On the Theory of Monopoly Capitalism

My subject requires no preliminary definitions or explanations. Such, if anyone feels the need of them, can safely be left to emerge from the discussion itself. But I would like to make quite explicit at the outset an implication of the title, that a theory of monopoly capitalism is urgently needed because of what I consider to be the growing inadequacy of the kind of economics which is taught in institutions of higher learning not only in the United States and Britain but throughout the capitalist world today.

Of the various ways in which this inadequacy could be illustrated, I will comment on just two. The first is the total inability of received economics to grasp, let alone explain, the profound tendency to stagnation which lies at the heart of present-day capitalism. Consider the situation which existed in the United States at the end of 1970, presumably near the end of what has been described by the National Bureau of Economic Research as the mildest recession of the

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This is an abridgement and slight revision of the Marshall Lecture delivered at Cambridge University, April 21 and 23, 1971.
postwar period. In December 1970, official figures showed:

Unemployment at 6.2 percent of the labor force
Utilization of manufacturing capacity at 72.3 percent of total

These figures by themselves are enough to indicate an enormous amount of idle human and material resources in the U.S. economy. But everyone knows that the official unemployment figures underestimate the true amount of unemployment. The question is: by how much?

In an attempt to answer this question my colleague Harry Magdoff and I made what we consider to be a conservative estimate from officially recorded changes in labor force participation rates. The striking fact here is that for the last two decades male labor force participation rates have been declining almost continuously, and much more sharply for blacks than for whites. In certain age groups, notably those of high school and college students on the one hand and those of retirement age on the other, this can be explained by the great increase in higher education enrollments and more adequate provision for old age. But these are evidently not the reasons for the decline in participation rates in the so-called prime age groups from 25 to 65. Here we have to assume either the growth of a new leisure class—made up to a disproportionate degree of blacks!—or, what makes sense, the effective exclusion from the labor market of literally millions of working-age adults who, for lack of education or skill or some other reason, have given up hope of earning a living in the normal way in the U.S. economy today. If we count those excluded from employment in this way as unemployed instead of out of the labor force, as common sense dictates we should, we find that as of December 1970, unemployment stood at 9.1 percent rather than the official figure of 6.2 percent. At the end of 1970, then, we can say that nearly 10 percent of the labor force and more than a quarter of
manufacturing production were idle in the world's most highly developed capitalist country.

Some of us have been saying for a long time now that if it weren't for the enormous military outlays of today, the U.S. economy would be as profoundly depressed as it was during the Great Depression of the 1930s. Can this assertion be supported by evidence? I think it can. Let us add to the unemployed as just calculated (7.9 million), the following:

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<th>Description</th>
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<td>Members of the armed forces</td>
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<td>Civilian employees of the defense department</td>
<td>1.2</td>
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<td>Employees in defense industries</td>
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<td>Those employed because of indirect effects of military spending</td>
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Thus, using conservative estimates where estimates are necessary, the total number of unemployed plus the military and military-dependent employed comes to 22.1 million as of December 1970. This works out to 25.6 percent of the labor force including armed forces. For comparison, the highest unemployment rate ever recorded was 24.9 percent at the depth of the Depression in 1933.

I realize, of course, that there are those who will say that all this has to do with the United States and not with the other advanced capitalist countries. I have no time to argue the point, so I will only ask them to reflect on what would be the consequence for the capitalist world as a whole—including both its developed and its underdeveloped parts—if by far its largest single unit were to be plunged into a deep depression comparable to that of the 1930s.

As far as the United States itself is concerned, it is quite clear that the stagnationist tendency which we have been discussing underlies or contributes to the seriousness of
practically all of the country’s most critical problems, and in particular the interrelated racial and urban crises. A rough index of the growing seriousness of these problems is the rapidly expanding welfare rolls of America’s great cities. Between the 1960 and 1970 censuses, the total population of the United States rose by 13 percent. The population on welfare in the same period shot up by 94 percent. Six percent of all the inhabitants of the United States, the richest country the world has ever known, are now on welfare: 15 percent of the inhabitants of New York, its richest city; 25 percent of the inhabitants of Newark, perhaps its most depressed and disoriented city.

Closely related to these problems is another which I may call the quality of life in the world’s most advanced capitalist society. This is something which evidently defies exact description or measurement, but which is no less real on that account. There are many aspects which could be singled out, but it seems to me that perhaps the most compelling is the fearful tensions and conflicts which beset everyday life. Charles Reich, whose book *The Greening of America* is often as strong on description as it is weak on diagnosis, speaks with little exaggeration of “the atmosphere of anxiety and terror in which we all live.” And my friend Grace Lee Boggs who lives in Detroit described what I mean with eloquence and passion in a recent lecture at Wayne State University:

Finally, instead of being a dream, “our present industrial society” is literally becoming a nightmare. For the vast majority of people—not only the Third World peoples living in the inner cities which have been abandoned by the rising working class, but also for the great majority of white workers and middle classes who have been able to buy comfortable homes in the suburbs—the world in which they move about from day to day is one in which the behavior of nothing and no
one, including oneself, is really predictable; where the slightest crack in the system of complexly integrated operations causes chaos; where danger and insecurities lurk on all sides; where carrying out the most mundane yet vital tasks—such as going to the store for a loaf of bread, or coming home from work in a public conveyance, or deciding where to send your child to school, or making a phone call in a phone booth, or asking somebody to do a routine favor or for directions on how to get somewhere—have become struggles for survival, where day after day your insides are constantly sweating it out, even when outwardly you appear to be calm. Having a good job “in our present industrial society” and earning the wherewithal to purchase practically anything you want, have not brought or bought a sense of security and confidence. If anything, it has increased the sense of insecurity and helplessness. This is especially true of a city, like New York, but it is becoming increasingly true of every other city in the U.S.A. where over two-thirds of the American people live.

I suppose most economists will shrug at such descriptions of everyday life in the United States. “Too bad,” I can hear them saying, “but what has all that got to do with us?” Well, maybe it hasn’t anything to do with them, but I suggest that if this is really true, they mustn’t be surprised or offended if more and more people, especially younger people, find them increasingly irrelevant—or, perhaps worse, hypocritical or even fraudulent. For, whatever economists may like to think about it, the quality of life is profoundly involved with economics, and any science worthy of the name will sooner or later have to accept the responsibility which this implies.

It is not my primary purpose, however, to serve up a critique of received economics. That can perhaps come with better grace and more conviction from inside the profession than from outside—and I must confess that, despite a proper
initiation and the customary seven years' apprenticeship, I now feel much more outside than inside the economics profession. Nevertheless, I would like to make it clear that all efforts at a serious critique originating within the profession, and even those critiques which remain within it, have my hearty support. It is surely a real step forward to have shown, as has been done here in Cambridge in recent years, that neoclassical economic theory, even considered as an abstract system on its own terms, suffers from fatal logical flaws. Relentless criticism from within is necessary, and it may well be still in its early stages. But it is no substitute for an effort to come to grips with the reality which received economics has so clearly neglected or ignored.

What alternative approaches to this late capitalist reality are there? Without in any way attempting to be exhaustive, I suggest that they can be grouped under three headings which can be conveniently referred to as (a) heterodox bourgeois, (b) traditional Marxist, and (c) neo-Marxist. (I hold no brief for these labels, but up to now at any rate more adequately descriptive ones have not occurred to me.)

The heterodox bourgeois tradition goes back a long way and includes numerous variants. What they have in common is an acceptance of the basic framework of the system, together with an open mind about desirable reforms within this framework. In earlier times there was a good deal of overlapping and intermingling with classical and neoclassical economics. John Stuart Mill can perhaps be taken as the prototype here—a classicist, neoclassicist, and reformer all bound up in one—you might say the last classicist, the first neoclassicist, and the first Fabian. Marshall and Pigou—especially Pigou—were in this tradition. In their hands welfare economics took shape as a genuine critique of capitalist society. It was only later that welfare economics was turned into a set of formal exercises devoid of any real social
content. The procedure here is typical: an apparent effort to be more precise and concrete led away from, not toward, reality and relevance. Pigou, it seems to me, ought to be recognized as one of the important precursors, if not actual founders, of the modern ecological movement.

But the capitalism against which their criticisms were aimed was essentially that of the nineteenth rather than the twentieth century. The large corporation hardly appears, and monopoly is treated as a special case, not as a phenomenon typical of the system as a whole. The first explicit recognition by bourgeois economists of twentieth-century capitalist realities tended to be highly empirical. The growth of corporations and trade unions, hence of monopolistic elements in the goods and labor markets, the increasing and changing role of governments in economic affairs—all this was described and documented in a voluminous literature which dates from the closing decades of the nineteenth century. But since there was hardly any place for these developments in traditional economic theory, this literature was largely nontheoretical, or even antitheoretical. American institutionalism of the period after the First World War conforms to this pattern and was the most self-conscious effort up to then to overthrow what many younger economists of the time felt as the tyranny of orthodox economic doctrine. But their efforts to put something in its place—insofar as such efforts were made at all—were feeble and soon fizzled out.

If I were asked to date the beginnings of a distinctively bourgeois theory of the capitalist system as it has taken shape in the twentieth century, I think I would cite Schumpeter’s article “The Instability of Capitalism” which appeared in the Economic Journal (September 1928). There we not only find the giant corporation or trust as a characteristic feature of the system; even more important, this economic unit, so foreign to the whole corpus of classical and neoclassical theory, provides the basis for new and important theoretical
propositions. It will be recalled that in the Schumpeterian theory as set forth in *The Theory of Economic Development*, innovation is the function of the individual entrepreneur and that it is from the activity of innovating entrepreneurs that all the dynamic features of the system are directly or indirectly derived. These features include interest on money (absent from Schumpeter's "circular flow"), the operations of the credit system, and the form of the business cycle. In "The Instability of Capitalism," however, Schumpeter places the innovative function no longer in the individual entrepreneur but in the big corporation. At the same time innovation is reduced to a routine carried out by teams of specialists educated and trained for their jobs. In the Schumpeterian scheme of things, these are absolutely basic changes destined to produce equally basic changes in capitalism's *modus operandi*. In "The Instability of Capitalism," he concentrated on what he took to be the implications for the business cycle.

In *Capitalism, Socialism and Democracy* Schumpeter developed this line of thought in a somewhat more sociological than economic direction by present-day academic standards, but it could hardly be said that he made any effort to construct a comprehensive theory of monopoly capitalism.

Schumpeter's initiative attracted little attention, and it was not until after the Second World War that a bourgeois economist again felt challenged to attempt to square an increasingly anachronistic theory with the more and more intrusive facts of twentieth-century capitalism. This time it was J. K. Galbraith who undertook the task, first in his book *American Capitalism*, followed by two other complementary works, *The Affluent Society* and *The New Industrial State*. Since Galbraith is—at least so it seems to me—the leading representative today of what I have called the heterodox bourgeois tradition, and since many of you have
had an opportunity this year to become acquainted with his ideas at first hand, a brief critical digression may be in order.

Galbraith is acutely aware of the utter unreality of the assumptions which underlie neoclassical theory, in particular the assumption which, in spite of all disclaimers, is the cornerstone of the whole edifice—a macrosystem of atomistically competitive and essentially self-regulating markets. For all the attention that has been paid to monopolistic elements in the last forty years—since the almost simultaneous publication of the books by Joan Robinson and E. H. Chamberlin—there has never been any attempt by neoclassical economics to relate them to the functioning of the system as a whole. Here I believe Galbraith is on absolutely solid ground, and I do not see how he can be seriously challenged when he writes (in *The New Industrial State*) that “economics as it is conventionally taught, is in part a system of belief designed less to reveal truth than to reassure its communicants about established social arrangements.”

Galbraith shows a fine disdain for all the theoretical models and constructs of orthodox theory—innocent games at best, deliberate obfuscation at worst. Instead, he presents us with what is perhaps the first attempt at a theory of an economic system dominated by giant corporations. In broad outline, it runs more or less as follows (I am subject to correction, of course): The heart of the big corporation is modern technology which involves greater specialization, more trained manpower, and much larger amounts of capital than in the past. More time is now needed to work up a new project and bring it into full operation. It is more difficult and expensive to shift from one project to another. Decision-making thus becomes more complex and more risky. The only way to cope with such complexity and risk is to plan. Planning, however, has its own inherent logic. To plan effectively, the corporation must be able to control its own
destiny, independently of control by outside financial institutions. A steady and secure flow of profits must therefore be available to finance research and development and expansion. Such a profit goal is attainable only if the corporation can, first, control markets and manipulate customers so that enough goods are sold at the right prices; and second, control necessary supplies, raw materials, etc., at consistent prices. But the giant corporation, for all its independence and power, would still be vulnerable without an adequate and steady flow of consumer demand and consequently consumer income. This is where government enters the economic picture, initiating and guaranteeing a huge spending program which, as Galbraith sees it, inevitably centers on military supplies and preparations. To quote what seems to me a key passage (from *The New Industrial State*): “If a large public sector of the economy, supported by personal and corporate income taxation, is the fulcrum for the regulation of demand, plainly military expenditures are the pivot on which the fulcrum rests. Additionally, they provide underwriting for advanced technology and therewith, security for the planning of the industrial system in areas that would otherwise be excluded by cost and risk.”

What Galbraith takes to be the logical necessity of these arrangements produces a seemingly harmonious blending of the goals of business, labor, and government. The center of power is not top management but what Galbraith calls the “technostructure,” which includes the whole range of executives, sub-executives, technicians, and other specialists who participate in group decision-making. The interests of the technostructure lie in the success of the corporation. The aim is therefore no longer, as in the case of the old-fashioned entrepreneur, maximum profits, but security and growth. Enough profits have to be made to pay dividends and to create an independent fund for research and investment, but
the major emphasis is on maximizing the growth of sales. Given planning and growth, a benevolent attitude toward trade unions becomes both possible and desirable. Thus the industrial technostructure and the bureaucracies of government and unions tend to be merged into what might be called a single interest group. From a purely economic point of view, according to Galbraith, this system works very well indeed, producing a hitherto unimaginable degree of affluence. But it has its drawbacks, chief of which are: First, the key role of military spending in managing demand and stimulating technological advance creates a military interest which has to justify itself by cold and hot wars. This is a standing danger which could lead to disaster. Second, apart from the military, the system regularly underestimates and undersupplies public and collective needs. Thus alongside private affluence it produces public squalor. And third, the system has no place for nonmaterial and noncommercial values: it tends to create an aesthetic and moral wasteland. In Galbraith’s view, however, these faults can be remedied by political action. The question is whether the system also creates a political interest with the actual or potential power to undertake the required action. And here Galbraith closes the circle. Modern technology, which ultimately dominates the whole thing—Galbraith is very much a technological determinist—necessitates a vast expansion in the number of scientists and educators, and these are supposed to be the very people who can save the system from its own destructive tendencies. In the final analysis, then, the New Industrial State turns out to be hardly less a harmonious and self-equilibrating system than the utopia of free competition it replaces. It begins with what seems like hardheaded realism about the big corporation, modern technology, the corporate state, and so on; but it ends up about as far removed as any other brand of bourgeois social science from the grim world
of stagnation, poverty, urban decay and crisis, racial discrimination and exploitation, imperialism and war, which stares out at us through the headlines of every day’s newspaper.

Where does Galbraith go wrong?

Basically, I think, in denying the essential class character of his corporate society. The trick here is the technostructure which is supposed to be the real power and which is pictured as choosing its goals independently of the property owner’s undeniable urge to maximize profits. The whole thing is, of course, an illusion which has been exposed many times but which reappears in one form or another with the regularity of the hardiest weed.

I always like to appeal to reputable authority when I can do so with a good conscience, and this is one of the fortunate occasions when that is possible. In a lecture delivered at the New School for Social Research in New York last month (March 1971), Paul Samuelson, of textbook and Nobel Prize fame, spoke as follows:

I find Galbraith’s notion that there is a technostructure which really runs our corporations, government, and which represents a convergence of form and function with the technostructure which runs Russia and China, to be a notion bred in part out of exaggerated self-esteem. I’d like to think that our MIT students will inherit the earth . . . but reality keeps breaking in. They, like the large corporation itself, are constitutional monarchs who reign only so long as they don’t rule. Just let some computer tell Henry Ford, or for that matter the General Motors Board, that they’ve got to do something he [the computer] wants but which they [Henry Ford or the GM Board] don’t think is in their long-run interest, and see how fast he draws his severance pay.

What Samuelson is saying, in a nutshell, is that the technostructure is hired and fired by top management, and
that what defines the boss is precisely the power to hire and fire. This is a basic truth which one wishes all economists—and other social scientists as well—could firmly grasp and retain.

Once the myth of the independent technostructure is disposed of, one can go about the business of debunking the rest of the Galbraithian system of social harmonics. Stagnation, unemployment, racial discrimination, urban decay, and all the other ugly features of present-day capitalist reality can be explained—rather than explained away—as the natural result of profit maximization in monopolistic markets. Wars like that in Indochina, which is literally tearing to pieces the fabric of U.S. society, can be recognized not as "mistakes" or antics of an unruly military establishment but as grim efforts of the capital-owning class to preserve at all costs the overseas markets and sources of raw materials which are increasingly vital elements in the profit-making potential of the giant corporations. (For Galbraith not even to have mentioned this aspect must have required a quite remarkable degree of self-control, since he does stress the importance for corporate planning of control over markets and supplies, and there is no reason to suppose that a corporation would willingly exempt foreign markets and sources of supply from its planning horizon just because they happen to be outside a particular set of national boundaries.)

So much, then, for heterodox bourgeois approaches to the realities of present-day capitalism. They are interesting and have their value, both positive and negative. But naturally enough they always stop short of challenging and criticizing the system itself, and this in the final analysis is their fatal weakness.

Turning now to the Marxist approaches, I have distinguished two varieties—traditionalist Marxist and neo-Marxist.

I am not going to spend much time on the first, chiefly because I don't believe the traditional Marxists have made/
significant contributions to a theory of monopoly capitalism. They have their economic theory from Capital which they seem to consider equally applicable to the capitalism of today as it was to the capitalism of the mid-nineteenth century. Of course they are aware that Marx had a theory of the concentration and centralization of capital, and they often cite this as evidence of the superiority of Marxian economics. Marx, they say, predicted the coming of monopoly capitalism, but that’s about as far as they go. If monopoly capitalism itself requires any new theories, or reformulations of old ones, the traditional Marxists are silent about the matter.

On another level, the traditionalists of course embrace Lenin’s theory of imperialism with its emphasis on monopoly and state action, but there is no effort to integrate this theory with the economics Marx expounded in the three volumes of Capital. And when it comes to the features which most strikingly differentiate the capitalism of Marx’s day from that of our own, the traditionalists usually do not get much beyond commonplace description. I refer here to giant corporations and resultant monopolistic market situations, the various types of state intervention into the economy, the different forms of imperialist domination and dependence, the manipulation of consumption, the attempted creation by mass media of pliable consumers and producers—all these things are recognized to exist, but they find no theoretical expression in traditionalist Marxism. The reason, I suppose, is that the traditional Marxists believe that whatever has happened or could happen under capitalism is in some way accounted for in the basic texts and that to admit the need for new theoretical departures is already a form of revisionism.

None of this is to deny that traditionalist Marxism is in many respects a powerful tool for interpreting present-day capitalist reality. Much about capitalism is unchanged since
Marx’s day, and still more since Lenin’s. Classes, exploitation, class struggle—the forms change but the substance remains. And those who see and interpret capitalism in these terms—whether it be the capitalism of the nineteenth century or the twentieth century—are almost sure to be able to comprehend and explain much more than any bourgeois social scientists. But this is not to say that traditionalist Marxism has made significant contributions to understanding what is specific to monopoly capitalism. In my opinion, it has not.

As to neo-Marxist approaches, I should first reiterate what I said earlier, that I am not particularly wedded to the label. I use it not to designate a group which is in some sense less genuinely Marxist than others—though clearly some may be—but rather a group which is less convinced of the adequacy of Marxist theory as it has been inherited from the past.

One of the first big steps toward a real theory of monopoly capitalism was taken by Kalecki when he introduced what he called “the degree of monopoly” into an analysis of the capitalist accumulation process. (I do not think it matters much whether we count Kalecki as a Marxist or not. Clearly he was not a traditional Marxist, but I think a case could be made that he was sufficiently influenced by Marxism to be classified a neo-Marxist, as I am using the term. But the important thing from our present point of view is that Kalecki’s introduction of monopoly into the analysis of the accumulation process has, so to speak, been appropriated by neo-Marxism, while being ignored by bourgeois economics, probably because its implications are basically thoroughly radical.)

Let us pause here to review very briefly Marx’s theory of the accumulation process. Capitalists hire workers at wages which are equal to the value of labor power. The value of labor power in turn is determined, not as in the case of
classical economics by a physical subsistence minimum, but by a historically conditioned conventional standard of living. I think the implication is that the extent to which this conventional minimum exceeds basic subsistence is determined in the final analysis by the cumulative effect of past class struggles. But as of any given period, this is a datum. Considering the important role it plays in the whole theory, this question of the determination of the value of labor power receives remarkably little attention from either Marx or his followers.

Having hired workers at the value of their labor power, capitalists put them to work with machines and raw materials which of course belong to the capitalists. Let us suppose that the average workday is ten hours and that in the first five hours the workers turn out a product with a value equal to their wages. What they produce in the remaining five hours then belongs to the capitalists and accrues to them as surplus value. The workers of course consume their wages, or rather the consumer goods which they buy with their wages. The capitalists consume only part of their surplus value, devoting the rest to accumulation. The accumulated part is divided between buying more labor power and buying more machines and materials. In this way the reproduction process continually expands through the production and investment of larger and larger amounts of surplus value.

If all went smoothly, this process could go on forever. But Marx argued that it couldn't proceed smoothly, that various kinds of obstacles and roadblocks would inevitably develop. One of these blockages, not fully worked out by Marx, was an inappropriately high rate of accumulation relative to the growth of consumption which would cause a breakdown of the accumulation process.

If we insert monopoly into this model, what is the result? If the value of the labor power is taken as an irreducible magnitude, clearly the only effect of monopoly will be
redistribution of surplus value from more competitive to more monopolistic sectors. Even this, however, can increase the rate of accumulation—since it concentrates surplus value in fewer hands, and those who receive more accumulate a larger proportion than those who receive less—and thus hasten the emergence of overaccumulation problems. Kalecki went a step further, arguing that monopoly would not only concentrate surplus value but also increase the amount of surplus value at the expense of wages. This need not be interpreted to mean an actual reduction of wages; it can mean slower growth of wages than would have taken place in the absence of monopoly. And if monopoly is not only introduced as a once-and-for-all factor but as a secularly growing force, then the whole capital accumulation process can be permanently and increasingly biased toward overaccumulation and stagnation.

As usual with Kalecki, this line of thought was presented with utmost terseness, occupying altogether no more than a paragraph or two. But the theme was taken up by Steindl, who was a colleague of Kalecki at Oxford during the war. Steindl developed the theme into a powerful treatise entitled *Maturity and Stagnation in American Capitalism* which I think is both one of the most important and most neglected works of political economy of the last half century.

The question which Steindl set out to answer was why the American economy remained in a state of deep depression during the whole decade of the 1930s. Others had attempted answers at the time, most notably Hansen and Schumpeter, but neither they nor Marxist writers of the period could propose an explanation which showed the Great Depression to be a logical outcome of the functioning of the capitalist system. This is just what Steindl did do. He demonstrated that the growth of monopoly, already fully anticipated and explained in Marx’s theory of the concentration and centralization of capital, must have a powerful retarding effect on
the capital accumulation process, and this in turn could only
mean an ever deepening tendency to stagnation. The 1930s
saw these inherent forces and tendencies of capitalism finally
rise to the surface to dominate the economic scene.

With this, it seems to me that the foundations of a sound
and essentially Marxist theory of monopoly capitalism were
firmly laid. The logic is beautiful in its unity and coherence:
competition inevitably gives way to monopoly via the
concentration and centralization of capital, and monopoly
retards the accumulation process, giving rise to ever more
powerful tendencies to stagnation.

This, however, is of course no more than the foundation of
a theory of monopoly capitalism. Quite apart from its effects
on the accumulation process, the growth of monopoly and its
institutional forms (the giant corporation and the financial
system that goes with it) has far-reaching consequences. And,
no less important, the protective reaction of the system, both
as a whole and in various of its parts, to the threats inherent
in chronic stagnation force new functions and behavior
patterns on almost all sectors of the society, political as well
as economic.

I cannot aspire to anything like a comprehensive discussion
of these subjects, and not only for lack of time. No less
important is the fact that while there is a large descriptive
literature dealing with various aspects, there is still not very
much in the way of real theoretical analysis. There is a great
deal of work to be done here, and it seems to me that the
younger political economists who will have to do it have been
rather slow in setting about the job. Let me make a few
suggestions.

In the first place it seems clear to me that we need a new
time of the firm. The earlier economists were very much
concerned with this problem, Marshall in particular. Marshall
had what might be called a biological theory of the firm.
Operating in essentially competitive markets, firms are born,
grow to maturity, move on to senility, and finally die. At any
given time an industry, which of course was thought of as
producing an essentially homogeneous commodity, is made
up of firms in all stages of growth and decline. It was to deal
with this situation theoretically that Marshall invented the
concept of the representative firm. Representative firms are
perhaps best thought of as those in the prime of life which,
taken together, constitute the bulk of an industry. Marshall
believed that in analyzing cost and supply conditions in an
industry, one could legitimately confine attention to a
representative firm, a device which enormously simplifies
what might otherwise be an unmanageably complicated
problem. Whether or not this device can be said to have
worked is surely debatable, but this should not obscure the
fact that it was not dreamed up out of thin air. If one reads,
for example, G. C. Allen's classic description of the organi-
zation of production in Birmingham and the Black Country
around the middle of the nineteenth century, one can see
very clearly the empirical basis of Marshall's thinking on the
firm. Competition and the life-cycle conception of the firm
were both realities. Nineteenth-century realities, of course.

Marxism from the outset pointed to a different theory of
the firm. Here we have to start with the key Marxian idea,
quite consistent with Ricardian theory but equally foreign to
neoclassical theory, that every unit of capital is inherently
and necessarily an expanding unit. This follows from the very
nature of capital as self-expanding value. Allow me to quote
two passages from Capital which clarify the logic of this
absolutely basic principle of Marxian economics:

The exact form of this process is . . . M→C→M', where
M' = M + ΔM = the original sum advanced plus an
increment. This increment or excess over the original
value I call "surplus value." The value originally
advanced therefore not only remains intact while in
circulation, but adds to itself a surplus value or expands
itself. It is this movement that converts it [money] into capital. . . .

The circulation of money as capital is . . . an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits. . . . The expansion of value, which is the objective basis or mainspring of the circulation M–C–M, becomes his [the capitalist's] subjective aim. . . . Use value must therefore never be looked upon as the real aim of the capitalist; neither must the profit on any single transaction. The restless never-ending process of profit-making alone is what he aims at.  

This points not to a biological theory of the firm but to what might be called an explosion theory. Only of course not all firms can go on growing forever. This is where the theory of concentration and centralization of capital comes in. Like trees in a young forest, some firms grow faster than others. The laggards are stunted and eventually choked to death, giving the survivors more room to grow in. In many cases—and here the tree analogy fails—the bigger and stronger take over and incorporate the smaller. Eventually, the number is reduced to the point where competition gives way to monopoly (I use the term “monopoly” in a broad sense to include the various forms and stages of oligopoly).

When this stage is reached, the firm undergoes a characteristic transformation. According to well-known principles of microeconomics—which I believe should be perfectly acceptable to Marxism—the monopolist no longer maximizes his profit by producing to the point where marginal cost equals price but to the point where marginal cost equals marginal revenue. This implies lower output, higher price, and higher profit. It does not, however, mean any lessening of the urge to expand. The problem for the firm is now different. On the
one hand, it must be careful not to expand in a way to spoil its own market. On the other hand, its increased profits make possible more rapid expansion than ever (either through direct investment of profits, or through making use of improved access to outside funds, or some combination). There is an apparent contradiction here: reduced scope for expansion versus increased ability to expand.

The resolution of this contradiction becomes the key to the understanding of firm behavior in the period of monopoly capitalism. The basic principle can be stated this way: to continue to expand freely, that is to say, in accordance with its capabilities, the firm must transcend its history. It was born and grew up producing and selling a certain product in a certain region. It must learn to overcome both these historical limitations. It must, in other words, strive to acquire new markets in both the product and the geographical senses. The one necessity leads to conglomerate, the other more or less directly to various forms of multinationalism.

Certain implications of this analysis of the firm should be noted. In the monopoly phase, two of economic theory's oldest and most time-honored axioms no longer hold. There is no longer a tendency for profit rates to converge toward a system-wide average rate of profit. The determination of the profit rate accruing to the producer of a particular product is a complicated problem which I don't want to go into now—costs, demand (including rate of growth of demand), and conditions of entry all play a part. The point is that there is no theoretical or factual reason to suppose that there is a tendency to equality as between products, or between firms—or even for that matter between the different divisions of a single firm. There are many different profit rates. In the United States during the 1950s, for example, for nineteen manufacturing industry groups the range was from a low of 10.32 percent for textile mill products to a high of 24.41 percent for transport equipment (which includes auto-
mobiles), with a wide variety of rates in between. Nor was the United States in any way exceptional. In the other countries studied by Minhas (United Kingdom, Japan, Canada, India), similar spreads existed, although the relative position of industries varied from country to country.\textsuperscript{12}

One can of course average these rates, for one country or for all, but the result is nothing more than a number devoid of operational significance. To be sure, to the extent that there is a competitive sector in a monopoly capitalist economy—which means more or less standardized products and minimum capital requirements for entry—there is a meaningful average rate of profit for that sector; and this is no doubt a factor of considerable importance in the functioning of monopoly capitalism. But it should not be allowed to obscure the fact that the overall average rate of profit—though of course not the total \textit{volume} of profit—does not have the significance attaching to it in conditions of competition.

A corollary of this of course is that if the average rate of profit has no operational significance, then neither does a rise or a fall in the average rate of profit. It may still be possible to have a theory about the significance of rising and declining profit rates, substituting frequency distributions for averages. But to my knowledge, no attempts in this direction have been made.

Another implication of the theory of the firm sketched here is that capital can move from higher to lower profit-rate areas as well as vice versa. What counts for the monopolistic firm seeking outlets for its investible profits (and/or borrowings) is not whether the rate of profit it can earn in another area is higher than what it is earning now, but whether the profit rate on an \textit{additional} investment in the new area is higher or lower than that on an additional investment in its present field of activity. To put the matter quite concretely—without, I think, losing any generality—if General
Motors has $100 million to invest, it will not decide whether to invest it in additional automobile capacity or in, say, additional refrigerator capacity by comparing the rate of profit in its auto division with that in its Frigidaire division. To put more into autos might actually involve a reduction in profit even though the current rate of profit there is—as indeed it often is—over 25 percent. And if Frigidaire—and all the other two dozen or more industries in which General Motors is a major producer—are in a similar condition, well, General Motors may decide just to invest in U.S. Treasury bonds unless or until something new and attractive (i.e., with a prospective yield higher than that of Treasury bonds) comes along.

This ability of capital to flow the "wrong way," i.e., from areas of higher to areas of lower return, will perhaps distress those who are accustomed to explaining phenomena—particularly imperialist phenomena—by profit-rate differentials, falling tendencies of profit rates, etc. Actually, I think there is no loss. Such explanations are simply irrelevant under monopoly capitalism, and it is better they should be abandoned. Nor does this leave us without valid explanatory principles. As Oskar Lange wrote some forty years ago: "The pursuit of surplus monopoly profits suffices to explain completely the imperialistic nature of present-day capitalism. Consequently, special theories of imperialism which resort to artificial constructions, such as Rosa Luxemburg's theory ... are quite unnecessary." I need only add that theories of imperialism which rely on profit-rate comparisons fall under the same stricture. But I think Lange's statement should be amended to say not that such theories are unnecessary but that they are wrong. (Oskar Lange, incidentally, was, like his fellow countryman Michal Kalecki, an economist who was perfectly familiar with and indeed made notable contributions to the methods and achievements of bourgeois economics. Neither man hesitated to use whatever he found
valuable in this tradition; and yet neither man was overwhelmed or trapped by it. Their basic orientation was and remained Marxian and socialist. They provide, it seems to me, admirable examples for the younger generation of radical economists in the West.)

Before I leave this subject, let me add that what Lange calls the “pursuit of surplus monopoly profits” could well be taken as the starting point for a comprehensive investigation of the whole range of topics, political as well as economic, that commonly fall under the heading of imperialism. It is only necessary to add that the term “pursuit” must be interpreted in a broad sense to include not only chase and capture but also all subsequent arrangements to secure and perpetuate. As Galbraith so often insists—and it is unquestionably one of the strongest points of his theory—the modern giant corporation has a profound need to dominate and control all the conditions and variables which affect its viability. And this explains so much of what seems merely irrational or perverse to one steeped in abstract neoclassical modes of thought. It explains why, for example, the giant corporation, as soon as it feels strong enough to do so, typically moves from export to production abroad, and why it strives with might and main to control, directly or in concert with other giant corporations, governments wherever it operates.

Allow me now to return to a subject which I introduced earlier but did not follow up. I asserted—or, if you prefer, proposed the hypothesis—that underlying the whole development of modern monopoly capitalism is a profound tendency to stagnation. (The Keynesians would call it a chronic deficiency of effective demand; and I think some of them are convinced that it really exists, though as far as I know none has made any serious attempt in recent years to explain why.) I then went on to suggest that this tendency to stagnation provokes or strengthens a whole series of pro-
tective reactions. It was this range of phenomena with which Paul Baran and I were largely—though by no means exclusively—concerned in our book, *Monopoly Capital*. I have no desire or intention to expound the arguments of that effort, but I would like to take the occasion to look, very briefly and cursorily, at some of the objections that have been raised to the conceptual apparatus which Baran and I employed.

If you will recall my earlier sketch of the Marxian theory of accumulation, you will remember that I located the source of the tendency to stagnation in overaccumulation in relation to the growth of consumption. Since accumulation is assumed to take place exclusively from surplus value, this amounts to saying that the problem concerns the magnitude and modes of utilization of surplus value. In the simplest (most abstract) model, the determinants are (a) the value of labor power or real wages, (b) the productivity of labor, (c) the division of surplus value between the capitalists' consumption and accumulation, and (d) the division of accumulation between variable and constant capital. This is, however, a very simplified or abstract scheme, and it should not be taken to mean that there was no room in Marx's theory for other modes of utilization of surplus value. Three in particular were clearly recognized by Marx.

First, the upkeep of the state apparatus. Given the assumption of a fixed and irreducible real wage, there is of course no other possible source of tax revenue than surplus value.

Second, the incomes of unproductive workers, of which domestic servants were not only typical but in Marx's time also the most numerous group. (State employees were of course also unproductive workers, but of a different sort, supported indirectly rather than directly from the surplus value accruing to capitalists. In general, for Marx, productive labor is that which creates surplus value; unproductive labor, that which is supported from surplus value.)
Third, what Marx called "expenses of circulation." Here I would like to quote what I think is the key passage, which comes from Volume II of Capital and is less likely to be familiar than the well-known formulations of Volumes I and III.

The general law is that all expenses of circulation, which arise only from changes of form, do not add any value to the commodities. They are merely expenses required for the realization of value, or its conversion from one form into another. The capital invested in those expenses (including the labor employed by it) belongs to the dead expenses of capitalist production. They must be made up out of the surplus product and are, from the point of view of the entire capitalist class, a deduction from the surplus value or surplus product.\textsuperscript{14}

It seemed to Baran and me—and still seems to me—that this provides the needed conceptual framework to bring the whole problem of selling costs within the framework of Marxian theory.

Now Marx in his day believed that the essentials of the capitalist process could best be highlighted and analyzed by abstracting from what he considered to be these secondary forms of utilization of surplus value. I think he was undoubtedly right. But I think it is equally clear that this is no longer true today. Not only have the sales effort and state expenditures increased enormously, but they are precisely the channels and instruments through which the system reacts in attempting to protect itself against the destructive consequences of the underlying tendency to stagnation. To abstract from these factors now is to commit the least excusable of scientific sins, that is, to ignore what is essential to an understanding of the segment of reality under study. The fact that bourgeois social science commits this sin all the
time, and indeed seems to regard it as a positive virtue, is no reason why Marxists should follow the same course.

I have no time to elucidate the dynamic processes here. Suffice it to say two things: First, that the new forms of competition, which under conditions of monopoly replace the older forms of price competition, put an entirely new emphasis on the arts of salesmanship, and that the sales effort, in turn, both reacts back on the economic process and creates a distinctive monopoly-capitalist culture. Second, that the growing need for modes of utilization of surplus value other than capital accumulation inevitably comes to focus more and more directly on the state. Here the needs of the giant corporations come into play to shape the forms of state activity, partly in ways described by Galbraith, but even more importantly because the system knows no other way than unlimited violence or threats of violence to control the menace of rival social systems and revolutionary national liberation movements.

Notes:

8. I exclude such pre-First World War writers as Hilferding, Rosa Luxemburg, and Lenin, who might better be called the founders of what I here call neo-Marxism. It is precisely the failure of later traditionalists to build on the foundations laid by these writers which is responsible for their sterility as theorists of monopoly capitalism.