Section 4.1

1. For sympathetic surveys of this literature, see Bischoff (1971), Lund (1971), and Clark (1979).

Section 4.2

1. See Robinson (1962, p. 48) and Asimakopoulos (1971) on the relationship between the left-hand side of the \( rr \) curve and the determination of investment by the (expected) rate of profit. Asimakopoulos makes clear the distinction between the \textit{ex post} and \textit{ex ante} aspects of the investment process, concentrating on the effects of investment on the price of means of production.

2. The shift from \( rr \) to \( rr' \) is akin to the shift of the Phillips curve that occurs as we go from short-term to long-term analysis. As the period of time under consideration lengthens, the Phillips curve becomes more vertical. (For further analysis, see chapter 6.)

3. In perfectly-competitive markets, unlike oligopolistic, monopolistic, or monopolistically-competitive markets, capitalists will not care about their market shares and will focus on profit margins. However, perfectly-competitive markets are rare. Because of imperfect information, barriers to mobility, product differentiation, and market disequilibrium, most capitalists will see their production as affecting both prices and market shares. A model of monopolistic competition is thus appropriate for atomistic markets. Arrow (1959) points to the role of market disequilibrium in this result. (It is interesting to note that Marx -- whose work preceded the invention of equilibrium economics and was never infected by its world-view -- discussed market competition in terms of disequilibrium and saw each capitalist as perceiving the world in this way. See KI, p. 433-5 and KIII, ch. 10.)

4. The competition-induced process will not apply if capitalists have no commitment to stay in the market. But small, poorly diversified firms are likely to stay in the market until they are driven out of business because staying in their market is their capitalists' main or only...
source of income. On the other hand, large, diversified firms have the
greatest ability to stay in a market. Note that other markets will be
suffering from similar competition — or will be very difficult to
enter. This means that exit is exit from the capitalist class.

5Thanks to Tom Weisskopf for shedding light on this question. He
suggests the following simple numerical example. Assume that there are
10 capitalists in an industry, each with capacity to produce 100 units.
Suppose that each increases capacity by 10% (by 10 units). Aggregate
capacity increases from 1000 to 1100. Assume that after the crisis,
aggregate demand is 1050. This means that the average capitalist will
suffer from excess capacity of 5. (x will equal 95.5%) Now assume
that one capitalist holds back from increasing capacity while all the
rest increase capacity by 10. Thus, aggregate capacity is 1090. If
demand is again 1050 after the crisis (since the behavior of one capi-
talist will not affect the rest of the markets in the economy to change
this) the average capitalist will suffer from excess capacity of 4 units.
(z = 96.3%.) If this excess capacity is distributed evenly among the
capitalists, the capitalist who held back will be selling 96 units
while everybody else will be selling 106. (For him, z = 96%; for the
others, z = 96.4%) If he hadn't held back he would have been selling
105. By holding back, he loses his market share and the other capi-
talists gain not only relatively but absolutely (selling 106 rather than
105). And we should not expect the one who holds back to suffer from
the average amount of excess capacity (that is, he should suffer from
more than 4 units of excess capacity) — since he will be selling an old
product that is produced at relatively high costs. (See also Cherry,
1980, p. 326-332.)

6Monopolists are also under pressure from business customers, consumer
activists, and the government.

7It has been argued that the delay of projects coming "on line" which is
part of the reason for the decline of h may have been anticipated by the
capitalists so that this fall does not hurt investment. But the gesta-
tion period of investment does mean a delay, since no capitalist will
want to have a large number of projects gestating. If other capitalists
also have projects gestating and the individual capitalist is aware of this fact, then again, investment will be discouraged. Second, if capacity output per K falls and m, P, and z are constant, this means that there are less funds available for investment relative to K. In the terminology of the next chapter, the saving-warranted growth rate is lower.

This means the move to a classless, planned society (socialism). Since this type of society had not been seen yet (except in the cases of small societies with very primitive technology), this assertion cannot be verified. The behavior of existing centrally-planned economies suggests that the limits of planning to solve crises may be to prevent the burden of the crisis from being shifted to the working class. That is, in Soviet-type economies, it is the norm that overt unemployment is not a real problem (except, it seems, for political dissidents). How well a democratic worker-controlled centrally-planned economy (socialism) would deal with these problems is unknown. There is a possibility, however, that democratic control of the state would improve worker morale and productivity, increase the flow of information to the planning board, and make the system more responsive to the needs of consumers.

Section 4.3

1Marx notes about merchant capital that

...by virtue of its independent status it moves, within certain limits, independently of the bounds of the reproduction process and thereby even drives the latter beyond its bounds. This internal [i.e., essential] dependence and external independence push merchant's capital to a point where the internal connection [between merchant's capital and industrial capital] is violently restored through crisis. (K111, p. 304.)

2The money supply (M) is related to the monetary base (H) as follows:

\[ M = b H \]

where b is the money multiplier and is endogenous as described in the text: it will rise in the economic expansion.

Marx writes that
The credit system appears as the main lever of over-production and over-speculation in commerce solely because the reproduction process, which is elastic by nature, is forced to its extreme limits. (KIII, p. 441.) The development of production extends the credit and credit leads to an extension of industrial and commercial operations. (KIII, p. 481.)

For Marx, credit does not cause the economic crisis. (For him, the TRPF was the cause of this crisis.) Rather it is a structural factor which reinforces endogenous crisis tendencies. He did see the possibility of an autonomous monetary crisis, however.

Section 4.4

1. If wages and aggregate productivity are given, then monopoly profits are redistribution from other sectors. Therefore, they do not appear in the returns of the average capitalist.

2. Depreciation should not happen in period 1. So (1') could be restated as

$$R^e_j/(1 + i) + \sum_{i=2}^\infty R^e_j/(1 + i + D_j)^i \ge R^0_j$$

However, this modification does not change our general results.

3. Two conceptions of full capacity are being combined here. First, there is full capacity as defined in chapter 3, the point where average costs begin to rise. Second, there is the conception of capitalists being able to sell all that they have had workers produce, that is, being on their notional demand curve as opposed to their effective demand curves. (See Clower, 1965, for this distinction.) In other words, capitalist decisions are not constrained by inadequate aggregate demand. It seems reasonable to equate these: we will assume that for $n \ge 1$, capitalists expect to sell all that they have produced.

4. While $r^e$ is ambiguous, the actual ex post rate of profit ($\dot{r}$) is not. It is the ratio between property income and the nominal stock of capital. One solution to the problem of the definition of $r^e$ is to use "Tobin's q." The numerator of q is the stock market value of the capitalists' assets, which measures how the stock market expects future profitability to be. It is easily measured. See, for example, Holland and Myers,
1978. This, however, does not represent the expectations of the capitalists who make the actual, physical, investment decisions. Another solution is to measure the expected rate of profit as

\[ \tau_j^e = \frac{1}{\text{PV}_j / c_j^0} \]

(a)

where \( \text{PV}_j \) is the present value of the net revenues of project \( j \) (that is, for \( D_j = 0 \), \( \text{PV}_j = \sum_{t=1}^{\infty} R_j^t / (1 + i)^t \)). This formula has the advantage that comparing it to the rate of interest is mathematically equivalent to the present value criterion and if \( R_j^e = R_j^0 \) for all \( j \), \( \tau_j^e = R_j^0 / c_j^0 \). (It is not independent of the interest rate, however.) It is of course impossible to measure \( \tau_j^e \) (however defined). But we can use it as a hypothetical intervening variable for theoretical analysis. In what follows, we will assume that \( \tau_j^e \) is unambiguously defined according to formula (a).

5Bahn (1965) presents a rigorous analysis of the Pigou effect and shows that this theory is extremely weak. As he notes,

If the route from unemployment to high levels of demand is strewn with bankruptcies [as his analysis implies] then the smooth curves of the textbooks will be harder to justify. (p. 200-1.)


Section 4.5

1Kalecki (1939, p. 135) suggests that the investment curve should be less responsive at the end of the expansion because "after a certain point doubts begin to arise as to the stability of this development, optimism ceases to keep pace with the boom, and the rate of investment decisions tends to increase less rapidly." The abundance of credit and the competition-induced aspect of investment mean that capitalists will not act on this pessimism in many cases.

2Robinson, Asimakopulos, and Harris (1978) assume \( \tau^e = \tau \), as a first approximation. Dropping this assumption and using (7) clarifies the process of adjustment to equilibrium.
Notes for Chapter 5

Introduction and 5.1:

1See Harris (1972) for a two-sector expanded reproduction model in the Marxian tradition. Steindl (1979) presents a macroeconomic growth model that is formally similar to part of the model presented here. Both this model and that of Steindl owe a lot to Kalecki (1954). Harris (1975, 1978) also presents macroeconomic growth models in the Marxian tradition. Goodwin (1972) presents a cyclical growth model that incorporates the role of the reserve army of the unemployed as a regulator of the rate of profit and the rate of growth.

2See Allen (1968), Harcourt (1973), Sen (1970, Introduction), Gram (1976), and Harris (1978) for useful reviews and analyses of alternative theories of growth and distribution.

3On Feldman's two-sector Marxian model, see Domar (1975).

4It is interesting to note that most neoclassical two-sector growth models require the stability condition that the machinery-producing sector is less machine-intensive than the consumer-goods industry. See Uzawa (1961-62, 1963) and Solow (1961-62). This is not a necessary condition but a sufficient condition for stability. It seems the most reasonable sufficient condition for stability, however.

5This criticism is made from within the neoclassical paradigm and is in addition to the Cambridge Criticism that incorporates the role of heterogeneous machinery. See Harcourt (1972) for an analysis of the Cambridge Criticism.

6This is why some (Hicks, 1970; Burmeister, 1974) turn to neo-Austrian analysis. Much of the criticism made below of the von Neumann-Sraffa model applies to this mode of analysis.

7See Koopmans (1964) for a relatively accessible exposition of von Neumann's theory of growth. Sraffa (1960) is the basic source on his own view of the economy. See also the essays in Hunt and Schwartz (1972).
I believe it is Morishima (1973) who first put Marx in the same category as von Neumann and Sraffa. Steedman (1977) carries forth this tradition.

8 Marx (as opposed to von Neumann and Sraffa) also argued that values help determine prices of production. See footnote 6 of section 3.1 for a discussion of this theory.

Section 5.2:

2 Equation (1) could be stated as follows:

$$I_p + I_w + GE_p + GE_w + EX = S + TAX + IM$$

where $I$ is private investment, $GE$ is government expenditure, $EX$ is exports, $TAX$ is tax revenues (net of transfers), and $IM$ is imports. The subscript "w" means wasteful while "p" means non-wasteful. This can be restated as

$$I + W + NX = S$$

where

$$I = I_p, W = I_w + GE_w - TAX, and NX = EX = IM$$

We can include $NX$ as part of wasteful expenditure (so that $W = I_w + GE_w + NX$) since it is a use of saving which does not promise to increase productivity in the domestic economy.

2 As Sweezy (1942) notes

The worker is motivated by the desire for use value and what appears to be "accumulation" on the part of the workers (through savings banks, insurance companies, et cetera) has little in common with the accumulation of the capitalist. It spring, rather, from the necessity under which the worker is placed to attempt to insure a flow of use values to himself and his family when his labor power will no longer be salable.

Given an expanding population with a concentration of numbers in the younger age groups, it is possible that "accumulation" by workers on this account may result in considerable net savings. Against this, however, must be set the dissavings of those whose incomes are below the subsistence level (unemployed, aged, et cetera) and who are therefore obliged to live on charity or relief of one sort or another. (p. 139-140, 140a)
Ando and Modigliani (1963) apply this life-cycle logic to explain aggregate consumer expenditure. Unfortunately for their analysis, this logic applies to the working class only. A capitalist with large amounts of wealth has no reason to save for old age or sickness. He can live off interest and dividends. In fact, he can run down his wealth so that he's near-penniless at his expected time of death; this would allow for a life of unending hedonism. This result is predicted by the Ando-Modigliani model but occurs only in a small minority of cases. Ruling class schools (prep and ivy league schools) train the future members of the ruling class to avoid such disreputable behavior. The watch-word is "Don't dip into capital!" Similarly, Ando and Modigliani cannot explain bequests, which are very important to the reproduction of the ruling class over the generations. There is something qualitatively different about capitalist saving. It is very subjective, as opposed to workers' saving which is objectively necessary. As Marx noted, the decision to accumulate the surplus rather than consume it is an act of his [the capitalist's] will. (KI, p. 738.) This is why it is the "rate of accumulation" (the division of the surplus into capital and consumed revenue) that is the "independent variable" in the process of capitalist accumulation. (KI, p. 770) Capitalist saving is usually positive because of their high incomes and the competition among them. Also, corporations normally save.

The argument by Passinetti (1974, p. 106-7) suggests that workers' saving makes them capitalists so that they get a share of the profits. But it should be noted that small savers get lower interest rates. Also, as Sweezy noted above, their wealth is transitory. Third, their status of workers is not abolished until they have enough wealth so that they don't have to work for someone else (in which case they become petty bourgeois) or don't have to work (in which case they become capitalists). The level of wealth necessary to a move out of the working class is socially determined. Finally, as Lancaster (1973) notes

Since workers save but do not make investment decisions, this saving is equivalent to voluntarily handing over part of their income in hope or belief (...) that the capitalists will use it for true capital investment and will not use [it] ... to support their mistresses or buy larger cars. (p. 1094).
It is the capitalists who control investment decisions.

With a constant and the system starting in short-term equilibrium, change \( u \), the random component of expectations, and \( z \):

\[
\begin{align*}
\frac{dG_S}{dz} &= G_{Sz} \\
\frac{dG_I}{du} &= G_{iz} dz + G_{iu} du \\
\frac{dG_T}{du} &= dG_S = dG_e
\end{align*}
\]

so

\[
\frac{dz/du}{G_{iz} - G_{iz}} \quad \frac{dG_e/du}{G_{Sz} - G_{iz}}
\]

if \( G_{Sz} > G_{iz} \) (stable case) then \( dz/du \) and \( dG_e/du \) are positive.
In the unstable case, they are negative.

The Kaleckian view that capitalists "earn what they spend" can be investigated for the stable case. Vary \( s_T \) and \( z \):

\[
\begin{align*}
\frac{dG_I}{dz} &= G_{iz} dz \\
\frac{dG_S}{dz} &= G_{Sz} dz + G_{Sr} dz_T \\
\frac{dG_T}{du} &= dG_S = dG_e
\end{align*}
\]

so

\[
\begin{align*}
\frac{dz/dz_T}{G_{Sr} - G_{iz}} < 0 & \quad \text{since } G_{Sr} = r \text{ (from 4)}, \\
\frac{dG_e/dz_T}{G_{Sz} - G_{iz}} < 0
\end{align*}
\]

Since \( dz/du \) is positive, we know that \( dz/dz_T \) is positive. Thus as the capitalists consume more of \( R \) (as \( s_T \) falls), the rate of capacity utilization and the rate of profit rise.

For the stable case, hold \( P \) and \( h \) constant and vary \( z \) and \( m \):

\[
\begin{align*}
\frac{dG_S}{dz} &= G_{Sz} dz + G_{Sm} dm \\
\frac{dG_I}{dz} &= G_{iz} dz \quad \text{(assuming } G_{iz} = 0) \\
\frac{dG_T}{du} &= dG_S = dG_e
\end{align*}
\]
so
\[
\frac{dz}{dm} = -\frac{G_m}{(G_S - G_{Iz})} < 0
\]  
(a)

\[
\frac{dG}{dm} = -\frac{G_m}{(G_S - G_{Iz})} < 0
\]  
(b)

\[
\frac{dr}{dm} = \left[\frac{f_z}{dG/m + f_m} \right] h = \left[\frac{f_m - f_z}{G_m/(G_S - G_{Iz})} \right] h
\]

\[
\frac{dr}{dm} < 0 \quad \text{if} \quad f_m (G_S - G_{Iz}) < G_m f_z
\]

From equation (6),
\[
\frac{dr}{dm} < 0 \quad \text{if} \quad s_w (1 - g_z/P) h < G_{Iz}
\]

This is always true for the classical case where \( s_w = 0 \).

5Assume now that \( G_{in} > 0 \). Equations (a) and (b) of footnote (5) become:
\[
\frac{dz}{dm} = \frac{G_m - G_{sm}}{DE}
\]  
\( (a') \)

\[
\frac{dG}{dm} = \frac{G_{Sm} G_{Im} - G_{sm} G_{Iz}}{DE}
\]  
\( (b') \)

where
\[
DE = G_S - G_{Iz}
\]

If we assume that \( G_{in} < G_{Sm} \), then for the stable case, underconsumptionist conclusions hold, i.e., \( (a') \) is negative. The short-term equilibrium rate of growth will also fall as \( m \) rises if the numerator of \( (b') \) is negative. We will assume instead that \( G_{Iz} > G_{Sm} \). If \( DE \) is positive, \( (b') \) is positive because the numerator is positive when

\[
G_{in}/G_{sm} > 1 > G_{Iz}/G_S
\]

Note that if \( G_{in} = G_{Sm} \), \( dz/dm = 0 \) and \( dG/dm = G_{Im} > 0 \)

Section 5.3:

1Note that it is assumed that prices respond to excess demand at \( p_m \) rather than to the actual price. Because of the short-term elasticities of raw material supply and demand with respect to \( p_m \), there may not be any
excess demand at the actual price. But this is a shorter-term phenomenon, since the actual price is not equal to the longer-term equilibrium price \( \bar{p}_m \). As long as the actual price does not equal \( \bar{p}_m \), the former will move toward the latter. This effect is captured by looking at excess demand at \( \bar{p}_m \), which will equal zero when \( p_m \) equals \( \bar{p}_m \).

2Consider the rate of profit:

\[
\begin{align*}
\tau &= \frac{f}{z} \quad z h \\
\bar{\tau} &= \frac{(f/z)}{z + h} = (f/z)
\end{align*}
\]

where the last step is by (42) and assuming \((54')\). Thus, the capacity-capital ratio plays no explicit role in determining the rate of profit. This does not mean that it is unimportant. Rather, it cancels out some of the effects of changes in \( z \). To show that it does not cancel out all of the effects of \( z \) on the rate of profit, we have to show that the derivative of \((f/z)\) with respect to \( z \) is positive for \( z \leq 1 \). By equation (3.13),

\[
f/z = (1 - g_2/P) - g_1(1 - m)/z
\]

so that the relevant derivative equals \( g_1(1 - m)/z^2 \) which is positive.
Notes for Chapter 6

Section 6.1

1. See, for example, Nordhaus (1974b) or R.J. Gordon (1975). For surveys, see Santomero and Seater (1978) and Rappaport (1980).

2. Solow (1980) lists several reasons why money wages would be sticky downward: aggressive wage-cutting may hurt workers' morale and, thus, productivity; societal traditions concerning fairness backed up by stable labor pools; "implicit contracts" between capital and labor aimed at maximizing the latter's utility or jointly maximizing profits and labor's utility, backed by unemployment insurance programs; unions; perceptions that wage changes will be difficult to reverse. It is beyond the scope of this dissertation to provide a detailed critique of these reasons. But it should be noted that these are doubtful: aggressive wage cutting may hurt productivity but on balance may increase profits; it is not clear where customs come from; unemployment was higher in the 'thirties, before the rise of unemployment compensation, than it is now; unions only represent 20% of the labor force; and, the theory of the irreversibility of wage changes is based on an assumption of conflict that contradicts the harmony assumed in the implicit contract theory. Most importantly, as noted in the text further on, money wage flexibility is not necessarily good for the system.

3. Conflict theories of inflation have been proposed in recent years by Hirschman, 1973; P. Devine, 1974; Harvey, 1977; Rowthorn, 1977a,b; Hirst and Goldthorpe, 1978; Kahn, 1980; Mason, 1979; and Rosenberg, 1979. For some conflict is not put in the context of the dynamics of capitalist accumulation. Some others (e.g., Hirschman) are not Marxists. Several add other factors to the analysis such as a decline in the terms of trade or productivity growth which intensifies the conflict.

4. Econometric investigation by Pierson (1968), Hanermesh (1972), and Ashenfelter, Johnson, and Pennacel (1972) show the role of unionization in determining wage inflation. Pierson shows that it "significantly worsens the trade-off between unemployment and [wage] inflation" since workers in unions are more able to keep up with inflation. Hanermesh
shows that unionization and market centralization make wage inflation less dependent on unemployment and other market forces. Ashenfelter, Johnson, and Pencavel (1972) find a significant correlation between strike activity and wage inflation.

There are three points here. First, if deflation is expected, this formulation produces counter-intuitive results: the lower is $U^*$, and therefore the higher is workers' bargaining strength, the more workers will cut wages to keep up with deflation. Since deflation is rare in today's world, we need not concern ourselves with this problem.

Second, if we substitute (7') into (6), we get

$$\dot{w} = w(U^*)/(1 - F(U^*))$$ if $F(U^*) \neq 1$

If we assume that $F(U^*) = 1$, then for $U^* = U^a$, we see

$$w(U^a) = 0$$

This assumption maintains the role of $U^a$ as the non-accelerating inflation rate of unemployment. The behavior of the economy is different from that of the standard Phillips curve framework where $F = 1$. For $U^* < U^a$, inflation accelerates more, and for $U^* > U^a$, it decelerates less, than in that framework.

Third, as Peter Rappaport argues, expectations should play no role in a bargaining power theory of inflation unless workers and capitalists have some sense of fair or target shares of the product. Later in this chapter, we make the assumption that capitalists want to maintain a potential rate of profit of $r^p$. On the other hand, workers will not only want real wages to grow at the same rate as productivity, but will want to make up for past periods in which they did not keep up. These assumptions should allow us to use a form such as (7').

Reich's (1981, ch. 7) survey of the orthodox literature concerning the ability of trade unions to change the distribution of income indicates that economists by and large doubt the unions' ability to change the functional distribution of income in their favor. We are in substantial agreement, noting only that unionization intensifies the tendency for high wages to squeeze profits at low rates of unemployment.
M, as is well known, rejected the quantity theory of money. (See Kl, ch. 3.) Gold discoveries in Marx's view lead to higher prices not because of an increased supply of gold but because of the lowered price of production of gold. The price of good i stated in terms of gold (p_{ig}) rises, since p_{ig} = y_i / y_g where y_i and y_g are the prices of production of good i and gold. The amount of gold money required by society for facilitating the circulation of commodities (M_{cg}) is determined by the number of transaction:

\[ M_{cg} = \frac{E P_{ig} Q_i}{V} \]  

where V is the velocity of money and Q_i is the quantity of commodity i actually being paid for. (This is a different Q_i than in the text. Accordingly, V is defined differently.) Gold is supplied to serve the needs of circulation from gold mines and hoards in this view. For Marx, all the variables on the right side of (a) are determined by the real movements of the economy. This view is quite the opposite from the standard quantity theory of money.

When the role of paper money is introduced, however, Marx's view approaches that of the standard equation of exchange. As the quantity of paper money (M) increases relative to the needs of circulation, the worth of the paper money relative to that of gold (RE_g) falls:

\[ RE_g = M / M_{cg} \]  

Therefore, from (a) and (b),

\[ M = RE_g \times M_{cg} = RE_g \times E P_{ig} Q_i / V \]

\[ = E P_i Q_i / V \]  

where p_i is the price of good i stated in terms of paper money (p_i = RE_g P_{ig}). The interpretation of equation (c) is not the same as that of (a). Not all of the right-hand side variables are determined by the real movements in the economy. p_i is endogenous; given Q_i and V, p_i is determined by M. This is the normal tautological equation of exchange (except that Q_i does not mean goods received but goods paid for in Marx's analysis). The Marxist theory of money does not seem very different from that of orthodox economics, except that modern orthodoxy explores the issue of why people want to hoard paper money. (For another view, see de Brunhoff, 1976.) More importantly, the difference between the Marxist and orthodox theories is largely the different
roles that money plays in their frameworks: money has a different role in a dynamic, unstable system than in a stable and static system.

Because profit margins are being squeezed, inflation will be damped so that inflationary expectations may play a smaller role. Similarly, if monetary policy raises profits, inflationary expectations are more important.

The denominator equals \( r^p + (1 + g_i) w^i n h - r^p \) which is positive as long as \((1 + g_i) w^i n h > r^p - r^p\). The left-hand side of this inequality is the ratio of wage and salary incomes to the capital stock. The right-hand side is smaller than the ratio of total property income to the capital stock. Since labor's share is larger than capital's share, this condition is true.

Also, using \( U \) rather than \( U^* \) will bias the results so that the unemployment rate seems less important. The assumption that \( q(U^*) = 0 \) also produces this result. Thus, \( F \) will probably be over-estimated. Constraining \( F \) and \( n' \) to be constant will hurt the significance of the equation.

Section 6.2

Since no workers' party or social democratic party has ever controlled the U.S. state (see note 2), the case where the state serves the long-term interests of the working class is not empirically relevant. It may follow the workers' short-term interests, however, since they sometimes coincide with capitalist interests or because workers put pressure on the state. Second, most Marxists agree with Marx and Engels when they say (in the Communist Manifesto, 1847) that "The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie." The truth or falsity of this statement is beyond the scope of this dissertation. But it is important to note that even if it is so, it does not imply that the state necessarily serves the long-term interests of the capitalist class.

It is sometimes argued that the Democratic Party is the (electoral) "party of the working class" since so many workers vote for it. But as Edwards and Reich note,
...while the Democratic Party is the party of the working class, it is not a working class party... capitalist interests hold key positions of power in the party through their financial role. The party's programs and candidates come out of a complex process of maneuver and compromise that involves interests of small and large capitalists as well as working-class interests. And the dominant ideology and practice within the Democratic Party sees labor and business as interest groups, whose contending claims it seeks to balance, rather than as conflicting classes. As a consequence, the party has successfully transformed potentially autonomous working-class power into a subordinated interest group.

(1978, p. 256.)

This is reflected in the low voter turnout (nearly half the voters did not vote in 1976) which is even lower among the working class. (See Lipset, 1959, ch. 6. He also argues that voting is less common in the U.S. working class than in the Western European working classes because the U.S. has no social democratic party.) Note also that some of the working class that does vote votes for the Republicans or for minor parties, or votes for the Democratic Party as a lesser of two evils. It is true that most unions endorse Democratic candidates. But these decisions are very often made in undemocratic ways. Finally, the number of members of the working class that are Democratic Party activists is even lower than the number of workers who vote for the Party.

Others argue that their political organization is the vanguard party of the working class. Rather than examine these claims one by one, we will simply note that no "vanguard" organization claims the allegiance of a significant percentage (say, 0.5%) of the working class.

3 The 1980 Economic Report of the President (table B-107) presents the following figures for unemployment rates:

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Japan</th>
<th>France</th>
<th>W. Germany</th>
<th>Italy</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-64</td>
<td>5.7%</td>
<td>1.4%</td>
<td>1.5%</td>
<td>.6%</td>
<td>3.0%</td>
<td>2.6%</td>
</tr>
<tr>
<td>1965-69</td>
<td>3.8%</td>
<td>1.2%</td>
<td>2.1%</td>
<td>.8%</td>
<td>3.5%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

(Rates adjusted to U.S. concepts; data for the U.K. excludes Northern Ireland.)

4 It is unlikely, however, that the balanced-budget multiplier equals unity. That is only true for very simple Keynesian models.
5. It is often argued that the social wage serves the capitalists by controlling the working class. This is an indirect effect, however, and is not absolutely certain in its results (since it might cause destabilizing "rising expectations"). Besides, the private wage also plays this role.


7. Many economists argue that profit taxes are completely passed on to workers or consumers. Nevertheless, corporations prefer to cut this tax and like investment tax credits. Thus, no matter what the actual incidence of corporate taxes, capitalists perceive them as being contrary to their interests while many other groups favor them. This has major effects on capitalists attitudes toward state interventions.

8. However, as Feldstein and Summers (1977) argue, the coefficient of the time trend variable, while negative in most studies, is not significantly different from zero. If we consider the 1949-76 period to be five observations rather than 28 observations, because there were five business cycles, there is little reason to expect a significant time trend, however. They also argue that the 'seventies were a special period so that there is no real downward trend. We can just as well drop the 'sixties or the 'fifties from the analysis. In either case the downward trend is more pronounced.

9. See Edwards, Reich and Weisskopf (1978, p. 477) for statistics that show that the aggregate profit rate on U.S. foreign investment first fell (from 1950 to 1960) and then rose (from 1960 to 1972). The ratio of foreign invested capital to total invested capital rose steadily while the share of foreign-earned profits in total profits rose from 7.3% in 1950 to 24.4% in 1972, with a dip from 1960 to 1965. They also note that to adjust foreign profits to be comparable to domestic after-tax profits, one must multiply them by 0.94.

(Note: there are no notes for chapter 7.)