The Anti-Samuelson

BY MARC LINDER

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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.
The Capitalist Industrial Cycle
S’s Chapter 14

During the 1960s the Depression nightmare was fading into history. The economy had nine years of almost uninterrupted prosperity, and long-run planning became very fashionable. The planning frequently wasn’t very sophisticated, though, sometimes amounting to little more than “one good year deserves another.”

Businessmen in the 1960s became so euphoric that many decided it was smart to keep on expanding during any slowdown—that it was important to “look beyond the valley.” Then came the recession of 1969-70... The recession reminded businessmen of the business cycle, of the fact that every year would not necessarily be a repetition of the past one.

—The Wall Street Journal, September 20, 1972

Considering that the contradictions of capitalist production find their clearest expression in the cyclical movements of economic activity, and considering also the enormous immediate impact of the capitalist industrial cycle on the daily life of the members of capitalist society, one might expect an introductory economics text to stress its significance. However, not so S: the effects of the cyclical development on the people living under capitalism are practically ignored, while the theoretical questions underlying the phenomenon are not assigned a key role in the science of economics—they merely form one of many branches of investigation.
This failure is due largely to the basic inability of contemporary bourgeois economics to understand the cycle; a superficially more plausible reason is to be found in the attitude adopted by bourgeois economics in the post-World War II period toward the cycle as an empirical phenomenon.

We will therefore begin our discussion with a review of this empirical reality and then proceed to an analysis of the theories presented by S.

I / HISTORY AND PRESENT EMPIRICAL REALITY OF CAPITALIST INDUSTRIALIST CYCLES

S’s sustained effort to persuade the reader that we are here dealing with rather innocuous material is the most interesting feature of the empirical approach to “business” cycles: “We now turn to the related problems of how the level of national income has fluctuated, and how economists try to forecast the future” (249). But although the chapter ostensibly seeks to determine whether the cycle is “a thing of the past, a museum piece,” S has prejudiced the search for the truth from the outset by reducing the phenomenon to the rather neutral term “business fluctuations,” which in turn are characterized as “simply one further aspect of the economic problem of achieving and maintaining high levels of jobs, production, and progressive growth along with reasonable price stability” (250). If on the one hand S tries to minimize the significance of cycles, on the other he drops hints at strategic intervals that tend to absolve society of responsibility, describing the phenomenon as a natural dysfunction. Thus he compares cycles to “the fluctuations of disease epidemics, of the weather, or of a child’s temperature” (250). And again in the concluding section of the chapter he repeats the analogy to natural catastrophes, asking whether the neoclassical synthesis has put “this curse of capitalism” to rest “in the same way that modern medicine has ended such scourges as polio and smallpox” (266).
Turning from the ideological climate S has established to his empirical treatment, we are struck by the focus on the Great Depression of 1929-41. It is given the dual task of warning us about the dangers confronting the "forces of democracy" among "the electorate in a mixed economy" if it slackens in its "new attitude" toward the "economic science" which "knows how . . . to keep any recessions that break out from snowballing into lasting chronic slumps" (266 f.), and of implying how well off we are today by comparison.

This longest and deepest stagnation period in the history of capitalism is taken as the gauge against which all subsequent cyclical movements are to be measured. As to post-World War II cyclical movements, S gives us only the skimpiest information; in essence it consists of one figure showing "business activity" as a "per cent of long-term trend" (250 f.). Although the figure shows very striking features during the period from 1902 to 1972, it is nonetheless deficient for a variety of reasons. To begin with, the reader is never told how the chart was constructed—that is, which economic "activity" is being measured; secondly, S does not even tell us what he means by a "long-term trend" (251, 253 n.1). As far as the post-World War II period is concerned, the figure 14-2 (252) offers a much more useful set of statistics. How does S interpret this material? "Let us first stick to the facts and statistics," he says. "Later we can attempt to devise hypotheses and explanatory theories to account for the facts" (251). From a pedagogical standpoint one must agree that the beginning student should be given this sort of useful information before being offered an explanatory theory. However, the material should be based on theoretical criteria, so that what follows makes sense to the student. However, because bourgeois economics has failed to develop any coherent theory of cycles, we are left with certain striking observable phenomena, which in turn lead back to theoretical pluralism. As happens so often, S fails to take an unambiguous stand; at best he ventures the statement that others "believe that the business cycle has finally been tamed" (266). In support of this view he con-
tends that his graphs show "that the American mixed economy has reduced recessions in the post-World War II period to brief and infrequent punctuations in the progress of sustained growth" (266). Or, alternatively, he points out that a statistical series such as personal income "did not decline in any recent recession. It rears its ugly head in the form of a slowing down of the rate of growth . . . as compared with its normal or long-term 'secular trend' " (253).

And although he concedes that it is "premature" to relegate the business cycle to the museum, "nevertheless," with the help of the neoclassical synthesis, "expansion periods tend to be longer and fuller than in the past: the periods of recession . . . tend to be less frequent and shorter. Perhaps only half the customary number of recessions will take place; and many of them will last scarcely a year. . . . And mixed economies like West Germany have gone two decades without a single recession. . . ." (7th edition, p. 255.). But that was back in the mid-1960s, when it was fashionable to define recessions as a slower rate of growth rather than as an absolute drop of production.

But then came the recessions of the late 1960s and early 1970s—"the 27th full-fledged slump in U.S. business history" since 1854—and more sober talk was heard:

Back in the mid-1960s, some economists and politicians in Washington declared that the U.S. economy had entered a "new era" in which the traditional business cycle of expansion-recession-expansion was dead. Henceforth, these optimists proclaimed, business activity would perpetually expand, under the deft "fine-tuning" of federal experts, without any nasty old recessions to spoil the fun. Events since 1969, of course, have made painfully clear that the business cycle remains very much alive.1

If instead of looking at statistical series such as personal income which, particularly in view of the recent high rates of inflation, are not likely to register absolute drops, we look at the various "synthetic" indices of (physical) industrial production, we find that absolute drops have indeed taken place. Thus a look at 1966-67 figures in West Ger-
many show that industrial production fell from 117.4 in 1966 to 114.2 in 1967 (1963 = 100), with consumer-goods production dropping from 117.3 to 11.8. (IMF, International Financial Statistics, XXV/8 [August, 1972], 148.) Similarly, indices for the U.S. also show absolute declines. Thus according to the *Business Week* index (1967 = 100) industrial production peaked at 113.0 the week of October 11, 1969, reached bottom at 102.0 the week of November 14, 1970, and did not regain the previous peak until the week of May 20, 1972; after several more weeks of fluctuations, the index finally broke through the old mark toward the middle of July, 1972. Thus, as the accompanying chart shows, it took almost three years for industrial production to take off from a previously attained level. And looking at the chart comparing the development of industrial production during four post-World War II cycles, we see that the latest “recovery” has by far proved to be the most “stubborn.”

Was it hindsight or a slip of the pen when, in the 8th edition, S inverted his formulation and said that “expansion periods tend to be frequent and shorter” (p. 250)? In summary we can say that S has not given us a “survey of business-cycle history” (246) but rather a misinterpretation of useful statistical material on the current period. Ulti-
mately S agrees that "the business cycle has been tamed" (267), although "changes in cold-war spending can have initially destabilizing effects upon general business activity" (266). "Tamed" for whose benefit? S gives the impression that it is "the electorate" or, in other words, the mass of the working people who have decided to ward off their own revolution by reducing unemployment. And in Chapter 41 S himself admits that although "there is nothing special about G spending on jet bombers, intercontinental missiles" etc., in point of fact that is what G is being spent on. Why? "It lies inside the realm of politics, not economics. An economically illiterate electorate may less reluctantly use the tools of the new economics for war than for peace purposes" (8th ed., p. 804).

On the one hand S admits that the fluctuations of the cycle have been reduced by military spending, while on the
other he tries to take a critical stance against military spend­
ing as one of the few "destabilizing" factors still to be con­quered. And most remarkable of all, he claims that "the electorate" has chosen to concentrate on warfare expendi­tures at the expense of schools, hospitals, housing, etc.

II / DESCRIPTION OF THE CYCLE

We now turn to S's general characterization of the cycle as opposed to the empirical presentation of the previous sec­tion and his attempt at theoretical explanation in the last section. For S it seems almost self-evident that "business conditions rarely stand still," that "prosperity may be fol­lowed by a panic or a crash." (249). But then he seems to change course, saying that "such . . . was the so-called 'business cycle' that used to characterize the industrialized nations of the world for the last century and a half at least—ever since an elaborate, interdependent money economy began to replace a relatively self-sufficient pre­commercial society" (249).

Thus rather than being a characteristic of economic ac­tivity per se, cyclical movements now appear to be peculiar to money economies. We know from the previous chapter that money played an important role in the controversy over Say's Law. How is it used here? The point S hints at is not new, it has been treated in detail by one of the founders of modern business-cycle research, Wesley C. Mitchell, who raises the issue in the context of a discussion of the disagreement in the first quarter of this century over the causes of cycles, namely whether they are related to capitalism or the money economy. Mitchell propounded the following view:

The feature of modern economic organization which throws most light upon business cycles is that economic activities are now carried on mainly by making and spending money. This condition is characteristic of capitalism; but that term puts its stress upon other features of the present scheme of institutions—such as the ownership of the means of
production—features of primary importance in certain problems, and not to be neglected here, but features of less service in the effort to understand alternations of business prosperity and depression than the feature stressed by the term "money economy. . . ."

One reason why the connection between business cycles and pecuniary organization was long overlooked is that the difference between the use of money in communities which do not and in communities which do suffer from business cycles is a difference in degree, not a difference in kind. . . . Capitalism seemed to many men in the nineteenth century, men not versed in economic history, a new portent in economic life. They fastened upon it as an explanation of many phenomena which seemed to them equally new—commercial crises among others.5

This represents an objectively complex view. On the one hand it offers an unhistorical way of regarding the development of social relations, and on the other, there is "something" to the emphasis on money. But the contradictions inherent in the sphere of commodity and the sphere of circulation can resolve themselves in crises only in the presence of other concrete phenomena unique to capitalism. It is only under capitalism that commodities and money exist as dominant elementary forms of economic activity. But there is an important difference between Mitchell and S. S, when referring to a "money economy," is not interested in any essential distinctions between it and a "barter economy." For him, the key word is "interdependent," which in this context is supposed to mean that inherent in any complex economic society is the possibility of socially caused fluctuations. But Mitchell means something else when he speaks of a money economy:

Modern economic activity is immediately animated and guided, not by the quest of satisfactions, but by the quest of profits. Therefore business cycles are distinctly phenomena of a pecuniary as opposed to an industrial character.6

By emphasizing the value aspect of money in its concrete social form ("profits"), Mitchell in effect attacks the thesis
of interdependence and indicates that cycles are specific to one society alone—capitalism.

S seeks to strengthen the impression that we are dealing with a technological phenomenon of "modern industrial society" by subordinating the cycle to the "trend line" both empirically and methodologically. We know that he views the "tamed" cycle as a temporary interruption of the normal upward trend of economic activity; now we are told that the trend line is the basis for grasping the cycle: "If we draw a smooth trend line or curve . . . through the strongly growing components of GNP, we discover the business cycle in the twistings of the data above and below the trend line" (253). This approach unfortunately confuses the real—namely the contradictory process of the self-expansion of capital—with the fictional average or "normal" rate of growth. Joseph Schumpeter, in his monumental study of cycles, comes close to this insight when he remarks that the trend

carries realistic meaning only in discrete points or intervals. If we connect them by straight lines or fit a smooth curve to them, it must be borne in mind that the stretches between the neighborhoods are nothing but a visual help and devoid of realistic meaning without facts corresponding to them. Real is only the cycle itself.7

S continues along the lines of stressing the "modern industrial" nature of cycles by criticizing certain nameless "early writers" who, "possessing little quantitative information, tended to attach disproportionate attention to panics and crises" like those of 1720, 1837, 1873, 1893, 1904, and 1929 (253). This statement is both revealing and confusing. First of all, by joining such different crises as those of 1720 and 1929, S not only falls into his wonted ahistorical approach to modes of production, but also makes it obvious that in a substantive context he does not or cannot take his own thesis about the connection between cycles and "the money economy" seriously.

The rational kernel of the "money economy" thesis lies in the fact that once a sphere of commodity and money cir-
calculation has established itself, and in particular once the function of money as means of payment and its derivative concrete expression in credit relations have developed, crises become possible. Thus the crises of the eighteenth century, though generally touched off by political events, were examples of such monetary, credit, and speculative crises. But we must draw a distinction between these crises and those of the nineteenth and twentieth centuries, which, though at times seemingly speculative, were periodic industrial crises, at other times had the surface appearance of speculative crises. Secondly, by his loaded reference to “panics and crises,” S prejudices the examination of the phases of the cycle. Perhaps the most striking aspect of his description is its undifferentiated approach to the phases: they just seem to keep going from one phase to the next with no laws governing their overall direction. The phases have even been given innocuous-sounding names (expansion, peak, recession, trough) that tend to conceal the social upheavals that mark both the cycle and the intervals between cycles.

This approach deters an understanding of the objective function of the cyclical development as a whole and of each of the phases. According to S, “no two business cycles are quite the same. Yet they have much in common” (249). True, but what is it that they do have in common other than minor deviations from the trend? In the past, bourgeois economists were less reluctant to examine the aggregate economic function of cycles. Thus Hubert D. Henderson, in a book written in the 1920s, and cited by S himself in another context (389 n. 8), implied that “fluctuations” were neither simple deviations from a norm nor rectifiable deficiencies, but that the cycle was an inherent part of capitalist production through which certain fundamental forces had to express themselves. Once we understand why these forces express themselves in this way we can see that the emphasis on the cycles themselves as an almost timeless succession of qualitatively similar processes hides the fact that “the new cycle is not a mere repetition of the
Previous one: Every cycle is at the same time a stage in the history of capitalism which drives it a bit closer to its end."

Similarly we must understand that although "each phase requires special explanatory principles" (253—which S never gets around to), their relative value within the cycle itself is determined by the objective function of the cycle as a whole within capitalist production. As we have pointed out, the function of crisis is to destroy enough capital to reduce the amount which has to be self-expanded; to create enough unemployment so that wages can be reduced; to cause enough bankruptcies, and hence centralization, and hence increased competition, so that productivity can be increased: in short, to act on the factors affecting the rate and mass of surplus value so as to restore conditions of profitability. But every new upswing, every new wave of accumulation, brings with it an increase in the organic composition of capital, and the reproduction of the contradictory forces leading to the cyclical fall in the rate of profit.

S might say that some of this reasoning did perhaps have relevance in Marx’s time, and also that it is precisely the realization in practice of the "new economics" that has brought forth a new reality, and hence the need for a new theory or theories. Yet there is vague acknowledgment on the part of S of the continued existence of the fundamental forces when he says that "today it is recognized that not every period of improving business need take us all the way to full employment and true prosperity" (253). This serves as a further illustration of a phenomenon which we have touched on repeatedly, namely, that the apparent Keynesian successes are usually the result of a shift in the form of appearance of a basic capitalist contradiction either temporally onto another national capital, or onto another economic area. In this case, the state’s ability to shorten the depression or stagnation phase of the cycle was made possible by curtailing the capital destruction and unemployment brought on by the crisis phase; but by preventing these self-healing forces from working themselves out, so
that the conditions of profitability can be restored, state intervention simultaneously works against the traditionally "explosive" boom.

The last aspect of the cycle touched on by S, which he calls "a first clue to business fluctuations: capital formation" (255), will bring us to the next section on business-cycle theories. From the outset confusion reigns here, since S groups so-called consumer-durables (cars, washing machines, etc.) and capitalist "investment goods" (Marx's Department I—means of production), thus making it impossible to differentiate between the effects of the cycle on the reproduction of capital with respect to means of production and means of consumption.

The causes of cyclical development cannot be understood without taking into account the differential effect of the purchase of a residential house or an automobile and that of a new steel mill. The acquisition of new means of production (as well as of new labor power) represents part of the process of capital accumulation, and its development lies at the root of the intensity of upswings and crises. Consumer-durables purchases—especially since they tend to be bought on credit—can help in the realization of surplus value and extend a boom (even if only seemingly), but they are in no sense the basic factor.

S's confusion and/or identification of the two stems from the Keynesian circulation-sphere approach stressing spending regardless of its socioeconomic function. But even where S does single out capital investment in the stricter bourgeois sense of the term, he does so from a technological point of view; that is to say, he points to the fundamental material role of pig iron, etc., in the production process (255). This is an important factor and part of the rational kernel of the "accelerator" theory. But the one-sided emphasis of the technological aspect deprives the theory of a comprehensive grasp of the social entity represented by capital, and ultimately prevents it from contributing to the explanation of cycles.

S's attempt to account for the fluctuations in the demand for "durable goods" (which he equates with the "capital-
goods sector of the economy") demonstrates how technological theories degenerate into ideology:

By their nature, durable goods are subject to violently erratic patterns of demand. In bad times their new purchase can be indefinitely postponed; in a good year, everyone may suddenly decide to stock up on a 10-year supply of the services of durable goods at the same time [253].

Now there is nothing inherent in the means of production (or at least S has failed to prove the contrary) to make demand for them more erratic than demand for means of consumption. But then of course S is not really talking about what is inherent but about "good" and "bad" times; this becomes clear when we read the small print, which informs us that "profit fluctuations coincide with investment fluctuations" (255). But then this means that cycles are not only bound up with the "money economy," but more specifically with an economy which produces for profit and stops producing when profit is not forthcoming. But S has failed to specify these factors, and as a result, his theory is bound to suffer.

III / THEORIES

The practice of bourgeois economics to fasten on superficial observable and measurable phenomena has led to the postulating of a number of causes of cycles, and hence to a number of theories. This kind of "theoretical pluralism" finds expression in S's emphasis on "investment" and in his eclectic approach. Without a comprehensive theory of capitalist production as a whole, a modern economist has no other alternative but to point out the variety of forms in which cycles appear and to lend plausibility to theories which try to make sense of such seemingly disparate phenomena.

The distinction S draws between so-called internal and external theories has validity for the history of economic theory. The question arises, however, whether a different
interpretation of S’s distinction might not lead to other conclusions. For the time being we can accept his description of internal theories as discovering (self-generating) cycles, because in its generality it can apply to a Marxist theory of crises as an aspect of the self-reproducing contradictions of capitalist production. It is the so-called external factors such as technology and population which we must look at more critically. On the one hand, these factors are not external insofar as the development of capitalism brings forth both the specific technological advances (e.g., “labor-saving” machines) and the conditions which allow or inhibit the use of such innovations. Similarly, it is not changes in population as such, but rather the constraints which capitalist production forces on population growth that is the relevant factor in explaining economic development. In part S acknowledges these considerations when he speaks of technological inventions as acting “on business through net investment” or “the economic system . . . feed[ing] back on the so-called ‘external factors’ ” (257); but he reverts to his empirical, untheoretical approach when he refers to investment “fluctuations” as “capricious and volatile” in their dependency on technology and population (259).

On the other hand, to the extent that these factors do have relative autonomy, they may modify the length or intensify a phase of a cycle, but they cannot form the foundation of the cyclical movements of capitalist production, they cannot be the cause of the cycles. We can illustrate this in the following way: in conjunction with so-called Kuznets cycles, S mentions labor supply and supply of other resources as important factors (8th ed., p. 239). Cyclical movements are characterized by sudden spurts of expansion and contradiction; this means that sudden expansions are possible only if a sufficiently large reserve army of unemployed is readily available. If the cycle were dependent on the natural growth of the population (or of the labor force), then it would not start in the first place, because the new upswing would have to wait for a generation of workers to grow up. But capitalism provides for itself in this respect by its reserve army of unemployed and its methods for increasing the production of relative surplus
value and absolute surplus value, proof enough that cycles have their origin in a specific societal organization of production and not in nature or technology.

Let us now look at S’s critique of Marx’s theory of the “business” cycle (incidentally, the 8th edition is the first to say specifically that it is directed against Marx), offered in the context of a discussion of “some simple examples of possible, crude internal theories” (257). It is ironic that the crudeness attributed to Marx in fact inheres in S’s explanation of cycles.

S has succumbed to a basic error, namely he has confused the cause of crises with the cause of their periodicity. In Marx’s view, the turnover of the fixed capital is not the cause of the crisis but merely explains why the contradictions underlying the crises find their “solution” in crises marked by a certain regularity or periodicity. According to S, Marx and some bourgeois economists reason as follows: If all durables had the same lifespan, the business cycle would be explained by the bunching of new purchases at one time (upswing) and stagnation of business activity until the durable goods wore out (depression). But, S interjects, neither equipment bought at the same time nor identical cars produced at the same time will be replaced at the same time (257 f.). This is the sum total of S’s critique. His revealing statement “never mind how” the boom gets started, prejudices the analysis from the outset, because Marx explains how it gets started, just as he explains that the crisis must also get started, on the basis of social features peculiar to capitalist production.

Marx does not reduce cycles to any sort of alleged production conditions of modern industry; he merely points to the increasing proportion of total social capital bound up in fixed capital as the “material foundation of periodic crises.” The fixed capital (not to be confused with constant capital, which is a category of the sphere of production), comprising basically the machinery and buildings of capitalist enterprises, unlike the circulating capital (raw materials plus variable capital), is not used up all at once; that is to say, it enters into the process of production and remains there as use value, while its exchange value is
gradually transferred to the new commodities produced by these machines and in these buildings. With the wearing-out of the machine, the whole value of the original machines is transferred to the new commodities produced, the value is realized in the price of the products sold, and a new machine can be bought. At this point, Marx says, the fixed capital—(so called because only the value of the machine circulates, whereas the use values themselves are fixed in the sphere of production) has turned over. While the fixed capital may turn over once very five to ten years (a building may be amortized over fifty years), the circulating capital may turn over several times a year. Now S objects that not all durables wear out simultaneously. First of all, "consumer" automobiles are not capital (although trucks, etc., used by capitalist enterprises are), and hence of no interest here. Secondly, the wearing-out of capital equipment is only in part due to "natural" wear and tear; in large part the replacement of machinery is forced upon capitalists by competition; if their competitors have more efficient machines, then older machines will have to be junked before they have worn out. S himself concedes this when he says that "in a good year, everyone may suddenly decide to stock up on a 10-year supply of durable goods at the same time" (255). And finally, it is not at all necessary that all equipment wear out or be replaced at the same time. It is enough that the fixed capital in crucial branches (such as machine tools for heavy industry, or even pig iron, to use S's example) have approximately the same turnover period in order to impose cyclical form on a whole industry and the entire national capital. As we have seen, the need for "rationalization" of production following the crisis phase to keep from going under or to capture the largest possible share of the extra profits assures a certain uniformity in the renewal of fixed capital.

THE "ACCELERATION PRINCIPLE"

This brings us to the central theoretical point of this chapter. Since this section offers the only systematic explanation of cycles, one can only marvel at S's suggestion to instructors that "the material on the accelerator can be soft-
pedaled." But then one becomes a little less perplexed when one learns that S also believes that the entire chapter "could be skipped." But regardless of the peripheral significance S attaches to cycles and their theoretical investigation, let us analyze the accelerator. Various bourgeois economists have raised objections to the accelerator principle largely on empirical or methodological grounds. S cannot be ignorant of them, since he has done some of the leading work in the field. Yet some of them are serious enough to merit mention by S, at least in the form of his customary "modifying" or "qualifying" factors, which in effect wind up undermining the theories they relate to; S's failure to do so is a serious omission.

In a widely used macroeconomics text, Barry N. Siegel summarizes some of the commonly criticized weaknesses of the accelerator:

A word of warning is appropriate here. The acceleration principle, even though it has explanatory value in the field of business-cycle analysis, is as yet an unconfirmed hypothesis, despite some fairly elaborate attempts to demonstrate its validity. That it has not been confirmed should not be surprising. The mechanical model . . . contains a number of assumptions which, if not realized in fact, will seriously impair the precision with which the acceleration effect works. First, the model assumed that businessmen were working with plant and equipment which were fully utilized before the process began. This assumption will rarely be realized in fact, especially for the economy as a whole. A further assumption was that each increase in demand for finished goods is regarded as permanent by entrepreneurs. Businessmen may prefer to press their equipment at an overcapacity rate of use until they are sure that the increase in demand is permanent enough to justify additional capital facilities. . . . A final assumption was that the technical capital-output relation was constant, that the new equipment designed to provide additional productive capacity, as well as to replace the depreciated facilities, was the same as the old. Actually, many businessmen use different and technologically superior equipment in their expansions and replacements.
One of the studies referred to by Siegel, which attempt to verify the accelerator empirically, concluded "that the acceleration principle cannot help very much in the explanation of the details in real investment fluctuations, with the possible exception of railroad rolling stock."  

A more fundamental criticism, in particular of the accelerator-multiplier model, has been offered by Hegeland:

When the multiplier principle can be meaningfully employed, as is the case just before a recovery is started, it will be completely meaningless to apply the acceleration principle since all industries can be expected to have excess capacity; whereas, on the other hand, when the use of the acceleration principle, in connection with the disappearance of excess capacity, may make sense, the multiplying effects of autonomous expenditure will be of a very limited reach.

Hegeland proceeds to stress the superficial nature of these models:

By combining the multiplier and acceleration principles neat models have been worked out that are subjected to regular variations, which numerically resemble the proportionate variations of some relevant magnitudes during the course of a business cycle. Such a model, however, reduces the business cycle problem to a mere question of disproportionate development of various quantities by concentrating on the indications only of changes, and refrains from any thorough analysis of the structural and qualitative processes below the surface of quantitative changes which actually determine the whole process.

Common to most of the objections to the accelerator is the opinion that, whatever its defects, it nonetheless makes a contribution to business-cycle theory. We would say that despite some rational content, the accelerator in its present form contributes little to an understanding of the fundamental forces that regulate capitalist development.

First of all, the accelerator is largely based on technological considerations. It places primary emphasis on the fact that tooling up for increased demand takes so long that the
backlog of unsatisfied demand results in an enormous increase in the production of means of production; the second "technological fact" refers to the lifetime of the means of production themselves: the longer their life, the longer the period over which they depreciate, the smaller the amount of yearly wear and tear that has to be replaced. (Interestingly enough, S's illustration [261] shows only simple reproduction; there is no capital accumulation at the initial point of departure.) The smaller the yearly replacement investment, the larger the fluctuations of gross investment brought about by the new investment needed to supply the producers of means of consumption—and vice versa in a downswing.

The irony here of course lies in the fact that this is more or less the "crude" internal theory falsely attributed to Marx. The emphasis on technology conceals great ideological advantages, by claiming that cycles and crises are rooted in "our modern industrial society." In a very distorted manner the accelerator reflects the fact that a given rate of growth of production of means of consumption (Department II) requires a higher rate of growth of the production of means of production (Department I); for "the rapidity of economic growth is determined by the margin by which the output of Department I exceeds the replacement requirements for the means of production of Departments I and II."17

Since capitalism expresses the growing productivity of labor through the more rapid growth of constant capital as against variable capital and surplus value, the only way in which the variable capital and surplus value in Department I can overtake the constant capital in Department II (the precondition for expanded reproduction) is for Department I to expand more rapidly than Department II.18

The ideological fruit of the accelerator once again is the projection of consumption as the driving force behind production in capitalism. The accelerator makes things easy for itself by starting us off in the middle of the process: we see extra demand in action. But where did the additional demand come from? If it merely represents a shift in demand
from one commodity to another, then we cannot expect an increase in total production. If it represents an increase in total demand, then one would have to determine why the previous “round” of production resulted in such an increase of solvent demand. The solution to this would become difficult in S’s model since he presupposes simple reproduction. Why the capitalists should suddenly use part of their revenue for, or rather transform it into, capital accumulation, remains unclear. What the accelerator reflects—and here we come to the second of the rational kernels—are the different conditions for realization in the departments of production devoted to means of production and consumption. The realization of the value embodied in the means of consumption is dependent by and large on wages (plus capitalist personal consumption revenue); realization of the commodities produced by producers of means of production depends on demand from within this Department I and from the producers of means of consumption. The latter will require more means of production only when demand exceeds their present output facilities; in large part, then Department I producers are dependent on prior expansion of Department II. Thus the “volatile fluctuations” of Department I are not so much due to the technological longevity of the machinery as to the understandable social fact that capitalists are loath to produce “ahead of the market.”

The basic difficulty in the accelerator model seems to be that demand for means of consumption does not rise at a constant rate, with resultant fluctuations in Department I. But rather than being some kind of technical problem, this relation reveals the ultimate connection of the production of means of production to the “buying power” of the mass of the population—the working class. The accelerator theory merely accepts as given the contradiction between the limited purchasing power of the working class and the unlimited development of productive capacities. Although it can make some quantitative statements about this contradiction in the form of the disproportionalities between Departments I and II, it literally does not know what it is saying, and by shifting attention to technical and technological con-
siderations, it actually buries the explanation of social contradictions under ideology.

Bourgeois economics attempts to transform the contradictions of capitalist production into external limitations of scarcity. S claims that the "law" of the accelerator decrees that "society's needed stock of capital . . . depends primarily upon the level of income or production. . . . Net investment, will take place only when income is growing" (260). The word "or" in the first sentence makes for ambiguity: if we are talking about production in the abstract, then obviously there is some relevance to establishing what Marx calls the technical composition of capital—that is, the relation of machines to workers needed to produce some given mass of use values. But when S talks about "income," he is becoming involved in a value category that conceals class contradictions—namely, that between wages and surplus value. If for some reason income were to grow as a result of wages rising more than profits fall, it is unlikely that investment would increase. On the other hand, if income rose because profits rose faster than wages fell, then investment would be sure to increase, but the bottom would soon drop out of the market because the flagging mass consumption power would make itself felt.

Or again, S explains a "downturn" by asking how can "a system grow forever at 6 or 7 per cent if its labor force grows only at 1 or 2 per cent and workers' productivity grows only at 2 or 3 per cent?" (262). If it were really a matter of such use-value considerations, then cyclical crises would be common to every "industrial" economy; yet S himself has admitted that socialist countries need not fear business cycles.19 In any case, S's presentation does not deal with the specific crises of capital accumulation which cannot be explained on the basis of use-value "bottlenecks."

In the final analysis, the only solution to the problems revealed by the accelerator is comprehensive planning, but if bourgeois economists wait for capitalism to develop such planning on the basis of the neoclassical synthesis, they will wait in vain.
Notes and References

PREFACE

1. In an article entitled “Econ. 101: An Increase in ‘Relevance’ Demand Causes Rise in Supply” The Wall Street Journal outlined this development:

Student impatience and boredom with standard macroeconomics...have encouraged new course content. “The student is a restive fellow today,” says Mr. Samuelson. “He’s uptight with the environment and the war.”


2. As Business Week, published by the same corporation (McGraw-Hill) which publishes S’s textbook, remarked with respect to “the ninth edition, a lavishly diagrammed, 42-[sic] chapter, four-color production selling for $11.50” which “is now the central feature of a marketing package that includes a study guide, programmed text, outside readings, instructor’s manual, test bank, and transparency masters”:

The extra effort is becoming a necessity in an increasingly competitive market, “Samuelson’s dominance won’t continue indefinitely,” says Charles R. Wade, marketing manager for McGraw-Hill’s business and economics texts. “How long he can keep his book high on the charts depends upon how well he keeps up with the needs of the field.” (“Samuelson’s text never grows old,” 24 March 1973, pp. 58 f.)

S. himself, on the other hand, with “annual royalties well into six figures” (ibid.), can afford to neglect profit considerations and claim that all that “effort” has no other function than to satisfy the consumer:

Publishing has its economics and the fact that so many use this text permits an up-to-dateness that is invaluable in a subject like economics. ... McGraw-Hill has cooperated magnificently in producing a book whose print, color diagrams, and layout have been designed with the sole purpose of aiding in mastery of the economics subject matter. (5th ed. 1961, p. vi.)
In reality, of course, the economics of publishing encompasses another aspect—it is a sphere of investment which, for instance, in 1971 offered a 10.7 percent rate of profit on stockholders' equity (Statistical Abstract of the United States: 1972, p. 483); in 1970 the value of shipments of the printing and publishing industry amounted to more than $25 billion (ibid., p. 711); and in 1967 the four largest book publishers accounted for one-fifth of total industry shipments by value (ibid., p. 705). McGraw-Hill itself was the 292nd largest industrial corporation in the U.S. in 1972 with sales of about $430 million and profits of approximately $22.5 million. (Fortune, LXXXVII/5 May, 1973, p. 232) and although it is considerably larger—in part because it is "diversified"—than its major competitors in the traditional economics textbook field such as Prentice-Hall (1971: net income of $16.5 million on sales of about $134 million [Moody's Industrial Manual 1972 (N.Y., 1972) II, 2859]) and Harper & Row (1971: profits of $1.7 million on sales of $59 million [ibid., I, 71f.]), it too must contend with RCA, the 19th largest industrial corporation in 1972 with sales of almost $4 billion (Fortune, op. cit., p. 222), which has acquired the far-flung publishing empire of Random House.

These data serve merely to indicate that in this industrial branch as in all others, nothing is produced which does not represent a potential profit to the capitalist producers.

3. We have no further interest in these various "put-up jobs." Our concern in this connection is with numerous attempts by individuals and groups, understanding themselves explicitly as left-wing or socialist in political intent, to present an attack on "orthodox" economics. As a result of the student-movement and professional-economist origins of most of these authors, their work has been characterized, despite their forthright opposition to U.S. capitalism, by a certain adherence to bourgeois theories and uncritical political-economic views of students, the working class, imperialism, the Soviet Union and other phenomena. (Perhaps the most significant effort in this direction to date is E. K. Hunt and Howard J. Sherman, Economics: an Introduction to traditional and radical views (N.Y., 1972). This book is meant not so much as a critique of the standard economics texts as a replacement; this has its good marketing grounds, for unless it "covers the same material" as S it cannot gain Harper and Row, the publisher, entry into "the lucrative book market in economic principles courses." (The authors of the present book are aware of this strategy from per-
sonal dealings with Prentice-Hall.) Partly as a result of this constriction, but no doubt also partly as a result of the theoretical convictions of the authors, this arrangement leads to a degradation of the notion of critique, for the book is so constructed that the teachers using it are offered a take-it-or-leave-it proposition with respect to the radical critique of capitalism and of “traditional” economics. (See, for example, Hunt and Sherman, Instructor’s Manual to Accompany...[N.Y., 1972], p. 45).

Despite these limitations, we regard the rise of intellectual endeavors in opposition to capitalism—endeavors manifested, for example, in the activities of the Union for Radical Political economics—as a significant phenomenon indicative of profound changes in society which have begun to surface. As Engels noted almost a century ago:

The wakening insight that the existing societal arrangements are irrational and unjust, that reason has become nonsense and benefit torment, is only an indication of the fact that silently in the methods of production and forms of exchange changes have taken place with which the social order which was tailored to earlier economic conditions no longer agrees. This also means that the means for the elimination of the abuses which have been discovered must similarly be present—more or less developed—in the changed relations of production themselves. These means are not say to be invented out of the head, but are rather to be discovered by means of the head in the material facts of production in question. (Anti-Dühring. Section 3, part II; German ed., Marx-Engels Werke [MEW], XX, 249.)

4. A noteworthy attempt to come to grips with such a problem was undertaken by Bertolt Brecht in some notes made toward the end of the 1920s; although specifically written with regard to intellectuals in Germany at the time, they have a certain wider relevance which merits examination:

The legitimate distrust of the proletariat brings the intellectuals into their difficult position. They often undertake the attempt to coalesce with the proletariat, and precisely this proves not that there are different intellectuals, two sorts of intellectuals, such who are proletarian and such who are bourgeois, but rather that there is only one sort of them, for did they not in the past always try to coalesce with the ruling class? Was this not the reason why the intellect assumed its commodity character?

If the intellectuals want to take part in the class struggle, then it is necessary to grasp intellectually their sociological constitution as a unified one and one determined by material conditions.
Their view which has often come to light, namely it is necessary to go under in the proletariat, is counterrevolutionary. . . . The real revolutions are not (as in bourgeois historiography) produced by feelings, but rather by interests.

The interest of the proletariat in the class struggle is clear and unambiguous, the interest of intellectuals, which is historically established, is harder to explain. The only explanation is that the intellectuals can hope for an unfolding of their (intellectual) activity only through the revolution. Their role in the revolution is determined by this: It is an intellectual role.

Revolutionary intellect distinguishes itself from reactionary intellect by being a dynamic, politically speaking, a liquidating intellect. ("Schwierige Lage der deutschen Intellektuellen," in Bertolt Brecht, Schriften zur Politik und Gesellschaft. Gesammelte Werke, XX [Frankfurt, 1967], 52 f.)

CHAPTER 2


2. It is crucial to realize that the thrust of S's argumentation unreflectingly presupposes that this reproduction, that is, presupposes that "every economy must somehow solve the three fundamental economic problems." (38) In other words, the possibility that the "problems" will not be solved is not even included for consideration. This means that no explanation is offered for why certain societies (or whole modes of production) fail to "solve" the "problems" and what the consequences of this failure are. Just as the rise of no "economic society" is even described, so too the possible decline and/or overthrow of one is avoided. This aspect does not belong to economic theory, but rather to the branch of economics called economic history which only specialists are concerned with—so the methodology of bourgeois economics. When the occasion arises to mention such historical transformations—see for instance the discussion of U.S. slavery in ch. 39—recourse is had to technology and other "external" factors. No analysis of the societal changes taking place is offered. Although such a procedure might be considered unfortunate but at only peripheral interest since the decline of slavery or feudalism is "ancient
history” and thus has no bearing on modern economic analysis, it is precisely here that this approach becomes most pernicious; for S’s analysis does not allow for the possibility that capitalism will not “solve” the “problems.” But more important here is that S, by limiting his criteria for the problem and the solution almost exclusively to technological considerations, in effect declares the eternal nature of capitalism since the successor economy is not defined by social relations—or, alternatively, the end of history altogether is implied since man would have become incapable of dealing with the material reproduction of human society.

3. (Letter of 11 July 1868, in MEW, XXXII, 552f.)
4. Ibid.
5. Ibid., p. 554.
7. Capital, I, Ch. 7, Sect. 1; German ed., pp. 194 f.
8. See the motto to Ch. 5 below with a passage from Samuelson’s “Foreword” to Riva Poor (ed.), 4 Days 50 Hours (Cambridge, 1970), p. 8.
11. It is of some ideological interest that in the just-cited footnote the 9th edition no longer includes S’s gratuitous reference to “giv[ing] the country back to the Indians; similarly in the 8th edition the reference to “Southern hillbilly” was changed to “white people in Appalachia.”
14. See Marx, “Introduction” to Grundrisse, Capital, III, Ch. 51; German ed., p. 886.
15. Capital, I, Ch. 24; German ed., p. 742. For data on the proletarianization of the work force in the major Western capitalist countries in the post-World War II period see Edward F. Denison, Why Growth Rates Differ (Washington, D.C., 1967), pp. 46-50. We will present more detailed statistics on these trends in various places in the book.
16. Capital, I, Ch. 4; German ed., p. 189.
17. Of course S prejudices the matter by speaking of “revolutions” with respect to these factors and the changes called forth by the response of the economic system to them. Changes of this
kind are in fact associated with an unplanned mode of production. It must be noted that it is in fact claimed that any “rational” economic activity will be guided by the same principles which underlie the price system; furthermore, although this is not always clearly distinguished in S, other authors, working with a conception of supply and demand superordinate to prices, do very openly claim universality: “The profound adjustments of supply and demand will work themselves out and work themselves out again for so long as the lot of man is darkened by the course of Adam.” H.D. Henderson, *Supply and Demand* (New York, 1922), p. 17.

20. *Capital*, I, Ch. 5; German ed., p. 194.
21. See *Capital*, I, Ch. 15, Sect. 2; German ed., Ch. 13, p. 414.
22. See Aristotle, *Nicomachean Ethics*, Book V, Ch. 5.
23. *Theories of Surplus Value*, III, Ch. 21, Sect. 3b; German ed., *MEW*, XXVI:3, 264 f.
24. *Capital*, I, Ch. 14, Sect. 5; German ed., Ch. 12, p. 386.
27. J.W. Galbraith, *The New Industrial State* (N.Y., 1968), chs. 18-20; in more popular format this thesis was presented in the bestseller by Vance Packard *The Hidden Persuaders* and has since been given wide coverage in all the media including a recent prime time one hour report on network TV advertising. A brief essay at applying a Galbraith-type critique to many of the “ideological” notions of neo-classical economics as presented in S’ textbook was recently published by the Austrian bourgeois economist Friedrich Romig, *Die ideologischen Elemente in der neo-klassischen Theorie: Eine kritische Auseinandersetzung mit Paul A. Samuelson* (West Berlin, 1971).
29. Ibid., pp. 31f.
30. Ibid., p. 32.
31. Ibid., pp. 34 f.
32. Ibid., p. 35.
34. *Grundrisse*, p. 15.
35. Ibid., p. 7.
36. Ibid., p. 13.
37. Ibid., p. 15.
42. Capital, III, Ch. 10; German ed., pp. 184, 204 f.
43. Capital, III, Ch. 10; German ed., p. 206.
44. Samuelson et al., Instructor’s Manual . . ., p. 10.

CHAPTER 3

1. Marx, Capital, I; German ed., MEW. pp. 185 f.
2. Ibid., p. 647.
6. Methodologically it must be taken into consideration that the depression phase of the industrial cycle increases the relative share of the working class. Since on the whole the poor did not pay income taxes in the 1930s, S’s figures are doubtless pre-tax. However, we can also compare them with the after-tax figures for 1966, in which case the lowest 10 percent of the population raises its share by a miniscule share to 1.36 percent, still lower than that for 1936.
7. See Business Week, April 1, 1972, pp. 56 f.
8. See for example T. Morgan, “Distribution of Income in Ceylon, Puerto Rico, United States and United Kingdom,” Economic


13. The relation of the area above the Lorenz curve to the total area below the 45-degree line; O represents complete equality, 1 complete inequality. For those interested in the mathematical derivations of the Lorenz curve and Gini coefficient, see Joseph L. Gastwirth, "The Estimation of the Lorenz Curve and Gini Index," in Review of Economics and Statistics, LIV/3 (August, 1972), 306-16.


15. This of course does not rule out the possibility that in certain professions, for instance medicine, which in the U.S. are still largely noncapitalist in nature, prices for "services rendered" may be paid on the basis of supply and demand and/or partial monopoly, and may vastly exceed education and other costs of reproduction, thus allowing for a large "profit."


CHAPTER 4

1. K. Marx, *Capital*, V. II, Ch. 15.


4. Ibid., p. 103. See here for instance the part a university “education” plays in forming this “utterly reliable committee for managing the affairs and pushing the common interests of the entire big-property class”, p. 105.


6. *Capital*, III, Ch. 1, p. 34.


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CHAPTER 5

1. R. Lester, *Economics of Labor* (New York, 1941), pp. 4 f., 12 f.; our emphasis.
4. Ibid., p. 333.
5. William Haber, *Industrial Relations in the Building Industry* (Cambridge, 1930), pp. 198f. Our underlining. Since the construction industry is usually singled out for criticism in this area, we refer to a study which develops the hypothesis that on the whole unions increase productivity; see Allan B. Mandelstamm, "The Effects of Unions on Efficiency in the Residential Construction Industry: A Case Study," *Industrial and Labor Relations Review*, XVIII/4 (July, 1965), 503-21.

CHAPTER 6

4. Ibid., p. 364.
5. Ibid., p. 366; this is a recurrent theme: cf. the statement by a tax lawyer on the effects of a 1962 law to close loopholes for siphoning profits overseas to avoid taxes: "‘Before 1962, we had a license to steal. The ‘62 law, by its sheer complexity, stopped some of that. But there hasn’t really been much change—we just work harder to achieve the same thing.’" *Wall Street Journal*, Oct. 16, 1972, p. 26.


13. Capital, I, Ch. 10, Sect. 7; German ed., p. 320. Cf.

14. Source: Statistical Abstract of the United States, 1972, p. 312. (Cf. below Ch. 12 for the intervening years.)

15. Anti-Dühring, Part III, Sect. 2; German ed., MEW, XX, 259 n.


17. Statistical Abstract, 1972, pp. 278, 299. Now these latter categories are collected under the heading public assistance; in the requested budget authority for 1973, insurance and retirement payments amounted to ca. 5½ as much as public assistance expenditures. (Weidenbaum and Larkins, op. cit., p. 42.)


20. First National City Bank, Monthly Economic Letter, August, 1972, p. 15.; see also Malcolm Cohen, "The Direct Effects of Federal Manpower Programs in Reducing Unemployment," Journal of Human Resources, IV/4 (Fall, 1969), 491-507; Sylvia Small, "Statistical effect of work-training programs on the unemployment rate," in Monthly Labor Review, XCV/9 (Sept., 1972), 7-13; see also a report on a criticism of the program by the capitalist National Urban Coalition which points out that "the program was not primarily used to help the 'chronically unemployed, difficult-to-place persons,' who have trouble competing in the labor market." New York Times, Oct. 22, 1972, p. 72, cols. 3-5.


23. Handbook on Income Transfer Programs, op. cit., p. 28. Certain improvements were made by recent legislation, but the trends remain unchanged.


27. "Das Arbeiterprogram" (Labor's Program), in Gesammelte Reden und Schriften, II, ed. E. Bernstein (Berlin, 1919), p. 181. This was written in 1862.


30. Incomes in Postwar Europe, op. cit., Ch. 6, p. 26; although the U.S. relies relatively less on indirect taxes than other countries, it does "compensate" for this by using ones called by this report "rather more marked" with respect to degree of regression than the other countries reported on. Ibid., p. 27.


CHAPTER 7

3. Ibid., p. 315.
5. A. Smith, op. cit., Book I, Ch. 6.
7. Ibid., p. 9.
10. Ibid., p. 504.
12. Ibid., pp. 12f.
15. Ibid.
17. L. Robbins, op. cit., pp. 56f.)
18. Ibid., pp. 15, 14.
19. Ibid., p. 15.
22. Ibid., pp. 115, 114.
23. Ibid., pp. 115 f.
26. *Capital*, I, Ch. 8; German ed., Ch. 6, p. 214.
27. Ibid., p. 221.
CHAPTER 8


2. It must be stated here programmatically that we are not implying that unemployment is the essence of capitalist crisis. On the contrary, unemployment is a necessary and "healthy" aspect of the capitalist reproduction process. The emphasis on employment derives from an attempt to deal with the rise of Keynesianism in an immanent manner. Keynes' esoteric side, as it were, is the set of theories and programs of state intervention designed to improve the conditions of profitability. A contradiction arises, however, between the political necessity of avoiding mass unemployment and the economic necessities of capital accumulation which the state can in the last analysis not override. (Cf. C. Deutschmann, Der linke Keynesianismus [Frankfurt, 1973], pp. 208-10.)


5. Ibid., pp. 277-79.

8. Ibid., pp. 11, 13, 53, 22, 36.
12. Source: Charles Bettelheim, L'économie allemande sous le nazisme, (Paris, 1971 [1945]), II, 84; for similar statistics of industrial production for several other capitalist countries and for all capitalist countries taken together through 1933, see Eugen Varga, Die grosse Krise und ihre politischen Folgen, in E. Altvater (ed.), Eugen Varga, Die Krise des Kapitalismus und ihre politischen Folgen, (Frankfurt, 1969), pp. 239 f.; 1962 Supplement. . . , op. cit., p. 53, while indicating that the breakdown between "consumer goods" and "equipment" is unavailable before 1947, does show that "durable" manufacturing output still lagged considerably behind the output reached in 1929 as late as 1939 whereas "non-durables" had reached the 1929 level already by 1935-36. This is a good indicator of the failure of a genuine "recovery" period to appear before World War II. It should be noted that the exact positional value of armaments production within the Marxist schema of reproduction is still a matter of controversy; we would agree with the view presented by Hans Wagner, "Die zyklischen Uberproduktionskrise der Industrieproduktion in den USA in den ersten beiden Etappen der allgemeinen Krise des Kapitalismus (1914-1958)." in Jahrbuch für Wirtschaftsgeschichte, 1964, Part 4, pp. 80-82, according to which such production must fall into the category of social consumption (for the purpose of stabilizing class rule) and thus becomes a subdepartment of department II which produces consumption commodities. In this sense then most Keynesian economies have "statistically" bloated department I's.
17. (Neumann, Behemoth, (New York 1966 [1942], p. 316; in general


23. Ibid., p. 167.


29. P. Baran and P. Sweezy, *Monopoly Capital*, (New York, 1966); we do not mean to diminish the importance of this political critique; rather our purpose is to point out how influential Keynesianism has been among the left—so much so that it has led to the abandonment of a large part of the theoretical field to the class enemy.


32. Ibid., p. 377.

regards this as "a kind of 'freewheeling' detour by Keynes in his less responsible moments."

35. Ibid., p. 373.
36. Ibid., p. 9.

49. By 1971 U.S. investment in Canada reached ca. $35 billion: the U.S. accounts for 80% of all foreign investment in Canada which in turn accounts for but 4% of corporate profits. (See *Economic Notes*, June, 1972, p. 7; August, 1972, p. 3; October, 1972, p. 10; *Neue Züricher Zeitung*, Oct. 24, 1973, p. 15.)
(Penguin, 1968), p. 237. Ironically this situation also recon-
structs that of the pre-1930s period inasmuch as capacity utili-
zation even then was low; thus during the 1925-29 period
manufacturing plant utilization averaged 80%. (See Edwin
Nourse and associates, America's Capacity to Produce ([New
York, 1934], p. 301.) The fact that unemployment was relatively
low at this time reveals that the overaccumulation of capital is
not a particularly efficacious method of maintaining "full em-
ployment." We will return to this point below in discussing
the limits of state intervention along Keynesian lines.)

52. Business Week, "Why the Big Deficits Fail to Stimulate," (March

53. Federal Reserve Bulletin, LVII/8 (August, 1971), 661 f. Our un-
derlining. Several months previous to that Nixon's Council of
Economic Advisers struck a similar note with respect to in-
creased union militance. (Economic Report of the President,
[Washington, D.C., 1971], p. 61.)

54. David C. Smith, "Incomes Policy," in Caves et al., Britain's


56. Barry Bosworth, "Phase II: The U.S. Experiment with an In-
comes Policy," in Brookings Papers on Economic Activity, 2:1972,
p. 353.

57. Monthly Labor Review, XCV/12 (December, 1972), 2; 20 percent
of executives labored under the same "misunderstanding."

3-11 on "pre-Keynesian dissenters."


60. Ibid., p. 33.

61. See Ricardo's letters to Malthus of 9 July 1921 and 21 July 1921
in The Works and Correspondence of David Ricardo. IX (Cambridge,
1962), 16, 26, in which he, despite his theoretical disagree-
ments with Malthus, appeals to the lack of empirical evidence
of the type of stagnation which Malthus theorized about.


63. Ibid., p. 355.

64. R. F. Harrod, The Life of John Maynard Keynes (London, 1951),
p. 462.


66. These three aspects emerge even more explicitly in Say: (2)
"money is but the agent of the transfer of values"; "the silver
coin you will have received on the sale of your own products,
and given in the purchase of those of other people, will the
next moment execute the same office between other contracting
parties, and so on from one to another to infinity; just as a
public vehicle successively transports objects one after the
other”; (1) “a product is no sooner created, than it, from that
instant, affords a market for other products to the full extent of
its own value”; (3) “precisely at the same time that one com-
modity makes a loss, another commodity is making excessive
profit. And, since such profits must operate as a powerful
stimulus to the cultivation of that particular kind of products,
there must needs be some violent means, or some extraordi-
nary cause, a political or natural convulsion. . . . to perpetuate
this scarcity on the one hand, and consequent glut on the
other. No sooner is the cause of this political disease removed,
than the means of production feel a natural impulse towards
the vacant channels, the replenishment of which restores activ-
ity to all the others.” (A Treatise of Political Economy (5th Ameri-

67. Theories of Surplus Value, II, Ch. 17, Sect. 8; MEW, 26:2:502.
68. Keynes, General Theory. . . . op. cit., p. 20.)
69. D. Ricardo, The Principles of Political Economy and Taxation (Lon-
don, n.d.), Ch. 21, pp. 193, 197.
According to this definition, capitalism will exist forever since
it will never fulfil such needs. In contrast to such reasoning as
well as to the demagogic appeals of Keynes and certain of his
disciples to the need to increase consumption in order to over-
come crises, we may quote the rather realistic statement of
Alvin Hansen which indicates why Keynesian policies always
seem to reduce to “public works” of some sort rather than a
higher marginal propensity to consume for the population at
large which would be tantamount to redistribution from “rich”
to “poor”: “It is not easy to solve the problem of full employ-
ment by raising consumption. It is true that there are untold
consumer wants waiting to be satisfied. But it is not possible to
leap from this fact to the conclusion that unemployed resources
can, therefore, be readily absorbed in the consumer goods in-
dustries. The fact is that, at moderately high income levels,
persistent institutional factors determine within rather rigid
limits the ratio of consumption to income” (Fiscal Policy and
Business Cycles [New York, 1941], p. 248.)
72. Ibid.
73. Ibid., p. 54; cf. also ibid., pp. 23 f.
76. Ricardo, Principles. . ., Ch. 31, p. 267.
77. It is only consistent that Malthus, whom Keynes praised so highly for having anticipated the doctrine of effective demand, rejected Ricardo's views of net and gross revenue while adopting the "modern" approach which "democratically" elevates wages to equal status. (See Malthus Principles of Political Economy (London, 1820), pp. 423-26.)
78. Ricardo, See Works and Correspondence. . ., I (Cambridge, 1951), lvii-lx; also the correspondence between Ricardo and McCulloch from April to June 1821 in op. cit., III (Cambridge, 1952), 364-400.)
80. Ibid., p. 271.
81. Ibid., p. 270, n. 1.
82. Ibid., pp. 267 f. Ricardo devotes some space to discussing what modes of spending by the landlords and capitalists as consumers and the state—wars—will have the most effect on employment, concluding that since luxury commodities purchased by "those who are fairly entitled to . . . gratification and enjoyment" lead to no further employment, workers "must naturally desire that as much of the revenue as possible should be diverted from expenditures on luxuries to be expended in the support of menial servants."
83. For Ricardo's own estimate see Works and Correspondence. . ., op. cit., VIII, 387.
86. Capital, III, Ch. 15, Sect. 4; German ed., p. 274. Cf. also Marx' sarcastic comments on the future which Ricardo describes for the working class in capitalism as luxury producers and menial servants: namely "that to win their necessaries, the same amount of them, the same number of labourers will enable the higher classes to extend, refine, and varify the circle of their enjoyments, and thus to widen the economical, social, and political gulf separating them from their betters. Fine pros-
pects, these, and very desirable results, for the labourer, of the development of the productive powers of his labour.” *Theories of Surplus Value*, II, Ch. 18, Sect. B 1 d; German ed., *MEW*, 26:2:574.


92. Ibid., p. 349; our emphasis.


94. Malthus, op. cit., p. 466.

95. Ibid., pp. 479 ff.


97. Ibid., pp. 252 f.

98. As late as 1912 Joseph Schumpeter could write that Malthus’ proposition “that the consumption of unproductive, especially of luxury goods, was necessary” “appears very strange to us today but was very common at the time.” See *Economic Doctrine and Method* (New York, 1967 [1954]), p. 150 (= *Epochen der Dogmen- und Methodengeschichte* [Tübingen, 1912]).

99. Some of these arguments can best be understood by looking over the exposition of Marx’ theory of value below Ch. 10.

102. Sect. 8; MEW, 26:2:501.
103. Ibid.; 26:2:501f.
104. Shoul, op. cit., p. 620.
105. And as we shall see in Ch. 10 most bourgeois economists, including S, are still subject to this sort of criticism.
106. *Theories of Surplus Value*, Ch. 17, Sect. 8; MEW, 26:2:504f.
107. It should be noted that Ricardo, despite his allegiance to Say’s Law, also entertained a vision of capital stagnation in the form of a falling rate of profit; but with Ricardo this latter did not flow from his labor theory of value; rather it was derived from Ricardo’s non-comprehension of the difference between profit and surplus value, of the grounding of the organic composition of capital in the sphere of production, and of the difference between value and price of production; since for Ricardo there was no difference between the rate of surplus value and the rate of profit, or rather, because he ignored the constant capital and examined only wages, and since he looked only at the rate of surplus value (and here he knew only relative surplus value stemming from productivity increases’ lowering the value of labor power and neglected absolute surplus value driving from a lengthened working day), he could derive a falling rate of profit only from rising wages. In fact, Ricardo took as his starting point here the alleged diminishing fertility of land which would lead to rising prices of the food constituting the wage commodities of the working class; hence profits would fall. (See *Theories of Surplus Value*, II, chs. 15 and 16.)
109. Ibid., p. 21.
110. Ibid.
111. Ibid., pp. 104 f.
112. Ibid., p. 31.
113. Ibid., pp. 29 f. Although in general Keynes consistently adhered to this realistic judgment as we shall see in the discussion below of savings and investment, he sometimes slipped back into a rather shallow and vulgar view. Thus in a 1929 pamphlet entitled *Can Lloyd George do It?*, written together with H.D. Henderson, which supported the Liberal Party’s public works program, Keynes said: “Individual saving means that some individuals are producing more than they are consuming. This surplus may, and should, be used to increase capital equipment. But, unfortunately, this is not the only way in
which it can be used. It can also be used to enable other individuals to consume more than they produce. This is what happens when there is unemployment. We are using our savings to pay for unemployment instead of using them to equip the country." (Cit. acc. reprint in Essays in Persuasion, op. cit., p. 123.) The overwhelming proportion of saving—and particularly during a period of stagnation such as the 1920s in the UK—is done by people who have never produced anything and whose entire consumption represents a deduction—not from the savings of those who work, to be sure, but from the product they have produced. This cannot be otherwise in capitalism: "In order to produce 'productively,' production must be such that the mass of the producers is excluded from a part of the demand for the produce; production must take place in opposition to a class whose consumption stands in no relation to its production—since the profit of capital consists precisely in the excess of its production over its consumption. On the other hand, production must take place for classes which consume without producing." (Theories of Surplus Value, III, Ch. 20, Sect. 3b; MEW, 26:3:117.)

114. A. Hansen, A Guide to Keynes, op. cit., p. 29, n. continued from p. 28: "Investment has no purpose except to provide consumers' goods."


116. See General Theory, . . ., op. cit., p. 27; as we shall see in a later section, Keynes ignores the rising organic composition of capital which leads to the "employment" of less labor by a capital of a given size.

117. Ibid., p. 105.

118. Ibid., p. 31.

119. See ibid., pp. 164, 213, 219 f., 308 f.

120. Ibid., pp. 317 f.

121. Grundrisse. . ., op. cit., p. 636. It must be kept in mind that Marx was not ignorant of the factors working to halt the fall in the rate of profit; he was even aware of such "modern" methods elimination of taxes on profits, unproductive waste of a large parts of capital, etc. See ibid., pp. 636 f.


123. Theories of Surplus Value, II, Ch. 17, Sect. 6; MEW, 26:2:493.

124. General Theory. . ., op. cit., pp. 23 f., 53 f.; aside from the
psychological element involved here, it must be kept in mind that Keynes defined profit as "profit upon alienation"—that is, as the excess of income above cost; in other words, profit is interpreted as stemming from the sale of the commodities and is thus determined by total effective demand in the sphere of circulation.

125. Ibid., p. 293.
126. Ibid., pp. 258-60.
127. See ibid., pp. 5, 17, on Keynes' allegiance to marginal productivity theory; cf. Deutschmann, Der linke Keynesianismus (Frankfurt/Main, 1973), p. 33.
128. The text which Keynes chose for scrutiny was A. C. Pigou, The Theory of Unemployment (London, 1933), because it "is the only attempt with which I am acquainted to write down the classical theory of unemployment precisely." (General Theory... op. cit., p. 279.) Despite the greater realism which Keynes exhibited with respect to practical solutions, both he and Pigou displayed a certain cynicism towards the misery of the working class. Thus in answer to suggestions of sharing the work, Keynes stated that "at present the evidence is, I think, strong that the great majority of individuals would prefer increased income to increased leisure. . . ." (Ibid., p. 326.) Since tens of millions of workers were already enjoying "leisure" twenty-four hours a day, this statement is meaningless; but if the suggestion is meant that wages are not reduced—that is, profits are—then Keynes might be offered other "evidence." Pigou, on the other hand, emphasizes exclusively the other aspect so that he can say that "prima facie, when account is taken of the fact that an unemployed man escapes the dissatisfaction involved in work, it might seem doubtful whether there is any net subjective cost at all" in unemployment. (The Theory of Unemployment, op. cit., pp. 13 f.)
131. Keynes, General Theory... op. cit., p. 104.
132. Ibid., p. 106; we say relative because in the last analysis the production of means of production is limited by the ability of producers of consumption commodities to realize their capital in sales to the working class.
134. Ibid., pp. 220, 221, 224.
135. See above, Ch. 3.
136. It must be noted that the latter income is pre-tax so that a post-tax income of ca. $10,000 would have to be used for comparison; this would mean that ca. 50 percent of all families had no savings.
138. Cf. Galbraith, The New Industrial State, (New York, 1963), p. 48: “There is no reason to suppose that saving has become more democratic since that time” (i.e., 1950).
141. Keynes, General Theory...op. cit., p. 107 f.
142. Ibid., p. 108.
143. General Theory...op. cit., p. 63.
144. Ibid.
145. Samuelson, See “Full Employment versus Progress and other Economic Goals,” in Max Millikan (ed.), Income Stabilization for a Developing Democracy, A Study of the Politics and Economics of High Employment without Inflation (New Haven, 1953), pp. 547-82, esp. 549-54. This article was written at a time when various postwar plans for avoiding a repetition of the depression of the magnitude of the 1930s were still being debated.
146. Keynes, General Theory...op. cit., pp. 183f.
147. Ibid., pp. 245-47.
148. Ibid., p. 96.
149. Ibid., p. 249.
150. Ibid., p. 250. In the debate which the publication of Keynes’ General Theory provoked, Keynes himself was not at all reticent about emphasizing the fact that the psychological law of consumption “was of the utmost importance in the development of my own thought, and it is, I think, absolutely fundamental to the theory of effective demand as set forth in my book.” (“The General Theory of Employment,” QJE, LIII/2 [Feb., 1937], 220.) Then again in a letter to a critic Keynes wrote: “ ‘My theory itself does not require my so-called psychological law as a premise. What the theory shows is that if the psychological law is not fulfilled, then we have a condition of complete instability.’ ” (Quoted in E. Gilboy, “Reply,” QJE, LII/4 [August, 1939], 634.)
152. Ibid., p. 105.
153. Ibid., p. 27.
155. Ibid., p. 69.
158. Alvin Hansen, Economic Policy and Full Employment (New York-London, 1947), pp. 48, 46. We will forgo elaborating on the reasons Hansen adduces for this inequality such as: "the inequality of native capacities produces an unequal marginal value product among different individuals" such as "the opera singer or the movie actor." (Ibid., p. 46.)
159. Williams, op. cit., pp. 369 f.
163. Dillard, The Economics of John Maynard Keynes, op. cit., p. 82.
165. Sumner Rosen, "Keynes Without Gadflies," in Theodore Roszak (ed.), The Dissenting Academy (New York, 1968), p. 69. For S' personal life, on the other, practice what you preach is alleged to be reality; thus in a recent television interview, when asked in conjunction with his defense of Presidential candidate McGovern, whether anyone pays the 70 percent income tax rate, S replied: "I do, many people do." ("Wall Street Week," October 28, 1972, 6:30-7:00 p.m., Channel 52, Trenton, N.J.)
168. Ibid., pp. 150-52.
CHAPTER 9

10. Capital, II, Ch. 9; English ed., p. 186; German ed., p. 185.
12. Ibid.
16. Ibid., p. 255; for another critique of S' accelerator-multiplier


18. See L.B. Al’ter, Burzhuaznaia politicheskaia ekonomia SShA (Moscow, 1961), pp. 593-99. Although as we shall see below the accelerator reflects societal contradictions peculiar to capitalism, Marx too saw a need for planned continuous relative overproduction of fixed capital in post-capitalist society to take care of the requirements of reproduction. See Capital, II, Ch. 20, Sect. XI, p. 3; English ed., pp. 468 f.; German ed., pp. 464 f.

19. See Ch. 8.
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