23 Things We're Telling You About Capitalism VIII [1]

Written by **Tim Worstall** [2] | Thursday 16 May 2013

In our eighth chapter Chang tells us that as capital is, despite Marxist insistences, national in some manner therefore we should be nationalist about capital. Whether or not we allow Johnny Foreigner to come and invest in our pristine and national economy thus become a political question: the politicians should stroke their beards and ponder upon whether this specific capital is going to do the right thing in our specific economy.

One major problem with this is that, unlike Chang, we do not think that politicians, however long and grey their beards, have the ability to note whether a particular investment is good for the economy or not. The average political researcher turned Cabinet Minister could not invest their way out of a wet paper bag. But let's not talk about British politics specifically.

In one part of his analysis Chang is obviously and clearly correct: that captial and companies do still have a national character however multi- or trans-national they may seem. This is not, of course, a new idea [3]:

> By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.

Yes indeed, that's Adam Smith. Wealth of Nations Book IV Chapter 2 para 9. And it's also the only mention of "invisible hand" in the entire tome. No, invisible hand is not a shorthand for the market and all its wondrousness: it's a comment upon the way in which even if capital were entirely free, foreign profits were higher than domestic, there's still something about security and familiarity that leads to capital being invested in that domestic trade. Very much the same reasons Chang gives for why corporates do indeed still have something of a home nation bias.

So Chang's right here but only because he's not original. And it's really most odd to insist that no one tells us this about capitalism when the very point is made in the *Ur*-foundation document of capitalist economics.

However, there's a very large mistake that is being made in the rest of the argumentation here. In short, it's in this sentence:

> "This means that the home country appropriates the bulk of the benefits from a transnational corporation."

If the high end R&D is done at home, if the profits flow home, then the home country gets the major gains because these are the major benefits of a transnational corporation. Which is absurd poppycock. It's an entirely ludicrous thing for an economist to try and claim.

The major benefit of any productive organisation is what is produced: the benefit that people get from what the company (or co-op or individual) pumps out. This is known as the consumer surplus and this really ought to be known even at Cambridge. The benefit of Google is not cushy jobs for engineers, nor the lack

of tax revenue in the UK, the benefit of Google's existence is that we all get to use Google. Whether VW's R&D is in Wolfsburg or not matters very much less than that we all have the chance to drive VWs.

Indeed, we can make an attempt at showing how vast is the difference between these two concepts of the value that a corporation provides. It's not quite exact, because this paper talks about Schumpeterian profits (ie, what the entrepreneurs get, not finance capital) but the stunning fact is that the entrepreneurs only get 3% of the value created [4].

> The present study examines the importance of Schumpeterian profits in the United States economy. Schumpeterian profits are defined as those profits that arise when firms are able to appropriate the returns from innovative activity. We first show the underlying equations for Schumpeterian profits. We then estimate the value of these profits for the non-farm business economy. We conclude that only a minuscule fraction of the social returns from technological advances over the 1948-2001 period was captured by producers, indicating that most of the benefits of technological change are passed on to consumers rather than captured by producers.

As I say, it's not quite exactly the same but it is indeed indicative. The vast majority of the value that is created by any productive enterprise is not in who gets the jobs nor the profits nor the tax from that enterprise. It flows to the consumers who get to use the produce of that enterprise.

That is, after all, why the consumers buy it: they value it at more than it costs them to purchase it.

At heart this chapter shows one of Chang's basic problems. He views the economy as being about the benefits to producers and the benefits of production. He's entirely lost sight of the fact that the whole game, the economy and economics as well, is about consumption and opportunities for consumption. Whether or not foreign owners of companies do their R&D locally, pay their taxes or employ locals in the higher echelons of management is such a tiny part of the whole that it's an irrelevance. That foreign capital is still pumping out things that the local gets to use and that's where all the value is, in that consumer surplus.

After all, Smith did also say [5]:

> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.

That was back in 1776: isn't it about time that it sunk in?

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