

Profit as the Root of All-Evil: The Devil is in the Details (Revised Nov. 2012)

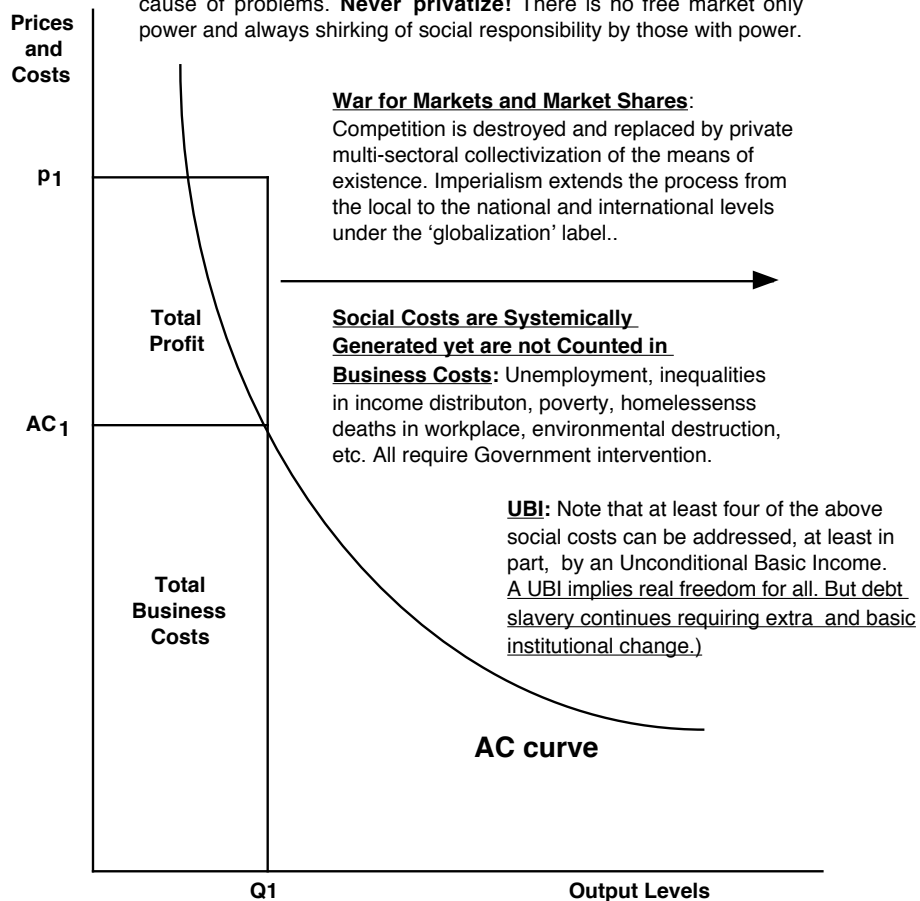
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Profit as the Root of All Evil: The Devil is in the Details

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Technological Changes: constantly wash across as 'mediums with messages.' Increases in production makes scarcity of commodities disappear. The real problem is distribution and assuring that each person shares in the benefits of technological change.

Capitalism as Fascism: "Fascism should more appropriately be called corporatism because it is a merger of state and corporate power." Private enterprise capitalism in control of the state is the root cause of problems. **Never privatize!** There is no free market only power and always shirking of social responsibility by those with power.



Profit = $(p_1 - AC_1)Q$; price is set and administered to markets; demand determines supply; since each price contains some i (interest) people are debt slaves from cradle to grave)

Commentary: Marx, Schumpeter and McLuhan.

Washing across of waves of creative destruction is the medium and the message.

The Centrality of this Diagram

This diagram focuses on [p.q] and in that sense ought to be the central focus of all micro-economics or *price-theory* courses. It starts with *truth* and is consistent with the *truth-start-up* contained Table 1 in *COMER*, (Vol 24:9, Sept 2012), 8. IN fact this diagram is rarely if ever discussed simply because it does not conform to *a priori theory*.

It is based on fact—specifically on what all businessmen have said or would say happens to their AC, or cost per unit, when output is increased. And it is based on the knowledge that we have had since at least as far back as Adam Smith that sellers markup above costs to establish the price at which they will offer their wares for sale. There is no *a priori* assumption set up to establish *truth*. In fact we have only a framework for digging into the truth of each industries methods of operations.

Pushing Q to higher levels to boost profits requires the ability to realize those sales in the face of competition from other producers and sellers.

And from the view of consumers of the products offered they have very little choice; indeed they have to adapt themselves to the menus offered.

Commentary: Profit is the Root of All Evil— Keynes, Marx, Schumpeter, and McLuhan:

Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone. John Maynard Keynes

“The point of view is eternal, and will last at least as long as the universities survive the advancing corrosion of industrialism [capitalism].” Osbert Burdett, *The Beardsley Period: An Essay in Perspective*, (in Chapter X—The Æsthetic Type) (London: John Lane Publisher, 1925), 261).

“The history of slavery is inseparable from the history of empire [the system]: it is contradictory to celebrate the latter [capitalism] while claiming to condemn the former.” Priyamvada Gopal, *The Guardian* (Monday April 2, 2007), <http://www.guardian.co.uk/comment/story/0,,2047841,00.html>

The declining Average Cost, AC, curve depicted above is perhaps the simplest and the most revealing that economists have in their kit bags. While the curve gives an appearance of fixity it is in fact just a starting point for a discussion of the evolutionary realities we all face. This is because technological change is constantly erasing successive cost curves.¹ Perhaps all that can be said with certainty is that the production of larger volumes of output is associated with lower per unit costs than are smaller volumes of output. Thus the declining Average Cost, AC, curve. This alone is enough to spur mergers that are meant to reduce competition and bring a greater sense of market security in the uncertainties faced by surviving firms.

¹ Major phases in technological evolution are provided in: *Technological Phases in the Development of Capitalism*

This evolutionary reality connects to Karl Marx,² Joseph Alois Schumpeter,³ and Marshall McLuhan.⁴ Not surprisingly their concerns are but illustrations connected to a long line of political economists.⁵

Marx, for example, was concerned with the inventions that revolutionized industry and gave England the so-called Industrial Revolution.

“A series of inventions, one after another, radically changed the technique of the weaving and spinning trades. We shall not enumerate all the inventions. Suffice it to say that in about the eighties, both spinning and weaving looms were invented. In 1785, Watt’s perfected steam-engine was invented. It enabled the manufactories to be established in cities instead of being restricted to the banks of rivers to obtain water power. This in its turn created favourable conditions for the centralisation and concentration of production. After the introduction of the steam engine, attempts to utilise steam as motive power were being made in many branches of industry. But progress was not as rapid as is sometimes claimed in books. The period from 1760 to 1830 is designated as the period of the great Industrial Revolution.” David Riazanov’s, *Karl Marx and Frederick Engels: An Introduction to Their Lives and Work*,

“Capitalist production, therefore, develops technology, and the combining together of various processes into a social whole, only by sapping the original sources of all wealth - the soil and the labourer.”

“The product of mental labor - science - always stands far below its value, because the labor-time necessary to reproduce it has no relation at all to the labor-time required for its original production.”

Similarly concerned, Schumpeter coined the words *the perennial gale of creative destruction* and said:

“... since we are dealing with an organic process, analysis of what happens in any particular part of it — say, in an individual concern or industry — may indeed clarify details of mechanism but is inconclusive beyond that. Every piece of business strategy acquires its true significance only against the background of that process and within the situation created by it. It must be seen in its role in *the perennial gale of creative destruction*; it cannot be understood irrespective of it or, in fact, on the hypothesis that there is a perennial lull.” *CSD* VII, 83-84. Emphasis added

"The opening up of new markets and the organizational development from the craft shop and factory to such concerns as US Steel illustrate the process of industrial mutation that incessantly revolutionizes the economic structure from within, *incessantly destroying the old one, incessantly creating a new one.*" *CSD*, VII, 82-83.

“... the impact of new things — new technologies for instance — on the existing structure of an industry considerably reduces the long-run scope and importance of practices that aim, through restricting output, at conserving established positions and at maximizing the profits accruing from them. We must now recognize the further fact that restrictive practices of this kind, as far as they are effective, acquire a new significance in the perennial gale of creative destruction, a

² David Riazanov’s, *Karl Marx and Frederick Engels: An Introduction to Their Lives and Work*, <http://marx.org/archive/riazanov/works/1927-ma/ch01.htm>

³ *Capitalism, Socialism and Democracy, Chapter VII, “The Process of Creative Destruction,”* <http://members.shaw.ca/competitivenessofnations/Anno%20Schumpeter%20CSD%20Ch.%20VII%20Creative%20Destruction.htm>

⁴ McLuhan, Marshall. *Understanding Media: The Extensions of Man.* (New York: McGraw Hill, 1964). See also http://earthshine.org/mcluhan-medium_message

⁵ This triad, therefore, is not a limiting list. A review of *The Essentials of Capitalism through Definitions: From Adam Smith to the Present Day*: <http://arts.uwaterloo.ca/~rneedham/needhdata/CapitalismsEssentialsREV4290307.pdf> will show the consistency of their concerns with the historical lineage in political economy.

significance which they would not have in a stationary state or in a state of slow and balanced growth.” CSD, VIII, 87.

Consistently, Schumpeter was also concerned that mainstream economists ignored reality in favour of marginalist mathematical games that led nowhere but did serve to marginalize economics. He argued:

“But economists who, *ex visu* of a point of time, look for example at the behavior of an oligopolist industry - an industry which consists of a few big firms - and observe the well-known moves and countermoves within it that seem to aim at nothing but high prices and restrictions of output are making precisely that hypothesis. They accept the data of the momentary situation as if there were no past or future to it and think that they have understood what there is to understand if they interpret the behavior of those firms by means of the principle of maximizing profits with reference to those data. The usual theorist’s paper and the usual government commission’s report practically never try to see that behavior, on the one hand, as a result of a piece of past history and, on the other hand, as an attempt to deal with a situation that is sure to change presently - as an attempt by those firms to keep on their feet, on ground that is slipping away from under them. In other words, the problem that is usually being visualized is how capitalism administers existing structures, whereas *the relevant problem is how it creates and destroys them. As long as this is not recognized, the investigator does a meaningless job. As soon as it is recognized, his outlook on capitalist practice and its social results changes considerably.*” CSD, VII, 83.

And pointedly:

“The first thing to go is the traditional conception of the *modus operandi* of competition. Economists are at long last emerging from the stage in which price competition was all they saw. [It is not clear that mainstream economics has emerged in the sense of their continued adherence to the marginalist apparatus⁶]. As soon as quality competition and sales effort are admitted into the sacred precincts of theory, the price variable is ousted from its dominant position. However, it is still competition within a rigid pattern of invariant conditions, methods of production and forms of industrial organization in particular, that practically monopolizes attention. **But in capitalist reality as distinguished from its textbook picture, it is not that kind of competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance) — competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives.** This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door, and [p. 85] so much more important that it becomes a matter of comparative indifference whether competition in the ordinary sense functions more or less promptly; **the powerful lever that in the long run expands output and brings down prices [as with, for example, the Apple Macintosh computer] is in any case made of other stuff.**” CSD, VII, 84,85. Emphasis added.

⁶ But note that in the diagram above marginalism is gone and forgotten. A notion of marginal cost is built into and is the same thing as average variable costs, which varies directly with output. The emphasis is on the bottom line of profit per unit and total sales. Economic power, based on size, technology, and knowledge causes evolutionary reality to constantly wash over and *bombard* so that any start up notion of an average cost curve is immediately *slipping away from under them*. For their own security of existence firms by one means or another bring about a reduction in their own number (Marx argued capitalism would destroy itself as capitalist would eat capitalist until they became so big they could not compete www.woopidoo.com/business_quotes/capitalism-quotes.htm) and an increases in the size of those that remain. Technological changes, based on knowledge advances in computers and computer software have brought significant reduction in product prices (examine the prices reduction on Apple Macs from the ‘Fat Mac’ of 1986 to the mini-Mac of 2006. Examine too the quality improvements and multiple tasks that can be accomplished in micro-seconds. And Apple has new technology products.

McLuhan:

The term *global village* has been popularized as has *global pillage*. The terms have become part of the rhetoric associated with control by capitalist corporate enterprise.⁷ The terms *global pillage* and *global factory* emphasize the exploitation of people that is involved at all levels. The term *global village* seems to have been coined by Marshall McLuhan but note his stress.

“The subplot [of *War and Peace in the Global Village*] is the effect of the computer. The main plot is that every new technology creates a new environment that alters the perceptual life of the entire population. Since violence is the inevitable means of quest for identity when the old image, private or corporate, is smudged by the new technology, war is automatic as a means of recovering identity.” [M. Molinaro, Corinne McLuhan and William Toye. eds., *Letters of Marshall McLuhan*, (Oxford: Oxford University Press, 1987), 348. Emphasis added.]

“Thus we have the meaning of "the medium is the message:" We can know the nature and characteristics of anything we conceive or create (medium) by virtue of the changes - often unnoticed and non-obvious changes - that they effect (message.) McLuhan warns us that we are often distracted by the content of a medium (which, in almost all cases, is another distinct medium in itself.) He writes, "it is only too typical that the "content" of any medium blinds us to the character of the medium." (McLuhan 9) And it is the character of the medium that is its potency or effect - its message. In other words, "This is merely to say that the personal and social consequences of any medium - that is, of any extension of ourselves - result from the new scale that is introduced into our affairs by each extension of ourselves, or by any new technology.”⁸

In the *Letters of Marshall McLuhan*, eds., M. Molinaro, Corinne McLuhan and William Toye appended footnote #2 page 348), the editors suggest that peace in the global village will come about through adjustment to pain caused by new media and new technologies and the pain inflicted by illuminating them, which is also implicit in the action of technology.

In writing to Hubert Humphrey, (dated 671228) McLuhan remarked:

“Today in our global village, created by instant communications, all backward countries are threats to all developed countries. Like the Negro and the teen-ager in our own country, they get turned on by the new electric age. They never had an industrial age or a 19th century. They start with the latest, electric information. The electric environment is totally involving. It is not an environment of consumers. That is why World War III is also a depression, whereas World War II had been a struggle to get out of a depression. All backward countries are "communist." They have never known social or political individualism. The Orient is entirely tribal and family oriented. Russian communism was similarly oriented for the benefit of a tribal people. They are still tribal. To regard the global encirclement of the USA by backward communities presenting a communist threat to the USA is a very confusing affair. It represents a state of mind at least as confused as the Kaiser in 1914. It also ignores the fact that electric technology is totally tribalizing the USA.”

⁷ See: Harry Glasbeek, *Wealth by Stealth: Corporate Crime, Corporate Law, and the Perversion of Democracy*, (Toronto: Between the Lines, 2002)

⁸ Mark Federman, “What is the Meaning of The Medium is the Message?”
http://individual.utoronto.ca/markfederman/article_mediumisthemessage.htm

(*Letters of Marshall McLuhan*, 349-350).⁹

“The medium is the message. This is merely to say that the personal and social consequences of any medium - that is, of any extension of ourselves - result from the new scale that is introduced into our affairs by each extension of ourselves, or by any new technology.”¹⁰

“The modern European of the Christian era is not yet a slave by right of birth. But he is now bred into a slave-society that he cannot understand, define or even recognize, for *industrialism [capitalism] establishes a state of slavery more corrupting than any previously known in the world because the master is not a man but a system, and the whip an invisible machine. With this it is impossible to enter into any but inhuman relations, and in such an inversion of humanity all the instincts become perverted at their source.* The institutions that have nominally survived this revolution in human affairs are allowed to survive but on condition of subservience and impotency. Religion becomes hated because it may never be practiced, only preached, and is approved most when preached in such a way as to fill alert listeners with contempt or indifference. ... the necessity of work and the necessity of a permanent body of unemployed are inculcated in the same breath.” (Osbert Burdett, *The Beardesley Period: An Essay in Perspective*, (in Chapter X—The Æsthetic Type) (London: John Lane Publisher, 1925), 268-269). [italicized cited in: *Letters of Marshall McLuhan*, eds., M. Molinaro, Corinne McLuhan and William Toye. (Oxford: Oxford University Press, 1987), page 75]

“Such economists as Robert Theobald, W.W. Rostow, and John Kenneth Gaibraith have been explaining for years how it is that “classical economics” cannot explain change or growth. And the paradox of mechanization is that although it is itself the cause of maximal growth and change, the principle of mechanization excludes the very possibility of growth or the understanding of change. For mechanization is achieved by fragmentation of any process and by putting the fragmented parts in a series. Yet, as David Hume showed in the eighteenth century, there is no principle of causality in a mere sequence. That one thing follows another accounts for nothing. Nothing follows from following, except change. *So the greatest of all reversals occurred with electricity, that ended sequence by making things instant. With instant speed the causes of things began to emerge to awareness again, as they had not done with things in sequence and in concatenation accordingly. Instead of asking which came first, the chicken or the egg, it suddenly seemed that a chicken was an egg’s idea for getting more eggs.*”¹¹

Some Accounting—Technical Garage Mechanics

Hidden behind AC are social and technological control relationships that assist in drawing income and wealth towards those with power and taking income, power and wealth away from the weaker members of society.

The price, *p*, is set and administered to markets by firms. The setting of price and what is covered by price also assist those with power to take income and power away from

⁹ “The great error of nearly all studies of war... has been to consider war as an episode in foreign policies, when it is an act of interior politics...” Simone Weil. Weil’s words make globalization’s wars matters of interior politics for all of us. Thus WWII is a war of the US against the rest of the world.

¹⁰ McLuhan, Marshall. *Understanding Media: The Extensions of Man*. (New York: McGraw Hill, 1964). See also http://earthshine.org/mcluhan-medium_message

¹¹ McLuhan, Marshall. *Understanding Media: The Extensions of Man*. (New York: McGraw Hill, 1964). See also *Understanding Media The extensions of man*, Marshall McLuhan (London and New York), 12. <http://www.google.ca/search?hl=en&q=Such+economists+as+Robert+Theobald%2C+W.W.+Rostow%2C+&btnG=Search&meta=emphasis+added>

weaker members of society. This, systemically, perpetuates the inferior position of the weak.

To illustrate the level of output to be produced is Q_1 . The vertical projection above Q_1 crosses the AC curve; on the vertical axis this is shown as AC_1 .

The vertical projection above Q_1 extends to and ends at a point, which, on the vertical axis, is labeled p_1 .

Profit is 'pie,' Π . Profit per unit is, Π/Q_1 , that is $(p_1 - AC_1)$. In other words total profit is: $\Pi = TR - TC = (p_1 - AC_1) \cdot Q_1$.

Profit per unit is a net markup that falls out after the fact for all firms. AC is determined by the average fixed and average variable costs of production. Fixed costs are the important component and they determine that the AC curve declines throughout. Variable costs may be put aside as determined much like the costs of producing cakes: 10 cakes costs 10 times the costs of a single cake — so average variable costs are the price of a single cake.

The prices are administered to customers by firms or their selling agents or their networks of dealers according to the modes of operation each uses. As a rough check ask whether the many prices you have to pay each day or week are administered to you by the various dealers you shop with. Do you fit yourself to the menus made available?

We do not need to know whether formulas were used in calculating each p . Indeed, formulas may not have been used at all. There is no set of equations that can necessarily be asserted as determining any p . In the end you have to find out by research without using *a priori* assumptions.

To increase profit to higher levels than Π , all that seems necessary is to expand from Q_1 , (and associated sales) to successive levels above Q_1 . The attempted expansion of sales by each firm bumps into each firm's competitors. In the bump and grind there are eventually winners and losers. Thus the gale of destruction following, for example, in the wake of the creation of new products and processes.

The mode of operation of each firm will determine success or failure. Each firm tries to create a demand for what it produces and sells. Each tries to differentiate its products from others and tries to convince consumers that they are selling, as it might be said, the best thing since "sliced bread." Part of the competitive processes may involve firms and dealers keeping consumers ignorant of the character of the bill of goods they are being sold. Ignorance is bliss and keeping consumers 'blissful' may be vital in certain circumstances. In the more recent period of the modern world, product complexity and an attractive *telemarketeering* voice located somewhere on earth, but in any case at the other end of the line, assists in keeping consumers ignorant and helps to get consumers to buy into the bill of goods offered.

The important point is that a firm increases its market share by beating competitors. Any number of devices have been used including mergers and takeovers. Some may be noisy and disruptive others peaceful with barely a ripple heard. There is a never-ending competitive war.

For the successful firms emerging from the ongoing competitive wars the profit rectangle grows as Q_1 shifts ever to the right to say, Q_2 , Q_3 , etc. Thus economic strength and power begets power and greater and greater control over markets for some while other firms drop out. The ongoing *process results in a private collectivization of the means of existence* at home and abroad. This collectivization is a well-known outcome in all private enterprise sectors.

But the word collectivization recalls for some the forced collectivization of agriculture in Russia under Joseph Stalin. His collectivization of land into state hands meant the murder of many thousands of Russian peasants. Private collectivization implies the elimination of farms and farm labour forces, and is a process supported by the state under the guise of addressing problems the *market has forced on farmers*. Because *collective* implies social and socialist, it is a fact muted by alternative words such as *consolidation of operations*, *growing industrial concentration*, or the *increased concentration and ownership of industry in fewer and fewer hands*.

Above all in our modern world collectivization may be muted to avoid facing the now well-known fact that *private collectivization of the means of existence or corporatism*¹² is *Fascism*.

“It was actually Italian philosopher Giovanni Gentile who wrote the entry in the Encyclopedia Italiana that said: "Fascism should more appropriately be called corporatism because it is a merger of state and corporate power." Mussolini, however, affixed his name to the entry, and claimed credit for it.”¹³

It may also be muted for purposes of avoiding the argument that a socializing state is not violating rights! Thus “... the socializing state is not violating rights, or even overriding them in the interests of something more important, but righting wrongs; it is rectifying violations of rights, violations inherent in the structure of private property.”¹⁴ In other words at what point does a state recognize that private concentration is collectivization with the implication that one can and should cut through the mess and make it a social

¹² JR Saul, *Power versus the Public Good: The Conundrum of Individual and Society*: (The 1996 Hagey Lecture at the University of Waterloo): <http://economics.uwaterloo.ca/needhdata/SaulJRHageyLecture1996V2.PDF>

¹³ Thom Hartmann, “Reclaiming The Issues: Islamic Or Republican Fascism?” *Baltimore Chronicle & Sentinel*. <http://baltimorechronicle.com/2006/090306HARTMANN.shtml> As the 1983 *American Heritage Dictionary* noted, fascism is: "A system of government that exercises a dictatorship of the extreme right, typically through the merging of state and business leadership, together with belligerent nationalism." (The US dictionary definition has gotten somewhat squishier since then, as all the larger dictionary companies have been bought up by multinational corporations.)

¹⁴ G. A. Cohen, “Freedom, Justice and Capitalism,” *New Left Review*, No. 126(March/April 1981), 13. “...the socialist objection of justice to the market economy is that it allows private ownership of means of existence which no one has the right to own privately, and therefore rests upon an unjust foundation.”

concentration from which, and within which, all might share more equitably and democratically.

But the violations of rights, inherent in the structure of private property, has deeper social illustrations that touch everyone on a daily basis without anyone knowing. Note Burdet and McLuan above: "... *industrialism [capitalism] establishes a state of slavery more corrupting than any previously known in the world because the master is not a man but a system, and the whip an invisible machine. With this it is impossible to enter into any but inhuman relations, and in such an inversion of humanity all the instincts become perverted at their source.*"¹⁵

The private control of credit is the modern form of slavery.¹⁶

"... *every price we pay includes a certain amount of interest. The exact proportion varies according to the labour versus capital costs of the goods and services we buy. On the average we pay about 50% interest in all the prices of our goods and services.* In medieval times, people paid 'the tenth' of their income or produce to the feudal landlord. In this respect, they were better off than we are nowadays, where one half of each DM or Dollar goes to serve people who own capital."¹⁷

This issue can be raised for all private concentrations of power and wealth. The most conspicuous cases that cry out for rectification through social ownership and social control are insurance companies and private or commercial banks.¹⁸ These are institutions that are allowed to prey on the weaknesses and life vulnerabilities of citizens. With or without concentration or private collectivization their profit rectangles increase each year.

One perhaps first confronts the processes of collectivization in the issue of the disappearance of the family farm and its replacement by corporate agriculture. Technological changes boost agricultural productivity and allow the number of farms and the size of the farm labour force to be reduced. Concomitantly as the farm market declines in size the producers of farm machinery and equipment, farm suppliers, fall in number. There was a day when farm machinery was produced in local blacksmith shops. Now days, one is hard pressed to find a functioning smithy. The annual sales of farm machinery can now be produced by a few very large and powerful manufacturers. So again concentration of production or collectivization.

And the process goes on inter-sectorally and internationally and it seems to be acceded to by governments either unaware of, or unconcerned by, what is happening. Indeed

¹⁵ Osbert Burdett, *The Beardsley Period: An Essay in Perspective*, (in Chapter X—The Æsthetic Type) (London: John Lane Publisher, 1925), 268).

¹⁶ Attributed to Upton Sinclair.

¹⁷ Margrit Kennedy, *The Transparency Misconception Interest is paid only when we borrow money*: http://margritkennedy.de/media/pre_moneypres_56.pdf

¹⁸ Particularly see: Margrit Kennedy and Declan Kennedy, *Interest and Inflation Free Money: Creating an Exchange Medium That Works for Everybody and Protects the Earth*. Revised edition, (New Society Publishers; 1995).

government may be co-opted by private enterprise to assist the growth of their power and control.

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