The Anti-Samuelson

BY MARC LINDER

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Microeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY
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Chapter 12: Central Banks and Fiscal Policy (S’s Chapters 17-19)

There is in general only one expression of bourgeois confidence in any form of the state: the latter’s quotation on the Exchange.


INTRODUCTION

We finally find ourselves approaching the seemingly ubiquitous, omniscient Fed. It is hardly accidental that the elevation of the state to the status of deus ex machina remains inextricably bound up with another “convention”—money. For money and the state, as bourgeois social philosophers since Locke have been telling us, are creatures of man—having made them, we make them serve us.

We have established in previous chapters that money is not an “invention” but the result of a social process: the working out of the contradiction inherent in the commodity. The thesis according to which money is a mere convention must be seen as a moral, nonscientific, ideological approach to reclaim for capitalism society’s forces propres which the latter has lost to the things of its own creation.

S has not undertaken to analyze the specific qualities of money in capitalism; where he does refer to monetary and credit phenomena peculiar to developed capitalism, he does not establish the link to simple commodity circulation but merely grabs from the surface of the present-day United States the most obvious “concrete” phenomena. Nor does
he draw any logical connection between any of his categories. The only connections we are shown are those arbitrarily arrived at on the basis of "functions," graphs, "definitions," "conventions" (e.g., criteria for GNP "accounting," etc.).

HISTORICAL ORIGINS OF THE FEDERAL RESERVE SYSTEM

This brings us to that august institution which owes its existence to "the panic of 1907, with its alarming epidemic of bank failures: the country was fed up once and for all with the anarchy of unstable private banking. . . . The Federal Reserve System was formed—in face of strong banker opposition" (292). Was that really the way it happened?

Having gotten to know S's free and easy way with truth, we would guess not. Gustavus Myers describes the background thus:

The panic of 1907, like previous panics, supplied the propitious opportunity to the great magnates to crush out lesser magnates and seize control of their property.

The requirements of industrial centralization demanded the effacement of certain minor magnate groups which, from the point of view of the great magnates, had possessed themselves of a rather dangerous degree of industrial and financial power.¹

Morgan and Rockefeller were interested in "getting" the Heinze-Morse group that controlled certain competing copper and steamship companies. To this end the stock prices of these companies were driven down until the owners were driven out. Then Morgan and Rockefeller went after banks and trusts associated with this group, which in turn led to runs on several banks. At this point J. P. Morgan entered the public stage as the nation's savior by organizing a "pool" to stem the tide of falling share prices—to buy them dirt-cheap.

It so happened that one of the affected trusts was controlled by Morgan's major competitor, The Tennessee Coal and Iron Company—the only other steel producer with an independent source of iron ore. The only hitch was that the
antitrust laws prohibited such a combination (524); by the way, S conveniently fails to mention this little ploy. Morgan sent his representatives, Gary and Frick, to Theodore Roosevelt to inform him that if the takeover were thwarted, he would unleash the worst panic in the history of the country, leading to the closing of every bank. Roosevelt caved in and did just as Morgan bade him.¹

Now S asserts that this made the country fed up. Again we have good reason for being suspicious. In Chapter 6 S found it necessary to indulge in a little apologetics for old J. P. Morgan (127 f.), by informing us that no one was “hurt” by the issuance of watered-down stock after the formation of the Steel Trust. In fact, Morgan persuaded and coerced his own steel workers into buying the common stock; his skillful manipulations forced the price down from 44 to 8¾, at which point Morgan “saved the day” again by buying back the shares and repeating the whole process over again ad infinitum.²

What about the Fed? How was the alleged “banker opposition” structured? The point here is that Morgan’s dictatorship at the end of the nineteenth and beginning of the twentieth centuries was under attack both from within and without the banking sphere. Rockefeller in particular had capitalized a bank from the profits reaped from Standard Oil. The Fed in part was established to undermine J. P. Morgan’s special position of the bankers’ banker.

A helping hand in creating this system was lent by Senator Nelson W. Aldrich, who was related by marriage to the Rockefellers, the banker Paul Warburg of Kuhn, Loeb, and other opponents of the Morgan dictatorship. Their efforts did not bring immediate victory. In its “infancy” (up to the beginning of the 1930s) the system greatly depended on the Morgans, because, first, it did not as yet work with the provincial bankers who were natural enemies of Wall Street and, second, its main link, the Federal Reserve Bank of New York, was headed by Morgan men.³

But by the end of the 1930s the Fed had served its purpose of breaking up the Morgan hegemony.
Allegedly the Fed will do away with this sort of chicanery and skull-duggery. But can it? It is dealing with a system composed of private banks dedicated to make the transformation of money capital into commodity capital and productive capital and back again as smooth as possible. To the extent that this technical operation is vested in a central bank it can doubtless be made more efficient: i.e., it can waste less productive capital in the sphere of circulation; it can gather "idle" money and money capital from all social classes and geographic areas in order to lend it out to capitals more in "need" of it at a given time; it can, and in fact does, represent a higher stage of capitalist socialization of the process of production inasmuch as it allows capitalists to function with capital that does not "belong" to them; but, while accelerating the "material development of the productive forces and the establishment of the world market," credit, as the greatest feeder of overproduction, also accelerates the violent explosions of crises.4

Can a central bank prevent the blatant capitalist infighting à la Morgan? To the extent that a capitalist central bank functions, it can do so only as a link in the production and accumulation of surplus value. This greatly restricts the scope of the bourgeois state as ideal aggregate capitalist, for it can act only as the representative of certain individual capital or capitals (capitalist faction). Which capitals will gain and which lose must be determined empirically in each case. This becomes obvious particularly in the U.S., where the central bank is a non-state capitalist enterprise: it is literally a union of private banks in which the largest ones (in fact, only a few banks and/or bank monopoly combinations bulk large) fight for preeminence.

This is not to say that the state cannot intervene at all. But there are limits to its power. Thus, it can make laws that forbid the watering of stocks; it can "insure" banks, etc.; but it cannot create more surplus-value than has already been produced—it cannot insure total social profitability. But in general, it cannot intervene in the essential processes of value and capital.
FED—INTRODUCTION TO THE REALITY IT IS MEANT TO DEAL WITH

What then are the miracles that the Fed hath wrought? Although S in typical fashion points out that there is "nothing automatic" about deposit-creation, still his description of Fed interventions lead one to believe that our fates rest in good and wise hands that know how to tame the excessive swings of the business cycle. This confidence derives from the superficial theories of Keynes and the monetarists who talk about spending in an undifferentiated manner with respect to profitability.

The U.S. economy as measured by bourgeois statistics began declining and/or stagnating in 1969. A "mix" of Fed measures to expand the money supply and to keep interest rates low did not put an end to this phase of the cycle. This is another one of those ironies that beset contemporary capitalism. On the one hand, the bourgeoisie allegedly wants to see the excesses of this cycle tamed, and on the other, the cycle is doubly necessary for capitalism: it expresses the contradictions of that mode of production in periodic overproduction (of commodities and of capital); and it provides for the periodic mastering of this overproduction. The method consists in the depreciation of capital, which "kills off" enough capital so that the level of surplus-value production is sufficient for this new, reduced total capital (this is a cyclical barrier to the falling rate of profit, as well as an aspect of that tendency). This depreciation of capital can take different forms, such as idling (excess capacity), waste (nonprofitable government utilization thereof), and partial or complete destruction of its value. All these forms, however, mean the same as far as capital is concerned: it is prevented from, or interrupted in, the process of self-expansion.

To the extent that the state through taxation, credit, money, etc., is in a position to redistribute income and to affect the losses each capital must bear in this process, the state, at least on the surface, is able to "dampen" the cycle.
(By "surface" we mean GNP and unemployment: production and unemployment are maintained at levels corresponding to political needs of stability precisely because profit-making capital can no longer "deliver the goods.") The obverse side consists in the unpleasant circumstance for this best of all possible societies that capital is stagnating. Given the extra-economic forces at work in preventing a deep downswing, the very mechanism which allowed for restored conditions of profitability is put out of action. Therefore the upswing (by which we mean the profitability of capital, not the above-mentioned surface phenomena) will be similarly curtailed.

As pointed out before, the crisis of the 1930s marked a turning-point in the development of capitalism. This crisis is instructive for it showed the forces at work that lead to the overproduction of capital and the falling rate of profit on a world-wide capitalist scale; at the same time it proved that capitalism will not collapse spontaneously: only class struggle can deal capital the death blow. But class struggle is a two-sided affair. The bourgeoisie did not stand by passively waiting for its quantum leap into oblivion. It too resorted to political forms of struggle—against the proletariat, against other national capitalist classes, and among itself. The so-called perverted priorities of modern capitalism are a spontaneous result of the forms taken by this struggle.

In Chapter 8, we attempted to analyze some of the connections between Keynesian theory and fascist-capitalist reality. Contrary to Keynes' babble about increasing the propensity to consume, the Nazi economy escaped the more blatant aspects of the depression by increasing the military sphere at the expense of personal consumption. U.S. military-industrial reality is no different. Here is a statistical presentation using bourgeois rubrics:

(C) Consumption, (I) Investment and (G) Government Spending as a Percentage of GNP.5
Thus between 1929, the last predepression year, and the beginning of World War II, the state doubled its share; by the end of the war this share had risen another 50 percent, thus attaining a level approximately three times higher than that of 1929.

Since great significance is attributed to G's alleged ability to jump in for "slumping" C or I, it must be stressed that G's share has leveled off since the Korean War. But beyond this quantitative determination of the bounds of state economic activity, it is also necessary to break down this activity. Approximately 25 percent of the Federal budget is devoted to social-security and other "trust"-fund payments. This can scarcely be termed intervention. It is merely a delayed payment of wages. Similar objections can be raised with respect to education and health expenditures, which also must be considered as part of total social variable capital, whether it be received and consumed by the worker individually or collectively. A hefty portion of the remainder of the budget is accounted for by the redistribution of already created surplus value and the deduction from workers' taxes rechanneled to the capitalist class (in the form of interest payments on the national debt or Lockheed subsidies or subsidies to large capitalist farmers, etc.).

The differential effects of this redistribution appear to be much more the reaction to developments in the capitalist sphere than autonomous interventions by a neutral state; for these subsidies reflect the increasing inability of profitable capitalism to "deliver the goods" (railroad, electronics, airplanes, etc.). To the extent that individual capitals profit
from this mechanism, the concrete situation of competition among them has been changed. However, this is not the result of neutral intervention but of intracapitalist class struggle.

One of the major tendencies, already referred to earlier, is the decline in the proportion of the total social product falling into the sphere of personal consumption. For as S never ceases to tell us, the goal of capitalism—yes, of every economic formation—is consumption. If this were true, then capitalism has been missing its mark for the last forty years, as the following table makes clear:

<table>
<thead>
<tr>
<th>INDUSTRIAL PRODUCTION</th>
<th>1939</th>
<th>1947</th>
<th>1959</th>
<th>1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Consumption</td>
<td>39</td>
<td>36</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Equipment (of which)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>(9)</td>
<td>(11)</td>
<td>(12)</td>
<td>(13)</td>
</tr>
<tr>
<td>Military</td>
<td>—</td>
<td>(1)</td>
<td>(6)</td>
<td>(7)</td>
</tr>
<tr>
<td>Intermediate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>products and materials</td>
<td>52</td>
<td>53</td>
<td>53</td>
<td>52</td>
</tr>
</tbody>
</table>

As the commentary to this table laconically observes, "the share available for consumer use has fallen over each of the periods since 1939." Now in general, a rise in Department I vis-à-vis Department II would indicate increased capital accumulation and a "healthy" capitalist accumulation; this is however only partially true of the period in question, since even a large segment of the categories business equipment, intermediates, and materials is devoted to subsidized, nonprofitable production. On the other hand, if we look more closely at particular cyclical developments we gain some insight into the workings of the capitalist economy: namely, we see that far from being the goal of
capitalism, consumption is the chief burden. The following is a tabular presentation of growth rates for total industrial production, and for each department:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>total</td>
<td>5.6%</td>
<td>2.3%</td>
<td>7.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Dept. I</td>
<td>10.4%</td>
<td>0.9%</td>
<td>9.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Dept. II</td>
<td>4%</td>
<td>3.6%</td>
<td>5.5%</td>
<td>3%</td>
</tr>
</tbody>
</table>

A similar trend prevails in the present period of stagflation. With 1957-59 as the base year (=100), we find the following development:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>total</td>
<td>165.5</td>
<td>172.8</td>
<td>164.4</td>
<td>167.9</td>
</tr>
<tr>
<td>consump.</td>
<td>156.9</td>
<td>162.5</td>
<td>162.4</td>
<td>169.5</td>
</tr>
<tr>
<td>equipment</td>
<td>182.6</td>
<td>188.6</td>
<td>164.2</td>
<td>156.2</td>
</tr>
<tr>
<td>matls.</td>
<td>165.8</td>
<td>174.6</td>
<td>166.0</td>
<td>170.6</td>
</tr>
</tbody>
</table>

Several observations are in order here. First of all, we are apparently confronted with a regularity of capitalist industrial cycles: during "upswings," Department I grows more rapidly. This should not come as a surprise, since capitalism's goal is the production and appropriation of surplus value. But this surplus value is not for the purpose of the capitalists' consumption (whatever they might subjectively believe), for that is precisely the historical distinction between capitalism and previous class societies: productive accumulation. Accumulation is equal to that part of the social product which is consumed neither by workers nor capitalists. Consumption is therefore a drag on capital accumulation (it is here of course that subjectivity assumed significance, since the capitalists have no trouble consuming during crises and depressions). Increasing consumption, as we saw in the tables, is an expression of the downs of capitalism.

But here too a dialectic is at work. Increasing capital accumulation cannot go on forever, for at some point it brings about such a low level of worker consumption that
Department I has exceeded the limits within which it can operate without causing overproduction of itself—namely, capital.

Increasing consumption will not do the trick at this point; in fact, it is merely an expression of the decreasing accumulation: Department I is cut back. Increasing consumption is just as much a part of the self-healing industrial cycle as the destruction of capital; for in its most general sense, the destruction or depreciation of capital is the same as preventing its appreciation of self-expansion—and this is what the relative increase of Department II also means.

THE FED—WHAT IT IS

Trying to determine what the Fed can achieve is not an easy task; bourgeois economists tend to clothe the system of banking and credit in an air of mystery.

Before we can proceed to an analysis of what the Reserve banks do, we must study what they are. One hundred years ago Marx asserted that for the most part bank capital is composed of what he called fictitious capital: claims (commercial paper), government securities (which represent past capital), and stocks (titles to future profit). Is the situation any different today?

As of December 31, 1971, member commercial banks of the Fed had approximately $366 billion outstanding in loans and investments. Of this total, $111 billion were invested in U.S. government, state, and local securities; $50 billion were lent to individuals, largely for consumer credit; $55 billion went toward real-estate loans; $9 billion were lent for the purchase of private securities; $17 billion were lent to banks and other financial institutions; and approximately $105 billion were lent for commercial, industrial, and agricultural purposes. Thus, approximately 28 percent of total loans and investments found their way into productive reinvestment; for the most part, these represented commercial paper. A slightly larger proportion (30 percent) was held in various state securities; the balance rested in speculative or consumptive hands.

During the early years of the century, before the found-
ing of the Fed, government securities averaged about 10 percent of commercial bank loans and investments; this percentage rose slightly during the period between World War I and the Depression. Although this conclusion is based upon extrapolations, it would appear that during these two periods commercial-industrial loans comprised as much as half of total loans and investments.

What is the significance of this change in the direction of commercial bank-credit policies? A recent essay by a Federal Reserve Bank economist does a rather poor job of putting this trend into its proper perspective:

U.S. Government securities have occupied a major role in the asset structure of the Nation's commercial banks since the depression years of the 1930's. During that time, a contraction in private credit demand coincident with an expansion in Treasury borrowing to finance Federal expenditures induced banks to acquire a sizeable amount of Government obligations. In the years since World War II, however, U.S. Government securities have declined in importance relative to other commercial bank assets. Accompanying the diminishing importance of Government securities in bank portfolios during the past decade, the share of bank-held Governments relative to the total amount of public debt outstanding also has declined sharply. Notwithstanding the marked decline in bank holdings of Governments relative to other bank assets, and relative to the public debt outstanding, the absence of an absolute decline in these holdings over the past decade underscores the force of the traditional motives banks have to hold Government securities. Principal among these motives is that Government securities provide a valuable source of liquidity to banks because they are the most readily marketable of all fixed income securities. With bank loan demand subject to cyclical variations, Government securities are generally considered an investment vehicle from which banks can escape with a minimum of loss to accommodate an upswing in loan demand. Conversely, these securities serve as a temporary haven for bank funds when loan demand is low. Government securities also provide income to banks, although this function is secondary relative to liquidity protection.

Well, one might object, this doesn't seem very serious; a bit of private-credit contraction here, a bit of Treasury
financing there. So what if banks are induced to buy more government securities? After all, didn't Marx say that bank capital was largely fictitious? What's the difference between holding a state security or holding stock or commercial bills of exchange? Anyway, government securities are more liquid and they're backed by the Nation.

Have the Marxists been outwitted? Let us look at this entire complex in somewhat greater detail.

Is it true that banks were induced to acquire government securities? And what was the role of the almighty Fed in this matter? Although the trend toward greater commercial-bank involvement in financing various federal government "projects" experienced a sharp relative increase during the Depression (as a percentage of commercial bank loans and investments, government securities rose from 14 to 50), in absolute amount the increase was not very significant (approximately from $5 billion to $15 billion). (The percentages in the table on page eleven refer to federal, state and local government holdings; before the late 1950s the non-federal securities did not bulk very large and hence are not treated separately; the structural change that took place in the 1960s will be discussed below). In this context it must be remembered that the New Deal was not very radical; on the whole it merely brought the U.S. to the level of "anti-laissez-faire social interventionism" of pre-depression capitalist Europe.

World War II became the Great Divide. Between 1939 and 1946, total Federal Reserve Bank ownership of the national debt rose from $2.5 to $23.4 billion; during this period total commercial bank ownership of the national debt rose from $12.7 to $74.5 billion.11

Although it is true that the World War II period presented an "abnormally" state-oriented economy, and that therefore any judgments based on absolutizing this historical experience without taking into account the further postwar development would be distorted, certain basic structural changes in late capitalism do receive clear expression in these relations between state and private capitalism.
To what extent is it true that the U.S. is on a "low yield government security standard," and to what extent has the public debt become monetized?

Let us first look at so-called currency in circulation. This is one component of "M₁," which, aside from demand deposits, includes coins and Federal Reserve Notes. At the end of 1971 there were about $54 billion of Federal Reserve Notes (and $6.5 billion in coins) in existence. In 1939 Federal Reserve Notes amounted to about $7 billion; by 1945 this sum had quadrupled to $28 billion; the 1945-1960 period saw a relatively insignificant increase ($2 billion), whereas between 1960 and 1971 the amount doubled.¹²

It must be understood that we are not dealing with what is ordinarily meant by paper money. With respect to the immediate goal of paper money we may distinguish two main types: the first is directed at covering state deficits but is not compensated for by any withdrawals from the economy. In this sense no limits are imposed on its issue and it can therefore lead to the sort of hyperinflation Germany experienced in the early 1920s. The second kind is based on government credit and taxation; it is therefore subject to limits; it is the proper tool for what has become known as controlled inflation. For example, the state needs money to pay the military-capitalists for "services rendered," but the "people" from whom it is to collect the taxes cannot pay since they have not yet realized their commodities. And these people happen to be the suppliers of the selfsame military-capitalists. Instead of taking a bank loan, the state issues paper money to pay the military-capitalists. These in turn pay off their suppliers, who are then able to pay their taxes by returning the paper money to the state, which can then retire the money without having increased the money supply above that which was needed. The state has thus issued what we may designate as state credit money.

This, however, is not the mode of operation of the ad-
vanced capitalist countries. For the most part contemporary capitalist money takes the form of bank notes, but the content of paper money is of the second type described above. Bank notes were credit money issued by banks on the basis of commercial credit:

Until goods reach the final consumer, banks grant commercial credit secured by bills of exchange. These bills were discounted by emission banks which issued banknotes on their basis. . . . When a commodity reached its final consumer, it was sold for cash which passed from the retailer to the wholesaler, then to the manufacturer, and finally to the bank in redemption of the commercial bill of exchange, whence it was returned to the emission bank issuing banknotes. ¹³

The important point here is that such banknotes, since they automatically return to the issuing bank, cannot exceed the need for them and thus become surplus in circulation.

Instead of being guaranteed by commercial bills of exchange, contemporary "banknotes" are guaranteed by state securities. As we will have occasion to develop in greater detail below, paper money is issued by the Fed on the basis of the securities it has "bought" from the Treasury. In other words, the Fed Notes must be backed up by government securities. But since this mechanism is tightly bound up with the Fed's relation to the commercial banking system, it would be correct to state that government credit rests on bank credit while bank credit rests on government credit. This cannot serve "liquidity protection"; on the contrary, it is bound to weaken the liquidity situation of the banks. In the past the ability of banks to pay off their depositors depended on their ability to realize their outstanding loans—in other words, on the ability of the industrial capitalists to appropriate enough surplus-value to pay their loans. Now this ability of the banks would appear to be dependent on the Federal budget. The fact that government securities form the backing for these Fed Notes justifies our claim that these notes have the content of paper money.

As mentioned above, the second type of paper money is similar to nonconvertible banknotes in that neither can be converted to gold and both are instruments of controlled or
planned inflation. The main difference of course is that whereas the former functions through a fiscal-budgetary mechanism, the latter operates on the basis of bank credit. Another essential difference must be seen in the fact that pure paper money is used for purely unproductive purposes—covering government expenses; state banknotes, though issued for the same purpose, do not necessarily limit the credit destined for industrial investment; on the contrary, this issue is used as a resource for such credit.

We have established that present-day capitalist money is not ordinary paper money, or at least that it does not take that form. What then is the purpose of giving paper money the form of banknotes? And beyond that, what is the mechanism through which this concealment is realized? The answer, or at least a partial answer, is furnished by Backman, who points out that with respect to armaments budgets, the “use of loans obscures the situation”; for “when future generations repay those loans there is a transfer of funds from taxpayers to bondholders which involves a redistribution of the national income.” The problem of the debt is indissolubly connected with the system of Federal Reserve Notes and reflects class relations in the U.S. today (albeit from the more superficial distribution side). As Backman discloses, the advantage of the government securities (loans)—Federal Reserve Notes mechanism over printing more paper money is that the bourgeoisie can more easily shift the burden of the expenses of militarization on to the working class while making a supplementary profit through its “loans” to the state.

What happens in financing state ventures into domestic and international repression can be summed up thus: for the capitalists, investment in state securities appears very profitable. By subscribing to these loans, they are in fact engaging in a rather common practice: they are, at least formally, extending credit to their customer: they are financing the purchase of their commodities by the state. With these loans the state can then purchase the needed commodities from them. Subsequently, taxes will have to be raised in order to pay off the loans. Somewhere along the line more Federal Reserve Notes will also be issued on
the basis of the open-market purchases of these securities. This mechanism should be kept in mind while reading S’s story about Peter and Paul (376). For these capitalists are never taxed as much as they gain, otherwise they would not engage in the business to begin with. Here the bourgeoisie has a decided advantage over the proletariat: it decides which wars to fight and how to finance them.

We can now focus on the essence of contemporary money in the U.S. We have established that Federal Reserve Notes are banknotes in form and paper money in content. How does this compare with S’s teachings? “Federal Reserve notes are the Fed’s principal liabilities. These are the various dollar bills we all carry in our wallets. These IOU’s cost the Fed no interest, and it is highly privileged to have been granted by Congress this power to issue currency” (7th ed., p. 301). This is literally all that S deems fit to tell us about these slips of paper.

Is it true that the Notes do not cost the Fed any interest? Do they “cost” anyone interest? They must, since contemporary banknote-paper money is based on government securities, which are of course interest-bearing. And, in fact, in 1972 the Fed paid the Treasury approximately $3.2 billion as “interest on F.R. notes”; since 1947 these payments have exceeded $29 billion.

The Fed, in order to maintain its façade of independence, does not directly purchase government securities in “exchange” for printing notes at the Treasury’s request. The printing of money takes place indirectly through the open-market operations of the Fed. However, the sham becomes evident when we recognize that the aim of the open-market operations is the regulation of the money supply. The Fed in large part returns the interest it receives on the government securities it holds to the Treasury; but it has already printed up new notes (or created deposits) in order to pay off those from whom it buys the Government securities; these latter payments of course must also include the interest due on the securities.

The departure from the gold standard which took place about the time of World War I was connected with certain developments in international capitalist relations, and al-
though both the international and national contradictions of capital are obviously tied to the general crisis of capitalism, this disintegration of the gold standard was a happy coincidence on the national level, for it provided the technical means for the institutionalization of inflation.

In the U.S. this transition was effected even before the country went off the gold standard. The passage of the Glass-Steagall Act in February, 1932, amended the original Federal Reserve Act (1913) so that Federal Reserve Notes, instead of having to be guaranteed by gold and commercial paper (and the latter category did not include loans for speculation), could now be “guaranteed” up to 60 percent by government securities.

The following interchange between a Congressman and the Vice-Chairman of the Federal Reserve Bank is informative:

Mr. Johnson [Congressman Albert Johnson of Pennsylvania]: I notice in this Federal Reserve bulletin that as the currency outstanding in the U.S. increases, the amount of Government bonds held by the Federal Reserve System almost equals the amount of currency you issue. Maybe this is a coincidence.

Mr. Robertson [J. L. Robertson, Vice-Chairman FRS]: Pure coincidence. We buy or sell Government bonds for the purpose of increasing or decreasing the availability of money and credit in the country, and how it will jibe with any other particular statistics is coincidental.16

From this it is clear that although FR Notes may not cost the Fed anything, they do in fact cost the taxpayer “something,” since this banknote form of paper money is the mechanism by which the capitalist state finances its “business” of militarism and subsidizes capitals unable to self-expand.

This points up the patent absurdity of the contention that the Fed and the Treasury almost never use the authority to issue currency “except to satisfy the currency-using habits of the public”; behind this notion lies the current bourgeois classification of money. Money, in the strictest sense of these classifications, called M\(_1\), comprehends currency plus demand deposits (checking accounts). The criteria for
adopting this or any other classification are deemed purely arbitrary:

The user or analyst may take his pick. Or, he may wish to de­
vise a definition of his own, offering it not necessarily as a de­
definition of money as such, but rather as the definition of a fi­
nancial or monetary magnitude he deems to be signifi­
cant. . . . With a definition in hand, whichever one it may be, the analyst may proceed to measure the size of the money supply and to monitor changes in it that take place over time.17

Such a do-your-own-thing methodology represents another step in the progressive degradation of science by bourgeois society. Nor is this approach unfamiliar, for we have seen S apply it repeatedly (e.g., GNP criteria). What is S’s criterion for including checking accounts in the money supply?

Because it is difficult to draw a fast and hard line at any point in the chain of things that do have a direct bearing on spend­
ing, the exact definition of M, the money supply, is partly a matter of taste rather than scientific necessity. . . . A century ago, demand deposits would not have been included in M. Today economists would include demand deposits, since even the most stubborn adherent of the old narrow concept has to admit that the existence of checking accounts does economize on the use of currency and thus acts much like an increase in the effective amount of currency [281].

The basic reason for emphasizing M₁ appears to be the fact that its components can be “spent directly,” whereas other “near monies” must first be converted into M₁ ele­
ments before they can be spent. Since government bonds are “highly liquid,” they also share “many of the properties of money.” In this sense one might say that any commod­
ity is a “near money” since its function is to be exchanged for money; its actual “nearness” to money does not depend on the subjective definitions of bourgeois economists but on the very objective conditions of the market. In any case, no matter how close a commodity may be to becoming money, it “shares” none of the properties of money (except
those common to money and commodity as value forms) until it is “completely” money.

The argument that checking accounts economize on the use of currency merely emphasizes the bourgeois economists’ neglect of the two-sided nature of credit. As Marx pointed out, one of the main functions of credit is to reduce the essentially unproductive circulation costs; the use of credit increases the velocity of money directly insofar as a smaller amount of money in circulation can serve the same number and volume of commodity transactions, and indirectly insofar as it accelerates the velocity of the commodity metamorphoses and through this the velocity of money circulation. In fact, this mechanism was known to us in its abstract form in simple commodity circulation as money qua means of payment.

Thus Marx would personify the “stubborn adherent” of the “old” definition of money even though he was the first to conceptualize the process of economizing on money. What then is S’s rationale? No one would deny that credit can expand the process of production beyond the limits set by “cash.” In fact, as Marx observed, to the extent that credit replaces gold, it increases the wealth of capitalist society (here Marx of course is referring to gold, but it would appear that this is also valid for paper money or banknotes, not insofar as the production of gold can be replaced by the production of “real wealth,” but rather to the extent that the velocity of money—that is, the already circulating money—is increased.  

S’s lack of understanding of the other side of credit finds expression in the identification and/or confusion of currency with checking accounts; for the credit relation, a more concrete expression of the abstract possibility of the separation of selling and buying common to simple commodity circulation must “somehow” also contain the basic contradictions of capitalist commodity production. Although credit is obviously a “socializing” process inasmuch as it extends the power of the individual capitals by intertwining them, the fact that at some point in the great chain of payments some capitalists may find that the private labor of their workers...
never gained social recognition unfailingly points up the "other" side of credit in every crisis.

Although money owes its existence to anarchic processes uncontrollable by the members of "money economies," still, this money must be uniformly established (after the fact, of course) by the social will capitalism has been able to muster—the state; the credit relation, however, is in this sense a private affair, debt that in itself does not affect society. The existence of credit can replace money, as long as mutual debts balance and until the payoff. This became very apparent in the 1930s when thousands of banks lost the confidence and money of their customers; and this was no doubt also a major reason why the currency component of $M_1$ increased so quickly during World War II: the recent mass bankruptcies made many people hesitant about accepting the essential identity of both components of $M_1$. In other words, if a commodity is paid for with money, then the transaction has been completed: the commodity form of the capital value has again assumed its money form; if a commodity, however, is paid for by shifting demand accounts about, the transaction may be complete and again it may not, depending on the chain of factors determining the liquidity of that particular bank, which in turn depends on the total social situation of surplus-value production.

The rational kernel behind the $M_1$ notion might very well be the circumstance that bourgeois economists today tend to view all moneys as more or less arbitrarily created fiat money; although we know this to be false, the notions, or at least the contemporary version of it, is rooted in the military-inflation complex characteristic of the post-World War II U.S. (to some extent). By this we mean that the state can finance its activities by the securities-loans-Federal Reserve Note mechanism.

From the point of view of the budget-induced inflationary processes this difference between Federal Reserve Notes and the deposits created for the state at commercial banks does not appear to be great.

Any scientific understanding of the breakdown between cash and cashless payments must be based on an analysis of the reproduction process of capital; that the greatest
number of transactions are effected without cash is nothing new. On the other hand, is it mere coincidence that the proportion of Federal Reserve Notes within total $M_1$ is roughly equal to the proportion of final ("consumer") consumption within GNP (about $\frac{1}{4}$)?

THE NATIONAL DEBT

As Marx points out, the national debt, or the sale of the state, is the only part of the "national wealth" that really belongs to all the people. Marx illustrated this with the British development. At the end of the seventeenth century the Bank of England began by lending the government money at 8 percent interest; at the same time it was empowered by Parliament to coin money from the same capital by lending it to the public in the form of banknotes. Soon this credit money created by the Bank became the coin in which the Bank made loans to the state and paid the interest on the national debt for the state. In other words, the Bank was being paid by the state, that is the public, in the form of interest, for the power given it by the state to transform these same banknotes from paper into money and then lend to the state.\(^9\) Compare this to Alvin Hansen's description,\(^20\) which has nothing but praise for this momentous turning point in financial history when "the public debt became a secure investment, "a truly national debt; not the debt of a capricious monarch liable to repudiation. It became a debt for which the whole nation was responsible, and in which merchants, traders, capitalists, and property owners in general found a safe and dependable financial investment."

This is actually not a bad description of what the national debt is all about: property owners get a safe investment and the nation "as a whole" pays up. S to be sure waxes apologetic when he speaks of this aspect: "To the degree that the people involved are different and that the interest receivers are wealthier, more thrifty [!], or deemed less in need of income, there will be some (admittedly minor) redistributional effects to reckon with" (365). What he means by "reckon with" is not clear—except that the working class can count on getting fleeced. It is instructive to com-
pare this account with that which S was forced to present back in 1948:

... The statistical evidence suggests that the people who receive bond interest are on the average not in the lower income brackets. Thus interest on the public debt constitutes a regressive (Robin Hood in reverse) element in our fiscal system. "Soaking the poor to pay the rich" tends to reduce purchasing power and runs counter to many modern notions of equity. Nevertheless, it is a necessary evil if past commitments with respect to the public debt are to be scrupulously honored, as they must be [1st ed., p. 429].

Why these past commitments must be "honored" is not clear—unless it has something to do with the marginal propensity of the rich to continue sponging off the poor; as Marx says, with the rise of the public debt, breach of faith with respect to that debt replaces the sin against the Holy Ghost as the forgivable sin. ²¹

As we pointed out above, S conveniently separates the debt from the issuance of paper money, alias Federal Reserve Notes. At this point we can look into the interconnections of debt—taxes—paper money. By taking out loans the state is in a position to spend extraordinary amounts without making the taxpayers feel the brunt of it immediately; later of course they will feel it, for the debt must be honored. Since the Federal Government has continued to run budget deficits in the post-World War II period, it has had to borrow more and more, and therefore the interest payments increase as well. This of course means that taxpayers will have to shell out more. In other words, the fiscal system of our wonderful mixed economy, like that serving the repressive class state in Marx's time, contains the "seeds of automatic progression."

Now theoretically the deficit could be financed simply by increasing taxes; however, especially in light of the enormous burden which taxation already puts on the working class, and in light of the fact that many of them remember a time when they paid no income tax, an attempt to increase taxes immediately instead of distributing the burden over time is probably considered politically too risky.
We know that a more complicated mechanism has been established to conceal the fact of "soaking the poor to pay the rich"; this involves the issuance of Federal Reserve Notes "backed" by government securities; in the end the taxpayers still foot the bill for the interest payments.

In connection with costs and profits it is necessary to look at S's extremely apologetic presentation of the "quantitative problem of the debt." To begin with the "problem" of the origin of the debt, S's trump card is that the "bulk" of it arose during World War II "in order to maximize our effectiveness against the enemy" (365), allegedly fascism, so everything seems to be in order. This line of reasoning conceals the contribution of U.S. imperialism in the postwar period to an increasing debt; and this means not only "our" overt aggression in Korea and Southeast Asia, but in general the many billions of dollars "invested" in military services.

In point of fact, however, the Federal public debt rose from 259.1 billion dollars in 1946 to 469.9 billion in 1972. In other words, about 45 percent of the current public debt was created after World War II; if we look merely at the period of the Vietnam War, we see that between 1965 and 1972 the public debt increased by 128.4 billion dollars; thus 28.6 percent of the current debt was accumulated during this time alone.

In an attempt to belittle the significance of the debt, S points out that interest charges on the debt as a percentage of GNP have not increased since the end of World War II (368). However, it is more relevant here to look at the interest charges as a share of total Federal Government expenditures; and here we note that this percentage has more than doubled between 1945 (about 3.8 percent) and 1973 (about 10 percent).

In 1973, these interest payments amounted to approximately 21 billion dollars, representing Federal budget expenditures approximately 50 percent higher than those for education, manpower, community development, and housing.

That S does not understand the interconnections among the national debt, inflation, and the stagnation of capital
expansion comes out clearly in his assurance: "So long as continuous deficits do not result in the public debt growing faster than GNP grows, good economic health can prevail" (362).

Inflation arises when capital that could not function profitably in the private economy is lent to the state; such state expenditures, however, reduce total profit relative to total capital; in order to attain average profits, prices are raised, which in turn necessitates an increase in the money supply. If this price-money mechanism did not function, then the subsequent drop in profit would of course counteract the purpose of government spending—to "stimulate" the private economy; for with sinking profits, production would be cut back even further. Thus, inflation does not come about as a result of government-induced production causing demand to exceed supply (which would be absurd if the basic problem is lack of effective demand), but rather "as the means by which the non-profitable character of government-induced production by way of deficit-financing finds its partial compensation in higher prices."25

S consoles us with this gem: "We must not forget that the real national product of the United States is an ever-growing thing." Actually, one might just as well ignore this piece of wisdom since periodically that ever-growing thing just stops growing and even shrinks a bit, as in 1969-70 and 1974, when real production declined.

Despite S's claim to "have looked carefully at the facts about the public debt" (7th ed., p. 351), he omitted the minor detail of the actual distribution of debt-ownership. In order to help form an understanding of the class nature of this distribution and the trends in the past 30 years, we present the following table (the top part gives the absolute amounts in billions of dollars, the lower, the percentages):26

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1950</th>
<th>1960</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Gov't investment accounts</td>
<td>$7.6</td>
<td>$39.2</td>
<td>$55.1</td>
<td>$97.1</td>
</tr>
<tr>
<td>Federal Reserve Banks</td>
<td>2.2</td>
<td>20.8</td>
<td>27.4</td>
<td>62.1</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>17.3</td>
<td>61.8</td>
<td>62.1</td>
<td>63.2</td>
</tr>
<tr>
<td>Individuals</td>
<td>10.6</td>
<td>66.3</td>
<td>66.1</td>
<td>81.9</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>6.9</td>
<td>18.7</td>
<td>11.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Mutual Savings Banks</td>
<td>3.2</td>
<td>10.9</td>
<td>6.3</td>
<td>2.8</td>
</tr>
</tbody>
</table>
We must provide an interpretation of the long-run tendencies operating here. In the first place, in the postwar period the share of commercial bank-holdings dropped (although its absolute holdings remained constant). This is in line with our findings that during this period the share of bank loans and investments in U.S. Government securities dropped while that in commercial-industrial enterprises rose, a development easily explained by the higher profits (i.e., interest) to be gotten in the private sphere during this period. Also, commercial banks began to invest more heavily in more profitable state and local bonds.

Another notable feature was the sharp increase in holdings (both relatively and absolutely) by U.S. Government trust funds (various social-security trusts, etc.); that these holdings occupy an ever-growing portion of the national debt indicates that the Federal government is facing increasing difficulties in finding private investors willing to invest in these securities. As a result, the state must increase the yields of its securities in order to “attract” more investors. Moreover, the increased use of social-security trust funds for holding these securities compels U.S. workers to give additional financial support to capitalist state activities.
The increased holdings by the Fed would appear to give it additional latitude on the open market (selling securities in order to lower M1); as we saw, however, to the extent that commercial banks do not want to buy, this policy backfires. The profits of the commercial banks that have hung on to their holdings are by no means peanuts: in 1969 they amounted to $80 billion, or one-fifth of the Federal debt.

In concluding this section we will touch upon a subject not directly related to the stabilizer-fiscal-policy complex: state and local debt. Although S devotes a few pages to non-Federal government taxation and expenditures in Chapter 9, he does not go into the problem of debt.

State and local debt has been increasing much more rapidly than Federal debt in recent years; thus in the 1960s, while the Federal debt rose 2.1 percent annually (excluding U.S. government accounts), state and local debt rose by $78 billion, or 8.2 percent annually.

Not only are Federal taxes being mortgaged to finance capital, but also those on the state and local levels (where even according to S the principal taxes are “regressive” [172]). Given the fact that a larger portion of state and municipal budgets than of the Federal budget are devoted to activities in one degree or another useful to the mass of people (education, housing, hospitals, etc.), it would be important to see how large banks influence the decisions on these projects: whether or not new hospitals will be built, how great a burden on the taxpayers the profits of the banks will be, whether it will make the projects prohibitively expensive.26a

During the 1960s state and local debt doubled while commercial bank ownership of this debt rose more than threefold.

THE LIMITATIONS OF THE FED

S is so busy giving us a blow-by-blow description of how the Fed works that he has no time to explain exactly how limited its power is. However, before we embark on an analysis of certain of these limitations, we wish to point out
that since Marx locates the central contradictions of capitalism in the sphere of production (crisis as overproduction of capital as a result of too little surplus value)—that is, since he generously grants capitalism a smoothly running sphere of circulation—nothing the central bank can do will ward off cyclical crises. To the extent that a central banking system and a fully developed credit system have been created, the smooth functioning of these operations becomes a technical matter; at times policy will fail, at other times, not. When they work, they have provided capitalism not with a breathing spell but with the fullest possibilities it can ideally attain.

The point is that even when the central bank helps realize the ideal conditions for the sphere of circulation, and, by channeling capital, also affects production and therefore the conditions of self-expansion, even then all it has done is to help create a situation in which the basic contradictions will still surface. Up until now, central bank policy has called for working within the capitalist framework, and as long as it does, it will continue to preserve capitalism (along with its crises).

It is in this connection that we can perhaps best examine the relation between ideology (as false theory) and seemingly successful practice. The Fed may work out some very long equations for dealing with $M_0$, and they may or may not know how to control these “magnitudes,” but they still have no understanding of the real relations between money, credit, and profit.

In order for the deposit multiplier (or divider)—the Fed’s most powerful “tool”—to work, the following conditions (not meant to be exhaustive) must be met: (1) that the Fed effectively control member-bank reserves; (2) that banks (and other capitalists) react passively; (3) that there exists an unsatisfied demand for bank credit; (4) that there is no “breakthrough” into cash transactions; (5) that the size of the reserve multiplier is stable. Since S explicitly or implicitly concedes some of these points we will concentrate on a few.

Let us take a closer look at some of the big “anticyclical” moves the Fed has allegedly undertaken in the post-World
War II period. What did it do to head off the “recession” of 1954? It went to work like the proverbial early bird: from May to December, 1953, it bought $1.5 billion in government securities on the open market; it lowered the FRS interest rate; reduced reserve requirements; and in a burst of activity, industrial production sank 10 percent between August, 1953, and April, 1954.

What happened during our next “recession”—1957-58? In order to dampen a dangerous-looking upswing (characterized by heavy speculation), the Fed sold $677 million of government securities during the second half of 1957; interest rates were raised, as were margin requirements; nevertheless industrial production, prices, stock issues, and speculation mounted. What did our friends at Chase Manhattan et al. do? Not only did they not “cooperate,” but in general they paralyzed the moves of the Fed. From 1955 to 1957 the commercial banks sold $6.7 billion of government securities while increasing other private operations by $15.8 billion. Once the crisis came, the Fed made an about face: it bought about $2 billion in government securities, lowered the interest rate, lowered margin requirements, etc. But, as might have been expected, the crisis still ran its course, and production dropped 14 percent compared with the precrisis level. As to the 1969-72 crisis, the Fed itself has more or less admitted that it is powerless to improve the situation.

The trouble with the Fed-government securities “anticyclical” mechanism is that it reverses cause and effect; for in fact the supply and demand of bank credits is determined by the objective conditions of the reproduction process; and in no lesser measure are operations with government securities determined.

During the crisis phase of the cycle, capitalists sell their government securities to raise money to pay off debts; at the same time, the demand accounts of banks are being depleted for the same reason. Thus they too are selling government securities, because they guarantee a certain income which may not only be higher than that deriving from their usual capitalist investment but also more certain. As S himself admits, under such circumstances the Fed
cannot "encourage" private investment, even at a zero interest rate (336).

And, finally, in the period of the upswing, capitalists will sell their government securities to invest the proceeds more profitably. Under such conditions nothing will "induce" them to buy less profitable government securities.

Having presented this basic theoretical objection, let us look at the five-step jig the Fed performs to "control spending": (1) it cuts bank reserves, which (2) leads to multiplier contractions in deposits, which (3) makes interest rates rise, which (4) depresses investment, which (5) "puts a multiplier damper" on income and prices (314 f., 331). But as we have just seen, the Fed does not exercise such strict control over reserves—in other words, the profit motives of the commercial banks override the alleged national interests pursued by the bank.

Step 3 is based on a fundamental misconception of the monetary theory of cycles: namely, an identification of money and loan capital. However, the quantity of money in circulation is much smaller than the amount of loan capital, since one "piece" of money in the course of a certain period of time can complete several circuits as loan capital (velocity of money applied to capital). Moreover, at different points in the cycle the mass of circulating money and the mass of loan capital can change in opposite directions. Thus, for example, during the crisis phase the amount of loan capital may decrease, while the quantity of money in circulation may rise.

In general, the absolute quantity of money does not determine the rate of interest. During a period of expansion, abundant money can still be accompanied by a relatively high rate of interest as a result of increasing demand for loan capital; a period of business contraction can also mean a relatively low rate. Except at the time of the extreme crunch, the absolute mass of circulating money does not influence the rate of interest, because the former is determined by commodity prices and volume \((P \times Q)\) and by the state of credit, but it does not determine credit.

Step 4, the influence of the interest rate on investment,
will be discussed more fully. But we should like to advance some important arguments at this point. First of all, S lends his assertion an air of plausibility by mixing up capital investment with consumer spending on "durables" ("people’s decisions as to whether it is profitable to build a new house or plant . . . usually depend upon how they can finance such investment spending" [315]); this is so particularly because interest rates (installment buying, etc.) and mortgage rates are so high and the incomes of most consumers so low that added interest costs may in fact be a major factor in determining whether one buys a house or not. But this sort of consumer “rationality” does not play an important role in investment decisions, for here high interest rates in periods of high profits do not deter increased investment, while low interest rates in depressions do not spur such investment.

(On a biographical level, it is also curious that S places so much stress on this element, since in an earlier article he granted that the interest rate “is less important than Keynes himself believed.”) Although interest “costs” have been rising, they have never represented more than 3 percent of the gross product of nonfinancial corporations during the post-World War II period.

THE INFLUENCE OF THE INTEREST RATE ON INVESTMENT: THE ALLEGED SYNTHESIS OF MONETARY AND INCOME ANALYSIS

Chapter 18 pretends to be a synthesis of monetary and income analysis with a view toward integrating government monetary and fiscal policy to achieve the goal of a progressive economy: one that enjoys reasonable price stability and lives up to its production potential (334). This is the chapter which supposedly demonstrates that “more sophisticated quantity theory” promised in Chapter 15 and the “modern” (Keynesian) theory of income determination. But this combination is nothing but a dialectical fraud; for even on a bourgeois level it offers only the form, not the content, of a synthesis. Keynesians have never had any qualms about urging the Fed through its manipulations with the money
supply to affect interest rates, and therefore "investment," while such tinkerings are vehemently opposed by "modern" quantity theorists such as Friedman. In the appendix to Chapter 18, S admits that the differences between these two groups are not merely terminological, and that a synthesis has not yet been achieved:

At a deeper level, however, those who prefer one terminology usually think that certain hypotheses about the real world are more fruitful than certain others. . . . If the day ever arrives when the proponents of the velocity approach can prove by their researches that theirs is the more convenient tool, pragmatic scholars will welcome all its help [347].

Such an admission, of course, coming as it does in the fine print of an appendix, is right in line with S's practice of sneaking in a "not-A" whenever he feels that he may be challenged on his previous assertion of A.

At the risk of being nitpicking and repetitive, we must ask where this "goal of a progressive economy" comes from both in a supposedly value-free science and in a class society which lacks the collective rationality necessary to formulate such a goal, much less carry it out.

The pseudo-scientific superficiality of S's explanations and pedagogy is particularly apparent in the first few paragraphs of Chapter 18, where he "presents" the monetary side of his "synthesis." The causal chain is supposed to run as follows:

\[ M \text{ up} \rightarrow i \text{ down} \rightarrow I \text{ up} \rightarrow \text{NNP up, up} \]

This schema, and the graphs (335), which are nothing but a fancier, more colorful representation of the schema, are worthless without some theoretical foundation establishing and expaining the alleged connections among the entities involved. S obviously believes that the graphs explain the schema: "The blue so-called "liquidity-preference schedule" of Fig. 18-1 (a) summarizes how an increase in M resulting from monetary policy (open-market purchases, etc.) leads initially to a reduced interest rate. . . . Fig. 18-1 (b) picks up the story to show how reduced interest rates . . . make
more investment profitable" (335 f., emphasis added). However, the graphs, being nothing but pictorial equivalents of the schema, cannot "show" how any of the underlying processes indicated by the schema actually work.

S, then, presents his schema without any theoretical backing. But the schema did not spring theoryless from his brain. The concepts of liquidity preference and marginal efficiency of investment are Keynesian, and Keynes postulated them explicitly as psychological concepts, embedded in a fairly explicit psychological theory purporting to explain the behavior of entrepreneurs. The question arises as to why S does not introduce the concepts in this way and why he does not present the Keynesian psychology or more modification of it.

Two possible answers, not mutually exclusive, present themselves. The first is that there is a methodological principle of behaviorism operating here, just as there is in S's first chapter on supply and demand. The fact that he refers not to liquidity preference and marginal efficiency of investment but rather to liquidity preference schedules and marginal efficiency schedules speaks in favor of this hypothesis. If so, then S probably feels that the graphs contain all the theory one needs, for they tell what the value of one parameter would be if the value of the other were such and such. That is, the graphs tell you how one parameter would react to a change in the other. In other words, the graphs tell you what one parameter would do, for whatever reason (the fact that the reason is irrelevant explains why no additional theory is needed), in response to a change in the other parameter. Such reasoning seems to be behind the move to the behaviorism of "revealed preference schedules" in the theory of utility, and it may well be operating here. In response we offer the objection that the "would" in the above sentences is not well defined without further theory. An entire schedule of counterfactual conditionals cannot be constructed without a theory to back it.

The second possible reason for S's failure to tie his schema in with a theory is that it makes his "synthesizing" easier. This is what Crosser is getting at when he talks about S's "deconceptualization" and eclecticism, which is
not really eclecticism because no opposing concepts are brought together. S, both in the chapter and the appendix contends that various graphs, such as the famous Hicks-Hansen Diagram, synthesize various diverse theories. It is indeed no mean feat to synthesize Keynesian economics and its subjective-psychological concepts with classical economics, which relies almost completely on objective, natural-law type concepts. S makes short shrift of it. The strategy is simple: remove the psychological basis from the concepts of liquidity preference and marginal efficiency; then translate some of the theories of classical economics into views about the shape of the graphs of l.p. and m.e. But S apparently does not realize that such deconceptualization leaves one with nothing but a meaningless schema which cannot form the basis for any real synthesis.

Another aspect of S’s methodology is his ahistoricity, his failure to treat capitalism as a totality, an ensemble of social relations which grew out of specifiable causes and which developed and evolved in certain more or less determinable ways and which simultaneously is continually reproducing itself and tearing itself apart. Perhaps this failure on S’s part has reciprocal causal connections with his addiction to graphs, but whether it does or not, it is definitely present in full force in Chapter 18, as is evidenced by the following quote:

“Satchel” Paige, a great baseball player, once said: “Never look backward; someone may be gaining on you.” This is good advice in economics, too. Do not look back to find what caused past layoffs; look forward to see what you have to do to restore high employment. This is more efficient—and more helpful.

Better still, this approach means you do not have to decide whether the pessimists are right who argue that inventions will kill off more jobs than they create. Why care? In every case we know that high employment without inflation will require monetary and fiscal policies of the correct magnitudes, and mixed economies know what needs doing [341 ff].

What S fails to realize here is that no one can know what needs doing without viewing capitalism as a developing totality or entity with a history, and this means among other
things determining whether inherent in this evolving system are tendencies to create and maintain unemployment; and this in turn means that both on a concrete and an abstract level talking about the causes of past layoffs is appropriate and important. Such a procedure may indeed find that tendencies toward unemployment are too fundamental a part of capitalism to be thwarted by monetary and fiscal policies of whatever magnitudes.

Now for the relation to the addiction to graphs. It is worth noting that S himself sees a connection between this part of his methodology and his use of graphs; immediately following the above passage is a section entitled "Graphical Restoration of High-Employment Equilibrium," in which he talks of applying "this fruitful approach" (i.e., the ahistoricity) by using the "consumption plus investment plus government-spending schedule" to find full-employment equilibrium. Unfortunately, given S's "fruitful approach," any restoration of employment that is real as well as graphic will be accidental, or at least not determinable by him.

To the extent that S's graphs "talk about" actual factors or elements of capitalism, they wrench them from the totality and relate them (ideally) to each other, in isolation from the other elements of the system. Almost always when the graph is constructed the other elements of the system are assumed not to change ("all other things being equal"). This is done, as S, says, "because, like any good scientist who wants to isolate the effects of one causal factor, we must try to vary only one thing at a time" (66). This type of graphic depiction of the quantitative relations of two phenomena in isolation from "outside interference" is an integral part of bourgeois science.

S, having gotten this far, seems satisfied with himself. Making little or no attempt to relate the plotted phenomena to other factors, he uses his graphs as a basis for policy recommendations concerning manipulations upon or within the totality. To a certain extent this inadequacy can be criticized on the level of bourgeois science. For S himself knows that the "other things" are hardly, if ever, equal,
and that one must take into account what the other things are doing before one can determine "what needs doing" (68). And given this admission, it remains a mystery why S does not talk more about relations between the graphic phenomena and the "other things."

The mystery is solved, however, when we realize that on a bourgeois level this inadequacy cannot be remedied. Bourgeois science cannot properly reintegrate its isolated categories precisely because it rejects (as inefficient, arbitrary, metaphysical, or whatever) the essentially dialectical requirement of maintaining as the object of investigation a self-reproducing historical totality. Such a rejection has extremely important ramifications, especially within capitalist society. Bourgeois science is left without any adequate basis for determining: (1) what the "other things" are with which the isolated categories must be integrated; and (2) which of these other factors are more important, fundamental, essential. In the absence of such a basis, two criteria usually are followed, sometimes explicitly, sometimes implicitly: (a) The "other things" are selected from the realm of categories which more or less "stand out," i.e., from the manner in which data immediately present themselves; and (b), whatever ranking is done of the "other things" in terms of importance or essence is done on the basis of how these other factors appear to be connected with regard to the achievement of some goal, e.g., full employment and price stability. The latter criterion puts the lie to the alleged value freedom of bourgeois science. And the former criterion goes a long way toward explaining two things—the apologetic character of bourgeois science, and the fact that the achievement of many goals using policies based on the results of bourgeois economics is doomed to be thwarted from the outset.