them here reinforces the impression of harmonious and equal coexistence; for the mere ability to establish a quantitative relationship among these elements—whether it be in the form of adding apples and oranges or wages and profits—presupposes qualitative sameness. This means that if all these incomes or products could not be reduced to a "common denominator," the very possibility of the cohesive existence of "society" would be called into question. As we know by now, this common denominator turns out to be money; and since S has already told us that money is common to many different societies, the specific characteristics of the mixed economy—as well as those of the classes constituting that society—are eradicated. (As we shall see, the view of money as a mere technical expedient will involve S's theory of national income in internal contradictions.)

In summary, then, Chapter 10 serves to consolidate the theory of the mixed economy as that of a society without either classes or history, the former insofar as classes are turned into recipients of incomes with only quantitative distinctions, and the latter insofar as consumption subject to quantification by means of an external "measuring rod" is seen as the "goal" of all societies. As to Chapter 10's role as an introduction to Chapters 11-19, we must direct our attention to the construction of a framework within which the Keynesian theories and the intervention of the state can become plausible. We shall seek to direct the reader to what is to come so that this chapter can be read more critically with regard to the author's design.

The basic feature in this respect is the emphasis on the sphere of circulation, a fact essentially connected to the absence of a theory of reproduction, of a theory of value (at least at this juncture), of a theory of productive labor, and finally, to the stress on subjective explanatory criteria. We say circulation sphere because in this chapter S is not concerned with production; the major aspect of the theory of
income presented here relates to consumption (and/or expenditure) and revenue. True, bourgeois theory sees receipt of income as synonymous with production of value, and we shall deal with this at the appropriate time. But since the reader has not yet been made aware of this in any systematic way, the connection to production is blocked.

The lack of reference to production precludes a theory of reproduction. What we wind up with is a constant flow of expenditures and incomes without any understanding of how the boxes labeled “business” and “public” (Fig. 10-1) generate commodities and incomes. Similarly, a theory of productive labor—i.e., the question of what labor produces value—becomes irrelevant once the sphere of production has been relegated to a later chapter. A theory of value of sorts, in the form of utility, will be presented later, but this does not help the reader at this point.

This seemingly chaotic organization is no mere accident, nor do we believe the only reason to be the commonly voiced contention that there is no criterion for putting the macro course before the micro course, or vice versa. We say this because Keynesian theory itself is characterized by all of these features. In fact, it may be said that it could hardly be otherwise, for all practical efforts to ward off the demise of capitalism must, if they are to avoid the concerted resistance of the capitalist class, proceed through the sphere of circulation. This instinctive shying away from direct control over production coincides with the whole thrust of development of bourgeois economic theory since the post-Ricardian era (ca. 1830); increasingly, this theory has sought refuge in the individual and subjective, where the objective crises of capitalism could best be ignored.

The sphere of circulation knows neither capitalists nor workers, only consumers. Though the contradictions stemming from the sphere of immediate production have not disappeared, the connection may conveniently be neglected. It is the matrix for all bourgeois ideas about preserving capitalism through various methods of redistribution. The latest variant is Keynes; but as we shall see, his neglect of the fundamental features of capitalism, the severing of
the sphere of distribution and redistribution (state) from the sphere of production, the absence of a theory of reproduction and productive labor, all these make for such a weak theoretical foundation that practical application becomes much more limited than its proponents realize.

THE CHAPTER STRUCTURE

With this general outline in mind, let us proceed to an analysis of the chapter itself. Its structure—i.e., its tripartite arrangement of "simple" economy "with no government and no accumulation of capital or net saving going on" (180); introduction of capital accumulation (186-88); and introduction of the state (188-91)—could lend itself to a fruitful methodological approach to the problem of national income. The abstraction from capital accumulation and the state finds justification in the bourgeois notions of model-building: "all analysis involves abstraction. It is always necessary to idealize, to omit detail, to set up simple hypotheses and patterns by which the facts can be related. . . ." (9). Although Marx would not accept this reasoning, he, too, comes to a similar conclusion concerning the exposition of what he calls simple reproduction before that of expanded reproduction (which encompasses accumulation):

Simple reproduction, reproduction on the same scale, appears as an abstraction, inasmuch as on the one hand the absence of all accumulation or reproduction on an extended scale is a strange assumption in capitalist conditions, and on the other hand conditions of production do not remain exactly the same in different years (and this is assumed). . . . However, as far as accumulation does take place, simple reproduction is always a part of it, and can therefore be studied by itself, and is an actual factor of accumulation.¹

However, two basic differences mark Marx’s and S’s approach. Marx states explicitly that a "simple" economy is a contradiction in terms, and he wants it understood that
simple reproduction does in fact exist within expanded reproduction. S, on the other hand, does not heed any such methodological caveats, perhaps because "no mind can comprehend a bundle of unrelated facts" (9). There is nothing real in the abstraction, it is merely a pedagogic device. Looking at S's content, we can see why the methodology conforms to it; but it is precisely the function of this chapter to blur distinctions between modes of production, so-called factors of production, and between the state and the private sector. The manner in which capital accumulation is introduced derives from a subjective view which must necessarily blind the reader to the objective differences between modes of production and classes within capitalism; similarly, the introduction of the state as a coequal partner along with land, labor, and capital blurs the essential distinction between capital production and the secondary redistribution effected by the state.

Thus the model is well suited to S's purpose here: that is to say, the methodology behind the model is as removed from reality as is the content. The development of both these aspects has its origin in the failure of post-Ricardian bourgeois economics to adhere to an objective value-and class-oriented analysis, and this in turn led to models devoid of reality-oriented content.

In our discussion we will follow S's implicit tripartite arrangement. Since the first section on the "simple" economy contains fundamental methodological principles that guide his entire analysis, this will be the place to examine them in detail, although the critique applies to the entire chapter. In the course of this first section it will become obvious that what is at stake here is a basic feature of bourgeois science in general, and of economics in particular.

I / THE "SIMPLE" ECONOMY

The most striking aspect of this section is the author's emphasis on "definitions"; instead of developing a theoretical concept of national income, S repeatedly asserts that na-
tional income "is the loose name we give"; "the final figure you arrive at"; "is definable"; "also definable, from a second viewpoint"; is "measurable" or "convenient" to measure in this way or that, etc. (179-81).

These extracts are not evidence of nit-picking on our part, nor of simple sloppiness on S's, as we can see from his codification of this procedure as "an important rule of approximate measurement in economics. Often it does not matter which definition of measurement you use, so long as you stick to one definition consistently" (199).

Presumably the reasoning here is connected with analogies to physical measurement where the absolute magnitude of the standard is irrelevant, since the objective there is to set an arbitrary comparative standard. Assuming this to be a technical necessity, one must still demonstrate a property common to the things to be measured (length, volume, etc.), with no regard to qualitative differences and concentrating on a single relevant quantifiable aspect.

This "measuring rod" is, of course, money. Unfortunately, however, the matter is not quite that simple, for one still has to find the characteristic shared by the "goods and services" being measured. Bourgeois theory does have such a common characteristic—utility—but this is not without its problems. But S has not touched on this theory, although it is basic to any discussion of the problem of "measurement."

The problem of national income is, as the quotation from Morgenstern hints at, not a new one; nor are the methods for dealing with it. Eclecticism is the basic feature of this chapter: that is to say, S has picked and chosen that which appears correct or plausible from various theories, and based on this has tried to develop a unified, coherent new theory of national income. The fundamental problem of S's eclecticism lies in his uncanny knack of picking elements from conflicting systems of economics, so that the new creation turns out to be full of contradictions. More specifically, the attempt to fit the subjective theory of value into the older national-income theory based on a theory of classes and objective value leads to the "arbitrary rules" and "paradoxes"
that permeate this chapter. S’s failure to offer even the vaguest reference to the development of the theory erects an almost insurmountable barrier to understanding.

A METHODOLOGY AND HISTORY OF THE THEORY OF NATIONAL INCOME

From its very beginnings, bourgeois political economy saw a connection between the wealth of nations, or in this case the concept of national income, and productive labor. However, unlike contemporary discussions of arbitrary “rules,” this view was rooted in clearly observable historical changes in the mode of production. The attention paid to wealth which arose with capitalism differed essentially from that of the slave societies of ancient Greece or of the feudal period. The old authors concentrated on the use-value aspect and quality of that which was produced; although money and the concept of money wealth originated with the incipient development of commodity production—i.e., development beyond mere production by slaves or free-men for themselves, but also for a market—these authors were not interested in what we would call exchange value. Nor is this surprising since commodity production, and thus exchange value, had not yet become the motive forces of the economic system. The interest in national wealth evinced by the early bourgeois authors is not an expression of a coarse materialism but rather of a new quality that wealth had assumed in the new mode of production. The members of this new society, keenly aware of the differences between them and their feudal predecessors, were not at all reticent about formulating them, particularly since they were convinced that they were witnessing a turning point in the history of civilization.

The first important bourgeois economists, the mercantilists (from about the sixteenth to the eighteenth century) measured productivity in terms of export value—i.e., if the exported goods yielded more money than they cost, in other words, if the producing country could accumulate gold and silver. As Marx points out, these early prophets
correctly formulated money-making as the end of bourgeois society by referring to gold and silver as the only form of wealth.

The next important advance in this context is attributed to the French eighteenth-century physiocrats (Quesnay, Turget, et al.); in contrast to the mercantilists, they recognized the creation of surplus value within a country. That is to say, profit was no longer restricted to transactions with other countries. The physiocrats saw the origin of surplus value in the work of the agricultural producers, in the sense that these workers produce a net product in excess of their wage, and this net product was then appropriated by the second major social class—the landowners. The third class, the sterile class, comprised all others, including industrial workers and capitalists. In view of the fact that capitalism in France was then still emerging out of feudalism, it is not surprising that the physiocratic system appears as a strange combination of feudal and capitalist elements. Since exchange-value production had not yet gained a hold on all branches of production, the physiocrats did not have a concept of abstract labor and, therefore, no real theory of value. They saw the production of a surplus product in the immediate use-value form in agriculture, where one can easily determine that a producer produces more than he eats and productively consumes in the form of raw materials. In this theory the landowner appears as the real capitalist, as well he might have at a time when a fundamental prerequisite of capitalism was taking shape, namely the expropriation of the immediate producers.

Unfortunately we cannot go into these interesting contradictions in the physiocratic system. We merely wish to point to the rise of a new concept of productive labor in the context of an objective change in the development of capitalism finding expression in new class relations.

Adam Smith (1723-1790) took an important step in the development of bourgeois political economy when he extended the notion of productive labor to all surplus-value producing labor:
There is one sort of labour which adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labor. Thus the labour of a manufacturer [i.e., worker] adds, generally, to the value of the materials which he works upon, that of his own maintenance and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expense, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers: he grows poor, by maintaining a multitude of menial servants.  

With that, Smith formulated the basis of the capitalist mode of production—the production of capital by workers who produce a greater value than they consume for a capitalist who is not interested in the use value of the products or of the useful character of the labor he "employs," but only in the excess of value of what "his" workers produce above what he pays them.

Productive labor then is labor which exchanges immediately with capital for the purpose of increasing the capitalist's capital; consequently all labor which is exchanged against revenue—that is, against profit, interest, rent, or even wages, without the objective function of creating profit—thus becomes unproductive labor.

This makes clear that productive labor is determined not by a concrete activity or the product of that activity, but rather by its social relationship. Smith explicitly formulated the essence of capitalism within the framework of the ideological struggle against the dying feudal mode of production; and in this respect he emphasized the distinction between personal services and capital-producing wage labor.

Parallel to this deeper insight, Smith also developed a determination of productive labor oriented at the criterion of physical-material embodiment:
The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realize itself in any permanent subject, or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured.  

Insofar as it formulates the elementary form of production in capitalism to be that of commodities, this in a certain respect is a more elementary definition of productive labor. Moreover, Smith was obeying a sound instinct, since in his time the production of nonmaterial commodities—services—was more or less associated with unproductive labor in the first sense—namely personal services outside the capitalist-wage laborer relationship. Smith felt that disregard for the second determination would open the gate to all sorts of unproductive labor in the first sense.

But as Marx points out, Smith descended to a more elementary yet less fundamental form of determination, for in the last analysis he returned to the material form of the product or the concrete form of the labor rather than the social realtionship.

For political (class) reasons, the bourgeoisie has been forced to alter much of its originally critical stance, gradually dropping the concept of productive labor altogether—which means the first Smithian determination on the distinguishing characteristic of capitalism as well as the second, insofar as the earlier bourgeois understanding of commodity production as a qualitatively new form of social reproduction is gradually eliminated—and of social classes as potentially or even inherently antagonistic social forces. Once this cornerstone of political economy was removed, the whole structure threatened to collapse unless a new foundation was laid. While this was under construction, an eclectic substitute was being assembled.

In summary then we may say that as far as the classical political economists like Smith and Ricardo are concerned, national income is created in the sphere of production which embraces all production taking place in the form of immediate exchange of labor and capital; the redistribution
of the income originally appropriated in the form of wages, profits, and rent—whether it be to the state or for personal services—is a secondary problem which should not interfere with a theoretical understanding of the primary question.

B / S’S APPROACH
Let us now return to S’s presentation and the contradictions brought on by his eclecticism. The first point S makes relates to the “equivalent” approach or method of calculating national income or product—namely from the vantage point of market prices of consumed goods or of factor earnings (181). The first approach is based on utility theory, the second on the production factor or marginal productivity theory. This is no coincidence since it is these two theories that gradually began to replace the classical theories of value and surplus value. Because of S’s chaotic organization, our analysis of the theory of national income as based on these two theories must remain incomplete. There is simply no justification for presenting a theory of national income before discussing the underlying theories of value. This structure—and more significantly S’s apparent lack of awareness that such a procedure requires theoretical justification—doubtless stems from the inherent incoherence of the “neoclassical synthesis.” Rather than presenting a harmonious union of classical or neoclassical microeconomics and modern Keynesian macroeconomics, S has concocted a mixture of objective and subjective theories which can coexist only at the expense of content and methodological focus.

The theory of national income is stamped by its classical provenance. It has been revitalized in the hope of developing a policy to master the crises stemming from the contradictions in the sphere of production, but the price of this revitalization is an internally contradictory theory. Consequently, we will confine ourselves to a study of the theories of utility and production factors insofar as they touch on the matter of national income and show up the necessarily contradictory nature of that eclectic creation.
Let us begin with S's "flow-of-product" approach. Without explaining how money can be the magic wand that strips "the diverse apples, oranges, and machines that any society produces" (18) of their inherent difference and converts them into ledger entries with only quantitative distinctions—that is, without explaining how the price form arose altogether—S answers his own questions as to why market prices are used "as weights in evaluating and summing diverse physical commodities and services" with a reference to the thesis in Part Three, according to which "market prices are reflectors of the relative desirability of diverse goods and services" (181).

Yet we all know or can imagine societies in which "relative desirability"—whatever that may mean—is not reflected in money and hence in market prices. What then happens to "the yardstick of an economy's performance" in such a society? The very notion of a yardstick, that is to say, a quantitative reduction and measurement, is a relatively recent one, and it has blossomed forth in only one mode of production—capitalism.

In line with the analysis in Chapter 3 of money as a technical expedient for facilitating barter, "in measuring NNP we are not interested in consumption and investment goods merely for their money value: money is the measuring rod used to give some approximate figure to the underlying 'satisfactions' or 'benefits' or 'psychic income' that comes from goods" (201).

What is the underlying aspect S refers to by various names, all of them in quotation marks? (We shall, for simplicity's sake, call it "good vibes," without quotation marks, to show our associating ourselves with it. S's Chapter 22 does not offer any discussion of utility going beyond the sketchy remarks made here.) Now S does not minimize the formidable difficulties involved in establishing a good vibes NNP; on the contrary, he concedes that "strictly speaking" or "in principle" each act of consumption should enter NNP at "its fair market value" (201). Such a procedure, unfortunately, turns out to be impossible; for although "enjoyment of a physical pleasure does tend to get
into NNP," it does so only "indirectly" and as a "rough measure." By this S means the replacement of a worn-out commodity. Despite this seeming pessimism, he backtracks and asserts that "this all works out well enough, except in one case," so-called consumer durables, which allegedly last and thus spread out their good vibes over a long period, in contrast to their one-shot purchase and thus incorporation into NNP.

However, even a fairly cursory investigation would show that this does not all work out well enough. Using the example of a phonograph record S cites, we can well imagine that of two people buying the same record, one gets very good vibes but unfortunately does not have the money to replace the new but worn-out record, whereas the other listens to it indifferently but replaces it anyway since he found no better use for his money. All we are trying to say by this is that if S wants to see replacement as an indirect expression of good vibes had by all, he is on extremely shaky ground.

Behind all this palaver is the very significant attempt by S to determine value through use value. Whereas the classical authors understood that use value was a more or less permanent relation between the individual and/or society and the object involved, that therefore no explanatory elements for any particular society inhered in this relationship since it belonged to the realm of production and consumption in general (or in the abstract), and that therefore the relationship of use value remained an implicit prerequisite of the capitalist mode of production, "modern" economists try to construct a theory of capitalism based on this relationship which is not specific to capitalism. Whereas the classical economists recognized value production or exchange value as the essential new social relationship produced by capitalism, "moderns" try to blot out what is specific by attributing this new quality to all other societies (in the last analysis by reducing commodity exchange to barter). And finally, whereas the critical element in classical political economy was the discovery of the laws that determined the specific way in which the general or abstract as-
pects of production and consumption (including use value) found their expression in the new form of social existence (capitalist commodity production), eclectic contemporary bourgeois economists attribute prime explanatory value to utility without being able to sever all ties to the tradition of objective value still hovering about in the form of market price or money. Although the attempt to rely solely on utility must fail, the attempt to combine utility with, or even reintegrate it into, the older tradition of objective value must necessarily lead to an inherently contradictory mish-mash, since the classical theory denies the possibility of determining value by use value. It is this impossibility which gives rise to the many "paradoxes" and "brain teasers" S tosses about as evidence of the "arbitrariness of some current practices." He apparently does not understand that these are not mere technical quirks but fundamental expressions of his own contradictory eclecticism, the result of trying to impose one schema onto its negation.

Now let us turn to the second approach—that of factor earnings. Here NNP is equal to the sum of the incomes going to the productive factors land, labor, capital (plus the "residual" profit). S characterizes these as "costs of production" (181). This approach, like the first one, is rooted in the sphere of circulation. Its starting point is not what is produced but rather what meets the eye on the market, whether in the form of commodity prices or factor incomes. Unlike the former approach, however, this one links up to a much older part of classical theory; for although Adam Smith at times adhered to the labor theory of value in the sense that labor creates all value, at other times, and predominantly, he held to the view that the value of a commodity resolves itself into the various revenues (now called "factor incomes"). At this point we will refrain from going into the reason for this development; we merely want to point out that the theory of production factors dates back to the beginnings of bourgeois economics. At that time, a tension still existed between the deeper understanding and the more superficial theory; that is to say, within the system of economic theory a struggle went on between the two ele-
ments. But in modern theory we are left with only the dogma of the factor incomes, without any tie to production of value. Yet the contradictory element remains. An example of this may be found in the notion of value added, by which is meant the factor incomes paid out at each stage of production. S views “value added” as a statistical means of separating out the “intermediate products” bought from other capitalists.

Now one might think that in order to understand value added one must first understand value. In principle, it is an expression of the classical discussion of a value being created in the process of production which is added to the value of the already existing product—namely the capital, the value of which does not increase but merely has its value carried on.

The problem with the notion of value added as presented by S is that it does not really refer to the process of value-creation in the process of production, but rather to the distribution of that which has already been produced. Economists and statisticians break their heads trying to determine what ought to be included in factor incomes. The basic problem here relates to the fact that the theory attributes productivity a posteriori to all “factors” receiving an income. Once this imputation from outside the process of production has taken place, all further exclusions must appear arbitrary. Thus, on the one hand, rent is included for those who own their homes, on the basis of so-called opportunity costs. (S claims that this “makes sense if we really want to measure the housing services the American people are enjoying” [193].) On the other hand, the “services of a housewife do not get counted in the NNP. . . . This item is not omitted for logical reasons, but rather because it would be hard to get accurate estimates of the money value of a wife’s services” (199). Yet there are “logical” reasons of sorts at work here. Obviously it would be just as easy to calculate the “opportunity cost” of a housewife as of a fictitious rent; all one would have to do is add up the going rate for a cleaning woman, cook, sex partner, babysitter. The reason for the omission lies in the fact that the woman
does not sell her labor power to her husband as a commodity, and since national-income accounts take the flow of commodities as their starting point, these "services" fall by the wayside. The failure to include them in national accounts is subtle acknowledgment of the qualitative distinction between what S would call barter and the exchange economy.

The final ambiguity refers to S's exclusion of second-hand sales from NNP, because "nothing has been produced" (201). Of course nothing has been produced, because by definition nothing is produced in the sphere of circulation, only in the sphere of production. Neither is anything produced when a fresh loaf of bread is bought and sold; the bread had been produced earlier. In the sphere of circulation the only change taking place is in the form of the already existing value. This means that the bread capitalist who at the end of the process of production holds a certain amount of value in the form of commodities now receives the same amount of value—this time in the form of money.

As S himself notes, "the total dollar volume of all intermediate transactions greatly exceeds the volume of the final transactions that we call national income or product" (201). But these are not examples of intermediate products in S's sense of raw material and machinery bought by capitalists who will use them to produce consumer commodities; for second-hand sales are final consumer sales—or, alternatively, the original sale of a car, etc., should not have been considered "final." The point is that the examination of the sphere of circulation alone cannot provide any criteria for determining whether "items" ought to be included in NNP or not; for as S himself points out, mere buying and selling does not make for inclusion. The reason S suddenly calls to mind the priority of production lies in the obviousness of the case—if a country somehow were to develop a great propensity for reselling, its national product could tendentially rise to infinity without any new production. Not only is there no "logic" for the exclusion of such deals, it in fact contradicts the "logic" upon which all other calculations are
based. The fact that the buyer and reseller have “just exchanged assets,” money for second-hand goods (201), in no way distinguishes it from any other “transaction,” for as we have just seen, the sphere of circulation is one in which value is not “added” but merely changes form—money for commodity and commodity for money.

The reference to production is, then irrelevant: It has never served as a criterion before, so why now? Production is simply dragged in to ward off an avalanche of non-production-generated NNP. (Interestingly enough, S in the footnote to this passage asserts that brokers’ fees in such second-hand deals are included in NNP because brokers and salesmen “produce satisfactions in the form of bringing transactors together” [201 n.1]). But production is a red herring here for another reason: because it insists upon the physical aspect of production, presumably the criterion of whether some new material good has been brought forth. (We say “presumably” because S does not say what he means by “nothing has been produced”; exchange obviously does not produce anything material—at best it “produces” good vibes, which is not what S means, for that would upset his whole national-accounting procedure.)

Obviously the mere material production of new objects cannot be the defining characteristic of national product, for then all the “do-it-yourself” activities that culminate in new material products would also have to be included. In order to avoid this stumbling block the money aspect is brought in—hence the exclusion of housewifely activities. But then money becomes something more than the covering it usually passes for in bourgeois economics; for if it were merely the technical means for facilitating barter, then there would be no distinction between activities included in NNP and those not encompassed.

Money then brings with it a new type of social relation. What exactly is this relation? It is not determinate because the circulation of money between buyer and seller takes place in many different economies (although in a massive and predominant form only in capitalism). Thus the use of money as a form of human relationships does distinguish
some economies from others and, within a certain economy, some relations from others. But it itself is too vague to allow a precise determination of whether it is an expression of a socially productive act (i.e., one which deserves honorable mention in NNP). We know that neither physical production nor the passing of money alone is a sufficient criterion for determining what "items" can enter national accounting. One could plausibly add that what we need are both these criteria plus that of demand, that is, the underlying satisfaction which is expressed in the act of buying.

This determination, however, is of no help, because it could just as well apply to do-it-yourself activities directed at producing some tangible object of "satisfaction" apart from the activity itself. But there is "something" to this thesis insofar as it hints at a social situation in which producers must subject themselves to forces not directly geared to their interests. By this we mean that workers work not to produce what they as individuals or as members of society need, but to acquire the social power (money) to satisfy these needs elsewhere. This is not to be confused with the bourgeois conception of the division of labor where "we" must all satisfy our wants indirectly by producing for others. Whereas many different societies are characterized by a division of labor within the process of production, and thus interdependence exists objectively in all these societies, it is only in capitalism that interdependence remains confined to the objective plane.

We are not concerned here with whether land and capital are "productive," and we are not saying that only labor is productive and that all incomes other than wages are derivative. This is irrelevant here, for what interests us is that the production-factor theory is unable to determine where income is produced.

Just as it is true that "the total dollar volume of all intermediate transactions greatly exceeds the volume of final transactions" entering NNP as far as the "flow-of-product approach" is concerned, it is also true that, to use S's terminology, the total dollar volume of all redistributed in-
comes may exceed "value added," or the income originally created.

When dealing with the practical problem of inflation, bourgeois economists are forced to admit that no matter how much income is floating about, no more can be consumed than has previously been produced. But the problem is that the factor-of-production theory does not provide any criteria for establishing what is original income and what is merely being redistributed to others and counted twice or even three or four times. To succeed in formulating such criteria a theory must be able to show first where value is produced, and only then how it is distributed and redistributed into primary and secondary incomes. But value is a social relation and presupposes an understanding of (capitalist) society as a definite and objective totality of relations. The start that was made by classical political economy in formulating such a fundamental understanding of the definite economic formation it was examining—and which culminated in Marx—underwent a retrograde development in the post-Ricardian era, but it was not wholly obliterated; and it is precisely the eclecticism of the "moderns" that leads them into their basic contradictions, which are expressions of the inability of modern economics to formulate a consistent concept of what "the economic" is—that is, what constitutes the subject matter of economic science.

EXCURSUS ON ECONOMIC THEORY

We have deferred a detailed discussion of S's programmatic statements on methodology on the grounds that since it cannot be discussed meaningfully apart from content, S's methodology could not be criticized in isolation from its concrete application. We feel that this point in the book offers the appropriate context for such a methodological discussion.

S's opening chapter features a small section entitled "What Economics Is," in which he offers several definitions
because, as he puts it, "beginners often want a short definition" (3). Although he avers that it is "hard to compress into a few lines an exact description of a subject," he manages to incorporate most of the points mentioned in the various definitions into one he contends "economists today agree on":

Economics is the study of how men and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses, to produce various commodities and distribute them for consumption, now or in the future, among various people and groups in society [3].

Since S fails to develop this definition, we shall try to determine to what extent it hinders or advances his theory.

With respect to the definition itself, we suspect that despite the apparent attempt to come up with an all-encompassing concept, S is not asserting its universal validity—or rather he is not asserting that economics has universal applicability. And he makes this revealing comment: "On our way to the state of affluence where material well-being will fall to the second level of significance, we do need a summary measure of aggregate economic performance" (179, 195-7; cf. 8th ed., pp. 776-78).

Let us look at the definition of economics more closely. The key terms there appear to be "choice," "individuals and society," "scarcity," "consumption," and "distribution." It is a definition composed of various layers (implicit or explicit) derived from different economists writing at different stages in the development of capitalism.

Since the fifth factor relates to the study of wealth the name that comes most readily to mind is that of Adam Smith, the author of An Inquiry into the Nature and Causes of the Wealth of Nations. And this approach indeed continues to exert a major influence on many who write on the subject of economic science. According to one influential work of the 1930s: "The definition of Economics which would probably command most adherents, at any rate in Anglo-
Saxon countries, is that which relates it to the study of the causes of material welfare."\(^6\) And it goes on to say:

The causes which have led to the persistence of this definition are mainly historical in character. It is the last vestige of Physiocratic influence. English economists are not usually interested in questions of scope and method. In nine cases out of ten where this definition occurs, it has probably been taken over quite uncritically from some earlier work.\(^7\)

Robbins has hit upon a fundamental inconsistency in the neoclassical economics of his day, for once subjective-value theory replaced the classical objective-value theory as the basis of economics, its claim of being a theory of society, a social science, lost its validity.

When Smith wrote his famous work, capitalism had just established itself as the dominant mode of production in England. For him to have arrived at a consistent view of capitalism would have presupposed an understanding of capitalism as a historical mode of production not only in the sense of growing out of a previous mode, but also in the sense of being a historically limited one which would in turn be supplanted by another. And this was impossible at a time when society had not yet proved capable of solving the problems it itself poses. In fact, even later classical political economy never adequately recognized the historically limited nature of capitalist production. The more critical economists like Ricardo and John Stuart Mill implicitly conceded the historically limited nature of capitalism only from the viewpoint of distribution.

In the original preface to his *Principles*, Ricardo has this to say on the subject of political economy:

The produce of the earth—all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community, namely the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated. But in different stages of society, the proportions of the whole produce which will be allotted to each of these classes,
under the names of rent, profits, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution is the principal problem in Political Economy. . . . 8

The crucial difference between S's and Ricardo's definition of distribution is Ricardo's emphasis of factors specific to each society; S sees distribution as flowing directly from the physical nature of production itself.

The legacy of the major classical authors, Smith and Ricardo, is by no means unambiguous. Despite critical awareness, they were unable to develop consistently critical theories. But their inconsistencies are genuine, in the sense that they correspond to the original working-out of a theory during the formative stages of an ascendant society. And they are also genuine in the sense that they are not concealed, the inherent contradictions they lead to in the theory stand there for all to see. It is only the successors who made conscious attempts to "touch up" the contradictions. After 1825 it became increasingly clear that the laws of capitalism were not identical with the laws of nature, and this awareness inevitably led to apologetics. Smith and Ricardo did not live to see the first unmistakable indications of the barriers to "human progress" being erected by capitalism, but their followers could ignore these signs only by developing theories that were out of touch with reality.

Thus John McCulloch (1789-1864), a Ricardian who vulgarized Ricardo's theory in a number of essential ways, opens his major work with this definition:

Political Economy may be defined to be the science of the laws which regulate the production, accumulation, distribution, and consumption of those articles or products that are necessary, useful, or agreeable to man, and which at the same time possess exchangeable value. 9

This is a fine example of the eclectic approach which was to characterize political economy in years to come. On the one
hand, we have the classical emphasis on specific societal considerations, and on the other, the concessions McCulloch finds it necessary to make to the more superficial aspects of the classical strain are made obvious by his statement, "products that are necessary, useful, or agreeable to man." At first sight this might appear to be nothing more than a reference to use value as the underlying prerequisite of all production, but further reflection leads to the conclusion that in reality this opens the way to discarding the societal theory and reverting to the use-value concept. And finally McCulloch arrives at the suprahistorical formulation which has become the hallmark of the "modern" definition of economic activity: "The end of all human exertion is the same—that is, to increase the sum of necessaries, comforts, and enjoyments."¹⁰

In this respect McCulloch is the forerunner of those who define economics as being concerned with some aspect of human welfare, and by using this subjective, ahistorical "end" as a point of departure, flounder in confusion about the "definition" of productivity and income.

The next important turning point came with Alfred Marshall (1842-1924), a decisive figure in the transition from classical political economy to the subjectivist tradition. Marshall's eclecticism brought him to his key position, an adherence to utility theory as well as to a cost-of-production theory. Thus on the opening page of his Principles he offers this definition:

Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.¹¹

But this proved to be too broad for him, and so he zeroes in with this shift from the older suprahistorical approach to this distinctly "modern" one:

Economics is a study of men as they live and move and think in the ordinary business of life. But it concerns itself chiefly with those motives which affect, most powerfully and most
steadily, man’s conduct in the business part of his life. . . . The steadiest motive to ordinary business work is the desire for the pay which is the material reward of work. . . . The motive is supplied by a definite amount of money; and it is this definite and exact money measurement of the steadiest motives in business life, which has enabled economics to outrun every other branch of the study of man. . . . It concerns itself chiefly with those desires, aspirations and other affections of human nature, the outward manifestations of which appear as incentives to action in such a form that the force or quantity of the incentives can be estimated or measured with some approach to accuracy; and which therefore are in some degree amenable to treatment by scientific machinery.¹²

What makes this approach eclectic is the intention to retain the superficial result of the objective-value theory (i.e., money) within the new theory which junks the base upon which money and prices arose as “measures.”

Political economy is not supposed to postulate the existence of money and then to use it to “measure motivations” that exist in all societies, but rather to explain how in certain societies the natural human processes involved in living taking on peculiar forms; why, for instance, does labor in capitalism appear as value (money), products of labor as commodities, labor as wage labor, etc.? To take the development leading to these forms for granted is tantamount to abandoning the function of science, which is to mediate content and form, to explain why the content must assume the peculiar social forms it does. The specific neoclassical eclecticism of Marshall and others becomes weighed down with the internal inconsistencies of trying to hold on to threads of the older objective tradition while developing another theory which negate the thrust of that tradition.

A similar eclectic role, but one which shifted the emphasis toward the subjective, was played by A. C. Pigou (1877-1959), the “father” of welfare economics. Although he, too, adheres to the now familiar suprahistorical definition of economics as dealing with well-being, Pigou contends that the “elements of welfare are states of consciousness.”¹³ He, like Marshall, is aware of how “rough” a mea-
sure of good vibes money is. Moreover, he explicitly points to the interdependence of the definition of the subject matter of economics and that of national income. It is his contention that both concepts are subject to “elasticity,” so that “it is only possible to define this concept by introducing an arbitrary line into the continuum presented by nature.”

Here Pigou touches on the core of his problem. The “arbitrary line” he imagines to be “introducing” as an active scientific subject is nothing more than a hazy and uncomprehended expression of the “arbitrariness” the capitalist mode of production has “introduced” into the continuum or heterogeneity “presented by nature.” The essence of the struggle carried on by bourgeois economics around the concept of income and the subject matter of economic theory relates precisely to its drawing the criteria for judging a specific socioeconomic formation from nature, or alternatively, to its drawing the criteria for judging the eternal aspects of production from capitalism. Both these approaches are rooted in the fundamental inability of bourgeois economics to grasp the historical nature of capitalism.

Thus although the economists involved in the development of the theory of income were in varying degrees aware of the inconsistencies outlined by us, as long as they tried to integrate utility theory with the older objective tradition, these inconsistencies remained firmly fixed.

With the rise of the ordinal- as opposed to the cardinal-utility theory, the development of income theory took a decisive turn. For once the attempt to “measure” utility was abandoned, the final link to the classical theory was broken. Thus John Hicks, a recent Nobel laureate and one of the more influential formulators of the ordinal-utility concept, comes to a “very upsetting conclusion.” After defining income as that which a person “can consume during the week and still expect to be as well off at the end of the week as he was at the beginning,” Hicks concedes that “social income” remains a “subjective concept.”

Robbins, who wrote his work on economics at about the time Hicks was formulating his ordinal theory of utility,
and who supported the Hicksean position, elaborates the consequences of the ordinalist approach for income theory; according to him, the "term 'economic quantity' is really very misleading":

A price, it is true, expresses the quantity of money which it is necessary to give in exchange for a given commodity. But its significance is the relationship between this quantity of money and other similar quantities. And the valuations which the price system expresses are not quantities at all. They are arrangements in a certain order. . . . Value is a relation, not a measurement. But, if this is so, it follows that the addition of prices or individual incomes to form social aggregates is an operation with a very limited meaning. As quantities of money expended, particular prices and particular incomes are capable of addition, and the total arrived at has a definite monetary significance. But as expressions of an order of preferences, a relative scale, they are incapable of addition. Their aggregate has no meaning. . . . Estimates of the social income may have a quite definite meaning for monetary theory. But beyond this they have only conventional significance.17

The above statement represents the final dissolution of the ties to the classical tradition of objectivity. It allows Robbins to eliminate the inconsistencies that had plagued the eclectic approach, and it opened the way for a redefinition of economics that would mark a radical departure from previous efforts to retain some semblance of a social theory. Given the key role of scarcity in utility theory, it is no surprise that it also plays a crucial role in defining economics. According to Robbins, then, we must understand that once "we have been turned out of Paradise, behaviour necessarily assumes the form of choice."18 Form apparently is very important for this conception: "here, then, is the unity of the subject of Economic Science, the forms assumed by human behaviour in disposing of scarce means."19

It should be clear from some of the above-cited material that the shift from welfare to scarcity does not eliminate the "paradoxes" of income theory insofar as that theory is still
supposed to lead to practical applicability; statistical method is still necessary. What the shift does do is to cut the theory of income loose from the "definition" of economics. Thus where income assumes a theoretical significance of its own, as in Keynes, recourse is had to the "compromises" of Marshall and Pigou.

Thus cleansed of any social taint, the "definition" of economics can now serve as the internally consistent basis of what passes for a theory of value. But unlike the older connection between value theory and "definition" of political economy rooted in a theory of history, a theory of society, and hence of reproduction, the present connection between the "law" of scarcity and utility is devoid of social and historical content and therefore cannot include a theory of reproduction. The connection is formal and, especially in S's case, ornamental. Whereas previous theories fought over the differences between capitalism and all other societies, as well as between capitalism and an alleged state of nature, the scarcity concept represents the conscious capitulation of the "social" in favor of the "natural."

The most important feature of the new conception relates to the notion of "choice." For Robbins it becomes synonymous with economics. The issue cannot be ducked by saying that all results must have been a matter of choice, for this would knock down the essential identity Robbins is trying to establish. If it is to be established, then it must be proved that just as Robinson Crusoe decided or chose to divide his time into picking berries, sleeping, eating, and building defenses, so individual Americans have the choice of how much time they will spend on production, consumption, "leisure," and "common defense." For our purpose here it is irrelevant whether the time is spent on "defense" directly, or indirectly via taxation. What matters is that a conscious choice has been made. That is the reason S places such emphasis on the notion of democracy in Chapters 8 and 9, for if it could not be shown that the American people want military spending, without proof that they are in fact "taxing themselves," the underlying essential identity of all societies collapses. But S's version of
ordinal utility, namely revealed preference, argues backward, from objective result to imputed motivation, and in doing so S forgoes the rigorous proof of choice necessary to the argument of essential identity. But it is not only on the issue of "defense" that the theory breaks down, for in capitalism the length of the working day (i.e., its division into production and leisure), the magnitude and variety of production and consumption, its distribution, its increase and decrease (capital accumulation, industrial cycles), etc., are not "chosen" in any sense consciously decided on. True, individuals do make choices, as did Robinson Crusoe, but in "our complex, interconnected modern industrial society" the interactions of all these individual decisions may lead to unintended results. (Cf. "The Paradox of Thrift," 237-39.)

But this does not refute the theory because at this point S can bring in the society part of "how men and society end up choosing": in other words, to offer an example of social choice. Of course, this distorts the meaning of choice, and furthermore, instead of preserving the essential identity of all societies it singles out capitalism as a special case.

By introducing the notion of society’s choosing, S has avoided some of the more obvious absurdities of Robbins’ conception, but he has done so at the expense of an originally consistent and rigorous "definition." In the Instructor’s Manual to the 6th edition, which marked a change in this subsection, S presents his relation to the Robbins’ conception:

The major revision has been in the direction of spelling out clearly various definitions of what economics is. The one finally given here tries to capture what it is that is good about the Lionel Robbins abstract definition of "economics as the study of choices among alternative means to accomplish prescribed ends," but it at the same time tries to be less narrow and restrictive and also less abstract.20

This is a good example of S’s lax attitude toward methodological questions; it shows us that S believes that one can pick and choose, that one can pick out one part of one conception and leave out another, combine it with
some other “definition” and wind up with yet another one. But the fact of the matter is that one cannot simply add this or subtract that and arrive at a “more or less” abstract “definition.” To be sure, levels of abstraction do exist, but they are not formed at will by the agents of scientific research. The only justification for the changes S has introduced into the Robbins definition would be found in the realm of ideology; by drawing a subtle distinction between “men” and “society,” S seeks to prepare the reader for a definition of national income that includes the governmental sector, and particularly military production, an inclusion essential to the theory and practice of Keynesian macroeconomics.

COMPARISON WITH MORE RECENT DISCUSSION ON INCOME THEORY

S uses Robbins’ conception to the extent that utility theory demands this, but he also makes it “less abstract” in connection with the application of income theory within Keynesian macroeconomics. How do the economists who do make the explicit connection between “definitions” operate?

Simon Kuznets, another Nobel laureate, knows that the concept of income depends on the formulation of a “goal” for the society in question; for, he says,

if no ultimate goal is set to economic activity—except mere increase in the supply of goods—all consumption becomes part of the production process. . . . But if we assume that the primary objective of economic activity is to provide goods to satisfy wants of the members of the nation; that national income is for man and not man for the increase of the country’s capacity and national income, then ultimate consumption can be defined as the use of goods in direct fulfillment of this primary objective. . . .21

And how does Kuznets “justify” the “basic assumption” underlying this “widely accepted definition of national income”—namely “that to provide goods to consumers is
the primary purpose of economic activity"?22 He adduces "two grounds":

The first is the unique relevance of satisfying men's wants to national income as an *appraisal* notion. National income is not a measure of activity, of how much effort, toil, and trouble economic activity represents; but of its contribution, of its success in attaining its goal. Viewed in this light, there is no longer-standing purpose except to provide the material means with which wants of the members of society, present and future, can be satisfied.

Second, the entire pattern of economic organization in modern society seems to have the provision of goods to consumers as its primary goal. The concern various social institutions manifest for maintaining and increasing the flow of goods to its members, and the subordination of other goals to that end cannot be demonstrated statistically, but is an impression conveyed by measures taken to ensure this primary goal and to overcome any serious obstacles to his attainment. At any rate, it is difficult to formulate a different goal of economic activity of equally primary importance for most nations in the last century and a half.23

The most striking aspect of these passages is the subjective and formal conception of the "goal" of any particular mode of production. Kuznets appears to be surprised, or at least disappointed, that no "statistical" proof can be adduced for consumption's being the goal of capitalism. How statistics could be used to supplant a theory of history and a theory of social reproduction remains Kuznets' secret. And the apologetic note in his reasoning is quite obvious.

The formal element of the system emerges with particular clarity when Kuznets plays the role of statistician working with received categories. In the absence of a theory of social reproduction the concept of national income itself becomes interchangeable: its constituent elements can be shifted around at will like building blocks.

Since national income exists for man and not vice versa, national income "defines the production process to exclude the goods consumed in maintaining the inhabitants and
enabling them to grow and multiply.”24 Or as Pigou phrases it, the maintenance of the working class (food, clothing, etc.) may not be deducted from gross income like the maintenance of capital, because the wear and tear of human beings does not result “from their being used or held ready for use as production agents.”25

Thus although for the individual firm wages are a cost which the capitalist seeks to minimize, on the aggregate social level they are transformed into an element of net income. This in turn grows out of the equating of “costs of production” and “factor earnings”; but precisely this identification should give pause, since it points to the existence of a social struggle within capitalism that would exclude the rather naive definitions of income based on a conception of capitalist society as a unified, subjective whole. For when we consider that what is a cost for the capitalist (variable capital) is for the worker revenue, and hence purchasing power on the commodity market, we see that the form of wages itself involves a conflict between capitalist and worker, which makes impermissible the inclusion of wages in that part of the social product that capitalist society seeks to maximize.

Marx, summarizing the views of the classical economists and their predecessors, the physiocrats, notes that by distinguishing between gross and net income, they conceptualized surplus value as net revenue, or that part of the annual total product in excess of the replacement of the capital advanced by the capitalist in the form of machines and raw materials (constant capital) and/or wages (variable capital). According to him, neither the individual capitalist nor capitalist society as a whole see production of use values or the material and living means of production as their objective “goal”; and without adequate profit, the worker as producer and consumer very soon is made to realize the actual objective of capitalist production. It is of little value to him that the Department of Commerce, Kuznets, Pigou, or even Samuelson all think of him as the end of production if the capitalist mode of production does not.
II / CAPITAL ACCUMULATION

In this section, S introduces more realistic elements into his model of national-income accounting, even though his methodology is not exactly a model of realism.

In real life . . . *People often want* to devote part of their income to saving and investment. Instead of eating more bread now, they will want to build new machines to make it possible to produce more bread for *future* consumption . . . In short, we must recognize that the final goals of *people* do include net investment or capital formation, not simply current consumption [186 f.].

Just how real is this "real life"? And what society is S referring to? People in "our modern mixed economy" do not save or invest because they want to consume more bread in the future. That society is composed of two relevant classes—workers and capitalists. Workers by and large can neither save nor invest. Capitalists, on the other hand, can and do, but not because they want to have more bread in the future. They are interested in accumulation and profit, and if this should demand the curtailment of the production of consumer goods then production will be curtailed. S's argument that "the final goals of people do include net investment or capital formation" is inconsistent, for net investment is merely an "intermediate goal" within his conception. If it were really a final goal, then he would be admitting that it served some purpose other than the ultimate increase in the flow of goods.

The reason S has to call net investment/saving a "final goal" is related to the necessity of distinguishing between the production of additional (net) capital "goods" and that of so-called intermediate goods, which "we don't want . . . to be double-counted along with final product" (184). Lacking a theory of reproduction that would allow him to establish immanent criteria for distinguishing between the replacement of old capital "goods" and the production of new ones, S is forced to seek refuge in irrelevant subjective-psychological criteria.
THE DISTINCTION BETWEEN GNP AND NNP

Let us now examine S’s attempt to differentiate between the replacement of used-up capital and the production of new capital (goods). According to him, GNP equals NNP plus depreciation, just as gross investment equals net investment plus depreciation. S considers this a basically technical distinction of statisticians; the difference refers to the using-up of capital in the production process. Since measuring the net figures involves more difficulties, emphasis is placed on the GNP statistics (186-88).

What in fact underlies these technical-statistical distinctions? Depreciation is the total sum value of the means of production used up in one year; it is at the same time equal to the sum value of the investments made in one year to replace the machinery used up. In other words, NNP does not include these “costs.” The machinery used and replaced is no different from the machinery that is part of net investment as far as its value is concerned. If we view capitalism merely as the production of use values for consumption, that is, merely from its “technical” aspect divorced from all social relations, as in fact S does, then it is impossible to draw a distinction between the replacements and the additional machines.

Why then, we may ask, does S exclude replacement of used-up capital from net national product? Why is it that the productive factors land, labor, and capital are not credited with their contribution to this part of GNP as they are with respect to all other components? Let us try to unravel this mystery. To do so, we must find out how value is created in the process of production:

The worker adds new value to the object of labor through the addition of a certain quantity of labor abstracting from the determinate content, purpose, and technical character of his labor. . . . The value of the means of the production is thus preserved through its transfer to the product. This transfer happens during the transformation of the means of production into the product, in the labor process. It is mediated by labor. But how?

The worker does not work double in the same time, not once
in order to add a value to the cotton through his labor, and another time in order to preserve its old value, or what is the same, in order to transfer the value of the cotton which he is working and of the spindles with which he is working to the product, the thread. Rather through mere addition of new value he preserves the old value. Since however the addition of new value to the object of labor and the preservation of the old values in the product are two completely different results, which the worker brings forth in the same time although he works only once in the same time, this twosidedness of the result can manifestly be explained only from the twosidedness of his labor itself. At the same point in time it must in one capacity create value and in another capacity preserve or transfer value.  

Explaining this "twosidedness" of labor, Marx says that the value of labor is created through the expenditure of human labor power, that it takes place in abstraction from the specific character of the labor. This property is unique to commodity-producing societies which do not plan the social content of labor by determining what is to be produced, and thus how society's total labor is to be distributed among the various branches of production. In commodity-producing societies labor turns out to have been expended socially if a product is sold, and in capitalist societies if sold at a profit. In these, the sociality of labor finds indirect expression in the value it produces as reflected in commodities. Thus, value here is created by labor in abstraction from its concrete use-value-producing aspect. The only relevant point is its specific social character of being abstract human labor.

What matters here is the facility that enables the worker to produce a certain use value by utilizing means of production (machines and raw materials); in this process the old form of the use value of these means disappears and reappears in the new product. The value created by the labor that produced these machines and raw materials is thus transferred from them to the new commodity, a transfer effected by the labor of the worker producing the new commodity. For it is only by virtue of the worker's pur-
poseful utilization of these particular instruments that the use value, and hence also the value, can be “transferred” to the new commodity. Marx calls the ability of labor to preserve value while adding value “a gift of nature,” because it refers to the production of use values as a suprahistorical process. But the property of labor to maintain or preserve value can take place only in a society in which value exists; hence more than a gift of nature is needed—nature alone does not suffice. Later Marx adds that:

This natural power of labor appears as the power of self-preservation of the capital into which it has been incorporated, just as labor’s social productive powers appear as capital’s properties, and as the constant appropriation of surplus labor by the capitalist appears as the constant self-expansion of capital. All powers of labor project themselves as powers of capital. . . .

What is the reason for this inversion of reality? Bourgeois economics treats labor and capital as two equal productive factors—one cannot function in the absence of the other. This of course is true as far as use-value production is concerned. But it assumes a peculiar significance when we talk about the production of commodities in capitalism in view of the circulation-sphere approach, according to which every factor that receives an income is productive. But as S himself observes: “(Of course, the character of the resulting distribution of income is highly dependent upon the initial distribution of property ownership. . . )” (45). S never returns to this line of reasoning; Marx makes it the basis of his: (“But before distribution is distribution of products, it is (1) distribution of the instruments of production. . . .”)

Now in capitalism this distribution of the instruments of production is highly selective—God did not endow all his children with capital. This means that those not so endowed are forced to sell that which God did give them in abundance—their labor power.

Because the capitalists own the means of production while the workers have nothing but their labor power, the
capitalists can appropriate part of the annual product (surplus value and its more concrete forms—profit, interest, and rent). But once they have appropriated part of the newly created value, the rest of it must go to the workers for their "productive services." Thus as a result, labor, the sole creator of value, is transformed into "factor of production," together with capital and land. This is how it appears on the surface on the basis of the peculiar class distribution of the means of production; and this is the way bourgeois economics, unable to delve beneath the surface, theorizes.

Thus from the point of view of value creation, the natural power of labor in the process of production appears as the power of self-preservation of capital. How does this seem from the point of view of income distribution? The answer should be evident; for since NNP excludes depreciation or replacement of the used-up capital, bourgeois economics maintains that this value is not to be imputed to the productive factors land, labor, and capital. With the alleged technical-statistical distinction between GNP and NNP, bourgeois national-income/product theory expresses the ability of labor to transfer the value of the means of production as a quasi-natural property of capital to preserve itself. Implicit in this "natural" conception of the transfer/preservation of the capital value is the idea that capital has a right to reproduce itself, to be replenished, to be kept "intact," a natural right which takes precedence over the social distribution of income.

Now we know that old value is not transferred/preserved before the new value is added; the two processes take place simultaneously. Bourgeois economics is unable to grasp the twofold nature of labor insofar as it is relevant to this question, and this inability has significant implications. The first of these is the recognition of the priority of keeping capital intact. This means that if within the sphere of production the natural power of labor to transfer/maintain value is attributed to capital, then in the sphere of income distribution the "rewarding" of the productive factors must take second place to the reproduction of capital.

Secondly, there is an irony here in the treatment of this
question by subjective contemporary economics. Whereas the classical economists considered surplus value or profit to be society's net income and tended to view wages as a "cost of production," "modern" economists, determined to deny that profit is the end of capitalism, shifted wages into the net-income category of "society."

This ideological consideration, no doubt a conscious motivation on the part of some apologists, is not simply manipulative; it is rooted in the reality of capitalism. Bourgeois economics must fail to understand the twofold nature of labor as use-value- and value-producing, for if it did it would lead to insight into surplus value and the mechanism of exploitation; and once this were to happen, the difference between capitalism and all previous class societies would disappear—namely, that the exploitation of the direct producers is obscured by the superficial appearance of equal exchange between capital and labor. This potentially "subversive" chain of reasoning led from Ricardo to Marx, and then away from Ricardo when Marx developed an actually "subversive" theory.

It is ironic that although the conscious objective was to assert that "man" was not a mere part of the process of production but rather its end, and that for this reason the reproduction of labor was not to be considered a mere cost of production, this would logically lead to a surprising conclusion, namely, that the process of production called production of capital takes priority over "man." For capital's natural right to reproduce itself is taken care of first; "man's" right to reproduce, that is the payment of wages, is not a natural right but rather a part of the secondary process of social distribution. Thus, although apologetic bourgeois economics seeks to assert the priority of "man" over production, it in fact winds up asserting the priority of capital's reproduction over "man's."30

ACKNOWLEDGMENT OF THE SOCIAL CONTENT OF THE GNP-NNP DISTINCTION IN BUSINESS-CYCLE THEORY
Although bourgeois economics, in its programmatic discussion of national income, insists that the difference between
GNP and NNP is merely a technical-statistical one, in analyzing the so-called business cycle, it reintroduces the distinction in a decidedly social context. The connection, however, remains closed to it. Thus Keynes himself, in discussing Pigou's attempts to determine the meaning of "keeping capital intact" a question inextricably linked to differentiating between GNP and NNP (namely, between gross and net investment), states that

these difficulties are rightly regarded as "conundrums." They are "purely theoretical" in the sense that they never perplex, or indeed enter in any way into, business decisions and have no relevance to the causal sequence of economic events, which are clear-cut and determinate in spite of the quantitative indeterminacy of these concepts.31

Later, however, he points out that

consumption is, cet. par., a function of net income, i.e., of net investment (net income being equal to consumption plus net investment). In other words, the larger the financial provision which it is thought necessary to make before reckoning net income, the less favourable to consumption... will a given level of investment prove to be.32

In other words, since Keynes assigns an important role to consumption, it turns out that the "withdrawal" of a large part of the national product from national income spendable by consumers (namely the prior "replenishment" of capital) can have serious consequences.

Keynes had in mind particularly the boom, crisis, and depression phases of the industrial cycle of the 1920s and '30s; following the overaccumulation of capital in the 1920s, individual capitalists did not reinvest large parts of the value preserved by "their" workers, because they did not expect "effective demand" to keep up with the greater output available on the basis of the increased investments. Thus in times of crisis, the size of the depreciations becomes critical, for it is here that capital asserts itself as the dominant relation in capitalism. The individual capitalist
will hold on to the amortization funds during a crisis regardless of the effect on aggregate effective demand, just as he will continue to reinvest during a boom regardless of effective demand.

As further evidence of the bourgeois economist’s inability to understand these connections, Keynes in the same chapter asserts that “Consumption—to repeat the obvious—is the sole end and object of all economic activity.”³³ And despite his implicit demonstration to the contrary, Keynes continues to speak “of the fact that capital is not a self-subsistent entity existing apart from consumption.”³⁴

S, on the other hand, has not reached even the level of implicit, unintentional understanding. He continues to insist on the technical/statistical nature of the distinction between NNP and GNP:

Even if the economist . . . likes to talk about NNP, he is content to work with GNP data, knowing that the two concepts do move together during any period that is not too long. For most general purposes, GNP and NNP can be used interchangeably [8th ed., p. 177].

It seems doubtful whether examining the critical elements of the industrial cycle is seen as a “general purpose” by S. (According to his own data, depreciation as a percentage of GNP rose from 7.65 percent in 1929 to 12.6 percent in 1933, an increase of about 65 percent [203]).

CAPITAL FORMATION AND THE WORKING CLASS
Before leaving this subject and turning to the state sector, we would like to touch on one more point—namely the effect of “gross or net investment” on the workers using the machinery. Bourgeois economics excludes consideration of the effects of working from national-income considerations. In a sense this is of course justified, for this aspect has no direct bearing on value-creation and distribution. However, from the point of view of bourgeois economics itself, there is a contradiction here insofar as national income theory does recognize, and indeed ultimately tries to measure in-
directly, the "'psychic income'" (201) of consumers. Presumably the justification for ignoring the psychic income of producers results from the exclusive concentration on consumption as the sole end of economic activity. But the characterization of productive activity, as distinct from play, as not an end in itself is itself an admission that capitalist production generates no measurable "psychic income." And in fact, bourgeois economics explicitly introduces the notion of "disutility" in connection with labor. But even when discussing such "disutility," bourgeois economists only see it as some sort of deduction from the utility of the consumer.

Kuznets, for example, speaks of "what some may consider the gravest omission" from national income,

the deliberate exclusion of the human cost of turning out the net product; i.e., such disadvantages as are concomitants of acquiring an income and cramp the recipients' style (and others') as a consumer. One example would be long working hours. If to turn out a net product of a given size requires a work week that leaves little time for leisure, the producers cannot derive much satisfaction as consumers, i.e., as individuals who have certain wants and preferences. Another example would be the strain some jobs impose. If by and large a task is disagreeable, exhausting, dull, monotonous, or nerve wracking, the cost to the producer as a consumer is higher than when the task is light, instructive, diversified, or amusing.

Kuznets is unable to see the producer independent of his role as consumer. This reflects the demotion of actual labor to "factor-of-production" labor on the surface of capitalist society; having been transformed into the commodity labor power, labor loses its all-encompassing meaning of productive activity and becomes something that can be bought and sold like land and "capital." And not only can it be sold, it must be sold by those who have no other recourse. At this point, labor ceases to be a productive function and turns into a mere instrument of earning one's daily bread. Production in capitalism is determined within the factory by the capitalist (or his agent); with the exception of rela-
atively minor defensive inroads into "management prerogatives" achieved by unions, capital decides under what conditions both the mute and the vocal means of production will toil. In this respect Kuznets is correct in calling consumers "individuals who have certain wants and preferences" without attributing these characteristics to producers "as individuals." For, in fact, producers as individuals have almost no "wants and preferences" that capitalist society recognizes. And it is for this reason that "turning out the net product" must take place with "human cost," namely the entire gamut of phenomena of alienation at the point of production developed by Marx whose connection to capitalism is not recognized.

But not only the net, the gross product also has to be turned out. Capital in the form of machinery is an essential element in this labor process. But what end does the machinery serve? It is not introduced at the behest of individuals as producers in conjunction with their "wants and preferences." The individual capitalist introduces machinery to increase profits, more specifically, to reduce his "labor costs." He is not interested in whether this change results in the reduction of the total labor-time embodied in production, only in the labor-time he pays. Thus his only concern is whether the machine costs more than the wages of the laborers it replaces. If the criterion were increased productivity, that is, whether the same amount of use values can be produced with less total labor-time, then individual capitalists would make decisions that contradicted their "financial prudence" as profit seekers. Whether the capitalist introduces machinery depends then in large part on the value of labor power. As Marx points out, depending on the rate of surplus value (that is, the proportion in which the working day is divided up between the value going to wages and surplus value), the use of machinery will vary from time to time, country to country, and branch to branch. A further "advantage" accruing to the capitalist from supplanting human beings by machines is that machines do not rebel and do not go on strike. Hence the introduction of "labor-saving" machinery is determined by
forces other than the "wants and preferences" of individual producers. (S says that rising wages may "induce" employers to introduce such machinery [749].)

In recent years we have heard about workers revolting against assembly-line production, particularly in the automobile industry. We have also heard about the introduction of new "team" type production in Italy, Sweden, Great Britain, etc., which is supposed to meet worker demands for less "alienating" working conditions. Obviously, "capital formation" in the shape of assembly lines was not taking place in order to lighten the burden of labor, and it must also be obvious that to the extent that workers succeed in forcing "management" to modify their working conditions this in no way can be likened to the so-called anonymous and impartial response of the market through the price system to the wants and preferences of consumers. For the alleged rationality of the capitalist circulation sphere stops at the factory gate: here power rules. Whether workers or capitalists gain the upper hand in a particular struggle depends in large part on the concrete economic situation. To the extent that workers through strikes, sabotage, slowdowns, etc., can force rollbacks it is a political struggle transcending the bounds of capitalist rationality. Within the sphere of production "wants and preferences" get expressed not in dollar votes but in political struggle between two social classes that do not shy away from the use of violence. And such struggles point to the inherent contradiction between the "wants and preferences" of the workers and those of "capital formation" and capitalist productivity.

III / THE STATE SECTOR

The most striking aspect of S's discussion of the government component of national product is its arbitrariness: "Somehow NNP and GNP must take into account the billions of dollars of product that a nation collectively consumes" (7th ed., p. 178). The solution to his problem as of all other social problems S so "conveniently" transformed into technical-statistical ones lies of course in scholarly
ratiocination: "After some debate, the income statisticians of the United States and United Nations decided on using the simplest method of all. To the flow of (1) consumption product and (2) investment product, they simply add (3) all of government expenditure on goods and services" (189). S stressed the arbitrary nature of national-income accounting with respect to G even more clearly in the 1st edition:

Often we speak loosely of government expenditure in the abstract, as if it were simply a subtraction from national production. Actually, the statistical definition of national product is drawn up so that government expenditure on goods and services becomes a way of using and producing economic output. It is not always an ideal way... But it is a way which we could not do without... [p. 158].

Let us examine S's reasoning more closely. The presumable justification for including "G" in national-income accounts is related to the product which "a nation collectively consumes." What exactly constitutes this collective consumption?

Here are examples. Along with bread consumption and net investment in NNP, we include in it government expenditures on roads (i.e., cement and road-builders), and jet bombers. We include government expenditure on the services of jet pilots, judges, policemen, national-income statisticians, firemen and agricultural chemists [189; our emphasis].

Why does S believe it proper to include these items in national-income reckoning?

Because they do cover services rendered, they do use up resources and production, and they do provide collective direct or indirect consumption to the citizens of the United States... Such dollars are as much a part of national income as the dollars used by a railroad company to provide transportation services to its customers [154f.].

Thus the criteria appear to be the rendering of services which the citizens of the U.S. consume collectively and
consume while rendering. We will ignore the analogy to railways, for it is merely a repetition of the circulation-sphere approach dealt with earlier. If we concentrate simply on the circulation of "dollars" we can establish no criteria for determining the components of national income. So let us stick to the other criteria mentioned. That one should have to "use up resources and production" in order to render a service fit for inclusion in national income is somewhat mysterious; how the mere act of consumption can become the source of national product remains S's secret.

The reader might object that Marxists also say that capital consumption—i.e., the labor involved in transferring/preserving the value of the means of production—is productive, so that even if it does not produce new value and hence income, at least it preserves value by productively consuming it. And the reader might well have a point here were it not for the minor circumstance that the services rendered by jet pilots, etc., do not preserve anything. And therefore we cannot understand how such consumption can be seen as a source of national product. Furthermore, it is also unclear why resources have to be used up in the process. S might suggest that we, instead of concentrating on the sphere of military-services production, should focus on the crystal-clear sphere of circulation, for after all what counts is that these people are being paid, ergo they are rendering a service.

Fair enough. But then the criterion of using up resources is superfluous, unless by that is meant consuming the goods which the service-renderers buy with their incomes. If that is the case, then all consumption becomes production as long as it is mediated by "payment for services rendered," in which case we are back at the tautologies of the factor-income and flow-of-product approaches.

We do not want to labor this point, although it is interesting insofar as this distinction reflects the national limits of capitalism. On the other hand, a consistent application of the principle would lead to the conclusion that a worldwide nuclear war in which every country used up re-
sources in using up (i.e., destroying) the resources of other countries would make a vast contribution to the NNP of every country as long as there was no world government to outlaw this.

It appears then that the criterion of last resort for S’s inclusion of “G” in national-product accounts relates to whether collective consumption is actually taking place as a result of this expenditure. His discussion of democracy in the chapters on the state serves to justify the inclusion of military expenditures. In principle, the way to such an approach was opened when subjectivist theories of value began to supplant the last vestiges of a theory of capitalist society as a specifically historical and class phenomenon as embodied in classical political economy. From this point on the “decision as to whether government expenditures—particularly war expenditures—were to be included in national income revolved about the adequacy of the analogy of consumer preferences in the “private sphere” to the “public sector.”

Although definite social changes influenced this discussion, given the general framework of utility and production-factor theory, the development of the necessary criteria gave much subjective leeway to economists and statisticians. And it is for this reason that S concedes in a footnote that “how to treat government items in NNP is still somewhat controversial” (190 n.9).

Once subjectivist theory had gained preeminence, all theoretical barriers to the inclusion of state expenditures in national income were in principle removed. This, to repeat that important point, stems from the undifferentiated circulation-sphere approach, which identifies every expenditure with the creation of income.

In illustration of our point we would like once again to refer to Kuznets who seems to be more aware of some of the underlying social questions than many of his colleagues. He maintains that the “thorny problems” associated with national-income theory “arise largely from the conflict between the aim of the investigator and the recalcitrant nature of reality.” In other words, in spite of
the most high-powered and sophisticated mathematical apparatus, there remains an unshakable piece of societal objectivity which even "modern" economists are constrained to acknowledge.

What is this underlying social reality? In part Kuznets takes up this point in conjunction with his debate with Hicks, who had maintained that in a laissez-faire economy one might well exclude the state sector because of its negligible relative magnitude. Once this relative size increases, however, one is confronted with certain "qualms" about whether one opts for inclusion or exclusion: qualms with regard to inclusion because "everyone must have felt how peculiar it is to reckon a large production of armaments as a contribution to current economic welfare"; and qualms with regard to exclusion because "if we accept the actual choices of the individual consumer as reflected in his preferences . . . then I do not see that we have any choice but to accept the actual choices of the government, even if they are expressed through a Nero or a Robespierre, as representing the actual wants of society." Hicks sees the problem as an all-or-nothing affair, since he thinks it impossible to separate the final from the intermediate "government product," which would lead to exclusion altogether, or so-called double counting.38

Changes within capitalism, the transition from laissez faire to mixed economy, are responsible for the new ratiocinative gyrations of "modern" economists. Kuznets, in his response to Hicks's agnosticism on the issue of sorting out intermediate and final product in the governmental sector, defines final government product as "services to individuals as ultimate consumers and government capital formation"; the remainder of government product he defines as intermediate "whether it represents a specific service to business firms or is used for defense, maintenance, or expansion of the social system as a whole."39 Kuznets places particular emphasis on this distinction between intermediate and final product because Hicks's all-or-nothing approach can then be avoided.

Now let us take a closer look at these so-called inter-

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mediate government products. Here is how S depicts the issue: "Some experts say . . . that part of G is really 'intermediate' rather than 'final' product—much like dough rather than bread—in that it merely contributes to final private product already counted in (e.g., weather information for farmers who help give us our daily bread)" (190 n.9). The choice of so unrepresentative an example is typical of S's "scientific approach" in general, and of his strong desire to distract from the central role of war in the mixed economy in particular.

The difference between the classical and modern economists is not that the former were "pure" theoreticians trying to conceptualize a flowering capitalist mode of production while contemporary bourgeois economists are "pure" practitioners interested solely in devising policies to manage recurrent crises. Although the classical political economists did have a notion of a total social theory obviously lacking in contemporary economics, they were also eminently practical men. The difference, rather, lies in the form which the two very different objective situations gave to the theory-practice relation. In Ricardo's time the need for "practical policy," currently understood as state intervention, was different in the sense that the crises of capitalism, that is, those political-economic crises which threaten the very existence of capitalism, had not yet cropped up. They date back more or less to the immediate post-Ricardian era. Until that time, state activity was limited also largely by the fact that class struggle was still mired in the conflict between individual capitalists and workers. And only when the concentration of, and hence increased exploitation by, capital brought on the organization of the workers as a class and the subsequent struggle against the capitalists as a class did the state feel compelled to "intervene." Therein lies the rational kernel of the notion of laissez faire: as long as the crises of capitalist production had not brought forth a proletariat that had to be suppressed or pacified as the occasion warranted, the type of state intervention characteristic of the mixed economy had not become necessary.
What is the connection between these general remarks on the relation of theory and practice and the subject of national income? As implied earlier, S's inclusion of all of G in national income is dictated by the practical application of Keynesian theory. Whereas Ricardo saw profit production as the sole objective of the capitalist mode of production and treated the level of employment just as capitalism treated it, namely as subordinate to the production of profit, in the Keynesian era the working class had made clear that it was not willing to be treated as subordinate to the needs of capital. Keynes was looking for a political solution; for a "cure" to unemployment as potent as fascism and communism that would not destroy capitalism. He was interested solely in overcoming a specific crisis, the mass unemployment of the 1930s which had assumed critical political dimensions. He introduced a new subjective "goal": full employment, the basic concern of "the modern analysis of income determination" (7th ed., p. 352). But like all other subjectively oriented theories of national income, this too remained rooted in the sphere of circulation.

The important point with respect to our subject is Keynes's prescription of government spending. With full employment elevated to a "goal" of the mixed economy, all spending leading to it is thus subsumed in the national product. Keynes's main interest lay in the results of spending, however it was effected, in systematizing those efforts which in other societies may have provided employment only coincidentally.

Whether "the real national dividend of useful goods and services" is increased by government expenditures on jet bombers and pilots, judges, policemen, etc., is something S does not delve into. He is merely using "the simplest method of all"—namely adding "G." But since such spending has become the mainstay of the mixed economy, S cannot readily exclude it from national accounts, that is, he cannot admit that it "subtracts" from national production.

We might thus say that all "civil servants," including soldiers, are unproductive workers; they do not create value and therefore contribute nothing to national income;
they do not create the value from which their income stems. In this sense they are like any other "servant": they stand outside the capitalist mode of production in the sphere of consumption. Whereas a private servant's income derives from the component part of surplus which the "master" has title to, the income of civil servants derives from state revenues, which in turn derive from surplus value or wages. In this context S is correct when he says that

In using the flow-of-product approach to compute NNP as \( C + I + G \), we would not have to worry about taxes or how government finances itself. Whether the government taxes, issues interest-bearing IOUs, or prints new noninterest IOU greenbacks, the statistician would compute \( G \) as the value of government expenditures on goods and services (evaluating items at their cost, wherever the money came from)..." [190; our emphasis].

Since income originates in production, it is irrelevant "where the money comes from" that "pays" that income by exchange for the produced commodities in the sphere of circulation. But in our example it is not irrelevant, since we are dealing with those cases in which no income is produced. Here we do "worry" about where the money came from because no equivalent exchange has taken place. The value of the commodities produced by state "servants" is not being realized when transformed into the money form of value in the sphere of circulation, for here nothing is being bought and sold. Thus the wages of state employees itemized in national-income accounts represent double counting because they have already been counted in the before-tax-factor incomes. And this turns out to be no small sum. Thus with a national income of $851.1 billion in 1971, wages and salaries of military and civilian government employees totaled $18.6 billion and $105.2 billion respectively. In other words, about 14.5 percent of national income "flowing" to state workers would have to be subtracted from the stated total to arrive at an accurate income concept.
SO-CALLED TRANSFER PAYMENTS

The last point we will touch upon in this context is S's "treatment" of so-called transfer payments. In Chapter 8 S tried to draw a distinction "economically" between the income of government employees and that of pensioners. Government employees were seen as producing their income, that is, their income is included in NNP because they render services, use up resources and production, and provide collective consumption to the people of the United States. Pensions, however, are an entirely different matter:

Socially, it may be one of our most desirable expenditures, but nevertheless it is not a part of GNP or national income. Why? Because the widow does not render any concurrent services to the government or its citizens in exchange for the pension. She does not provide any labor, land, or capital. These goods and services that she buys . . . are attributable to the people and private factories that have produced them, not to her [155].

Let us clarify one point S fails to state clearly enough, namely that there is a difference between so-called welfare transfer and social-security pensions. The latter cannot be counted in NNP because they are counted when paid in. To figure them also when they are paid out would constitute double counting. And in this sense social-security payments are different: they are not deferred wages. But are they as different from the salaries of jet pilots as S would have us believe? Of the three criteria mentioned by S, we can eliminate the using up of resources and production, having already discussed it above. This leaves services rendered and collective consumption provided. In our opinion these two criteria coincide, and we can thus treat them jointly. Again we find ourselves back at the problem of whether "services" are in fact being rendered.

S offers no criterion that by some stretch of our marginal-utilitarian imagination would not just as well apply to blind widows as to jet pilots. Both provide collective consumption. If the pilot provides labor, then so does the widow, as demonstrated by her skill to survive on her skimpy allowance. The rest of S's reasoning falls down
completely. Thus the goods and services that no one buys are "attributable" to the buyers: by definition they are simply exchanging the money form of value for the same magnitude of value in commodity form. This in no way determines how the pilot and the widow got their incomes in the first place. And finally, is it any less true of jet pilots' salaries than of widows' pensions that "unless these expenditures are financed by new money creation or by bond borrowing, larger taxes will have to be levied on the public, and it is for this reason that they are usually called 'transfer expenditures'"? (155). Do jet pilots any more than blind widows produce the fund from which they are paid?

**NNP AND GNP / DISPOSABLE, PERSONAL, AND NATIONAL INCOMES**

In this last section we will examine S's analysis of the statistical relations among the various "items" in the national accounts.

S opens these subsections by stating that since we are already "armed with an understanding of the concepts involved," we can now look at the data (191). Of course, S has not developed any concepts up to this point; he has merely given us arbitrary definitions. And although he characterizes them as statistical-technical in nature, they conceal important social relations he is unaware of. And here, too, so-called statistical relations conceal relations of capitalist reproduction. Consumption is highlighted: NNP, for example, is called "the harvest we have been working for: the money measure of the American economy's over-all performance. . . ;" (193). Then, too, disposable income is accorded much space; defined as NNP minus taxes and undistributed corporate profits plus transfers, "the result is, so to speak, what actually gets into the public's hands, to dispose of as we please" (194; in the 7th edition [p. 183] it was getting into "our hands").

Other "items" appear almost as afterthoughts. Thus depreciation, which bourgeois economics itself admits must be taken care of before any distribution can take place, turns out to be an "item" "we add. . . . back into the figures"
in order to obtain GNP (8th ed., p. 180). And profit "should come last because it is the residual determined as what is left over after all other items have been taken into account" (193; our emphasis).

To regard profit as a "residual" may be seen as a vestige of the classical view of profit as the only component of net income: with depreciation and wages depicted as production expenses, what remains is a surplus, part of which will be claimed as income by various agents of production (rent, interest, and entrepreneurial wages), with the balance available for accumulation. But contemporary bourgeois theory offers no rationale for this view, since all "factors of production" are treated as equal. The only "problem here arises from the fact that S and his colleagues are perplexed about what to do with profit. The economist, taking his cue from the statistician, also regards profit as a residual. There it is justified by looking at the individual firm where materials, wages, interest, and rent are subtracted from sales revenues to arrive at the residual profit. But to assume that that which holds true for the individual capitalist also holds true for capitalism as a whole merely means falling victim to that "fallacy of composition" S is always inveighing against. Moreover, this sort of reasoning contradicts other aspects of income theory; for if we were to take the individual firm as our guideline, we would have to consider wages as a cost; we would also have to say that depreciation is not an afterthought but a prior deduction.

In any event, income "accounting" is not identical from the point of view of the individual capitalist and the aggregate economy. And this factor, implicit in the "complexities" of national-income theory, reflects essential characteristics of the capitalist mode of production.

S tells us that we are interested in disposable income because "it is this sum . . . that people divide between (a) consumption spending and (b) net personal saving" (194). Whereas "we," "the public," can "dispose as we please" of this part of national product, there is also that other "item," undistributed corporate profits or "net corporate saving," "that part of corporate incomes which they fail to
distribute as dividends” (204; our emphasis).

What then is the relation between the individual firm and the capitalist economy as a whole? S contends that a “businessman” or a “policy-maker” would be interested in disposable income because the manner in which that income is broken down into consumption and saving, namely the propensity to consume, is an essential aspect of effective demand. And a capitalist is of course vitally interested in the distribution of income insofar as it affects the profitability of his capital. However, the “financial prudence” of the individual capitalist in “writing off” larger sums than he intends to reinvest will not be very prudent as far as capitalist society as a whole is concerned, since he is thereby reducing the amount of income “left there for us to dispose of as we please.” Thus although the individual capitalist sees the distribution of NNP as prerequisite for the profitability of his capital, the very nature of competition precludes his taking into consideration income distribution insofar as the results of his own actions are concerned. This would be imprudent.

Similarly with the division of NNP into wages and profits. It is “prudent” for a capitalist to keep wages as low as possible since, all other things being equal, this determines his profit and rate of profit. If every capitalist were to do this, then “effective demand” would suffer. But in capitalist reality, as opposed to ledgers, wages are not deducted from NNP to arrive at the residual profit. Rather both wages and profit are determined by the laws of capital accumulation from which all the contradictions between consumption and investment so faintly reflected in Keynesian theory must derive.

In this sense, the “formalities” of the accounting schema are not equipped to identify these faint reflections. This is not surprising since Keynes arrives at these “paradoxes” through subjective reasoning, whereas the national accounts are willy-nilly useful objective surface information despite their conceptual distortion at the hands of subjective value theory.