Monopoly Capital

I Introduction

As we saw in Chapter 1, four broad types of crisis theory were used by Marxian economists to explain the Great Depression: disproportionality, overaccumulation, the falling rate of profit, and underconsumptionism. Of these, disproportionality soon lost all influence and overaccumulation fell out of favour for several decades. The other two theories were, however, invoked after 1945, both to account for the 'long boom' and to demonstrate that it could not last indefinitely. One school of post-war writers claimed that the tendency for the rate of profit to decline had been in abeyance because of the temporary strength of various counter-acting tendencies, but would eventually reassert itself and put an end to sustained prosperity. This had been very much a minority viewpoint before the Second World War, but by the 1960s it was probably accepted by the majority of Marxian economists, at least in Europe. The second line of argument, relying on underconsumptionist ideas, was much more influential in North America, where the analysis of 'monopoly capital' maintained that aggregate demand had been stimulated after the war by wasteful (for example, military) expenditures. For Paul Baran, Paul Sweezy and their followers, capitalism was not merely prone to stagnation and crisis; it was also, and increasingly, devoting its productive power to irrational uses.

This part of the book is organised as follows. The present chapter examines the theory of monopoly capital, assessing both its formal validity and its explanatory power. Then in Chapter 7 we provide a critical history of the falling rate of profit theory from 1883. In both chapters we concentrate on theoretical developments up to the end of the 'long boom' – that is, roughly up to 1973 – leaving detailed treatment of subsequent controversies to Chapter 16 in the final part of the book. We conclude this part, in Chapter 8, with a discussion of the relationship between arms spending and the post-war economic performance of Western capitalism.
II The Origins of Monopoly Capital

Before the Great Depression Marxian economics had very little influence in the United States. Class consciousness was very much weaker than in Europe, the labour movement more opportunistic, and the universities possibly even more conservative and intolerant of radical ideas. The reaction to the Bolshevik Revolution was also more draconian in North America, strengthening the already powerful forces of intellectual and political conformity. The institutionalist Thorstein Veblen, a trenchant critic of capitalist mores, did act as something of a conduit for the transmission of socialist ideas. But, apart from Louis Boudin's *The Theoretical System of Karl Marx* (a distinguished but largely exegetical work published in 1907), no specifically Marxian text of any significance appeared in the US before Lewis Corey's writings on crisis theory in the mid-1930s.¹

Corey was largely self-taught, an activist rather than an academic. His work was marred by eclecticism, and he soon renounced Marxism altogether.² Paul Sweezy proved to be a much more important figure. Trained at Harvard and the London School of Economics, the young Sweezy was the author of a thesis on the economic history of the British coal industry and a number of articles in mainstream professional journals. He had begun as an orthodox 'classical' economist (in the Keynesian sense), accepting the validity of Say's Law, supporting wage cuts to reduce unemployment and revealing considerable mathematical talent in justifying this stand.³ By 1938–9 Sweezy had changed his position and become significantly more radical, arguing now both that employment was determined by product demand and that oligopoly implied a discontinuous labour demand curve with zero wage-elasticity over the relevant range; wage cuts would thus fail to stimulate a recovery in employment. This conclusion was a corollary of his celebrated analysis of the kinked demand curve.⁴

Precisely when Sweezy can be said to have become a Marxist is a little unclear. His contemporary, Lorie Tarshis, recalls him first as 'an ardent and belligerent defender of Hayek' and then, in 1937, as a firm Keynesian. In the following year Sweezy's name appeared as co-author of the highly influential tract, *An Economic Program for American Democracy*, which was 'a presentation of the Keynes of the General Theory in New Deal American garb'.⁵ Sweezy's own recollections are different: 'I returned to the United States [in 1933] after my year at the London School a convinced but very ignorant Marxist', he wrote in 1981.⁶ Nothing Sweezy published in the 1930s, however, marked him out as anything other than a very competent and original Keynesian. His underconsumptionism must also have owed something to the English radical writer J.A. Hobson, whose work he praised in a book review in 1938.⁷ In addition, Sweezy's critical attitude towards monopoly power is consistent with the position taken by many of his liberal and socialist contemporaries like Stuart Chase and Gardner Means.⁸
At all events, Harvard was at this time a good place to learn Marxian economics. Graduate students included the Japanese Marxist, Shigeto Tsuru, and (after 1939) another of Sweezy's future collaborators, Paul Baran. Socialist discussion groups proliferated. Among the professors were Joseph Schumpeter and Wassily Leontief, both of whom knew their Marx, and the less expert Edward S. Mason, who took on Sweezy as a teaching assistant for his course on the economics of socialism. Sweezy's lecture notes for this course formed the basis of his first important theoretical book, *The Theory of Capitalist Development*. Published in 1942, this remains even today one of the best introductions to Marx's own economic thought, and also contains the most comprehensive survey in the English language of Marxian crisis theories up to the 1930s. As we saw in Chapter 1, Sweezy combined an overaccumulation analysis of cyclical fluctuations with an underconsumptionist theory of the tendency to secular stagnation. It is the latter with which we are concerned here, since it was very closely connected with his notion of monopoly capital.

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**Biography of Paul Sweezy**

Sweezy was born in New York City in 1910, the son of a Wall Street banker. He studied at Harvard and the London School of Economics, returning to Harvard in 1933 as an instructor and graduate student. By 1942, when he joined the Office of Strategic Services as a researcher, Sweezy had completed a PhD thesis on the economic history of the British coal trade, published a seminal article on price determination under oligopoly, and written the influential *Theory of Capitalist Development*. At the end of the war Sweezy resigned from Harvard in anticipation of a refusal of tenure, and subsequently fell foul of McCarthyism in New Hampshire. Although he later held visiting positions at Cornell, Stanford, Yale and other institutions, Sweezy's departure from academic life proved to be permanent. In 1949, with Leo Huberman, he founded the journal *Monthly Review*, which he has edited ever since. Sweezy is best known, however, for his long collaboration with Paul Baran, and above all for their best-selling book *Monopoly Capital*.

In his analysis of stagnation Sweezy drew heavily upon Otto Bauer's formal model of underconsumption, which itself had close affinities with the growth model formulated independently by the English Keynesian Roy
Harrod three years later, in 1939. The Bauer-Sweezy model is flawed, but the essence of the argument can be expressed quite simply. Consumption tends to fall as a proportion of total output because capitalists do not spend enough to maintain a constant savings ratio out of their rising profits, while workers (who spend everything they get) receive a declining income share. Hence, if all savings are invested, the capital stock grows more rapidly than the output of consumer goods. The 'appropriate' capital stock - that which maximises profits - is closely related to the level of consumption so that, if accumulation threatens to run ahead of consumer spending, investment is curtailed and profitable growth comes to an end. This, in a nutshell, is the Bauer-Sweezy model of underconsumption (criticisms are deferred until section IV below). 10

Sweezy concluded that chronic depression was the normal state towards which capitalism tended, subject only to certain offsetting factors. Investment might be increased by the establishment of new industries, like the railways in the mid-nineteenth century, and (less importantly) by faulty investment which boosted demand without adding to profitable productive capacity. Private consumption could be stimulated by population growth and the expansion of unproductive expenditures. Finally, state spending might rise. The hitherto most important counter-acting tendencies, Sweezy argued, had been the development of new industries and the growth of population. Both had weakened considerably in recent decades, he maintained, leaving unproductive consumption and demand creation by the state as the only significant barriers to underconsumption. Here Sweezy revealed the influence of Keynesian ideas and the work of his Harvard colleague Alvin Hansen, a late but enthusiastic convert to Keynes, whose well-known 'stagnation thesis' emphasised decreasing population growth and a reduced rate of technical innovation. 11 Although neither man features at all prominently in The Theory of Capitalist Development, Sweezy's obituary tribute to Keynes has already been referred to (see Chapter 5, section IV), and as late as 1954 he was praising Hansen for having stressed the exogenous causes of stagnation. 12

For Sweezy, then, unproductive consumption and state expenditure were the two principal checks to underconsumption. There is relatively little in The Theory of Capitalist Development on the economic, as opposed to the political, theory of the state. 13 Sweezy's views on unproductive consumption, however, emerge very clearly from his discussion of monopoly capital. Like Hilferding and Lenin, whom he cites with approval, Sweezy is convinced that the growth of monopoly represents a new stage of capitalism in which - and here he strikes out on his own - the laws of motion of capitalist development must be rethought. He agrees with Marx that monopolists' excess profits are won primarily at the expense of other capitalists, and that this entails long-run differences in the rate of profit between different sectors of the economy. Marx's analysis of competitive
prices of production rested on the assumption of an equal rate of profit in all industries. Under monopoly capitalism this cannot be sustained. It follows that there is no general law of monopoly price: all that can be said is that output will be lower, and price higher, than in free competition. There are also macroeconomic consequences, Sweezy maintains, following the argument (unknown to him) of the Soviet writer Evgeny Preobrazhensky: investment is lower, and the costs of distribution are higher. Since competitive capitalists are too small to influence market price, their investment decisions reflect only the profits they expect to obtain from the newly-accumulated capital, ignoring any effect upon the capital they already employ. Monopolists, however, must also consider the effects of new investment upon the profitability of their existing capital, which will be devalued by an increase in the industry's capacity and the consequent fall in price. All other things being equal, monopolists will invest less than competitive capitalists, thereby reducing effective demand and creating a tendency towards stagnation. Working against this is the increase in commercial and distributive expenditures, which raises demand for individual monopolists and expands consumption (by reducing savings) for the entire economy. But these expenditures are unproductive, and monopoly capital is therefore characterised by increasing levels of waste.14

This final conclusion had been anticipated by both Preobrazhensky and Natalie Moszkowska,15 but in the case of Sweezy it reveals the influence of contemporary bourgeois theory. Product differentiation and selling costs were fundamental to Edward Chamberlin's model of 'monopolistic competition', first formulated in his 1926 doctoral thesis, though Chamberlin himself recoiled from their radical (and especially their macroeconomic) implications. Both he and Joan Robinson, in her very similar analysis of 'imperfect competition' in 1933, had suggested the likelihood of a market equilibrium in which capitalists would operate with excess capacity, which they would not find it profitable to eliminate through price reductions.16 Sweezy's argument concerning the lower level of investment in monopoly capitalism is really a dynamic extension of this proposition, since Chamberlin-Robinson firms with excess capacity can meet increased demand without new investment. Certainly Sweezy was not the only economist, in the decade of the New Deal, to link monopoly power with macroeconomic stagnation.17

III Enter Paul Baran

In The Theory of Capitalist Development Sweezy acknowledges the assistance of Paul Baran, who had arrived in the United States in 1939 and was to be Sweezy's foremost collaborator over the next quarter of a century.18 Baran had acquired a thorough grounding in the Marxism of both the Second and
Third Internationals, first in his native Russia and then in Germany, where he had worked with Friedrich Pollock of the Frankfurt School. Baran’s interests complemented those of Paul Sweezy in several ways. First there was his deep concern with problems of economic growth in backward areas. In his book Sweezy had denied that capital exports from the advanced countries would produce harmonious and balanced development in underdeveloped regions, but barely hinted at the theory of dependence and underdevelopment which Baran’s work would later inspire (see Chapter 9 below). Baran’s second contribution was the knowledge of Critical Theory which he had obtained during his time in Frankfurt. Far more than most of his Marxist contemporaries, Baran was concerned with the rationality of capitalism as a form of social life, not merely with its viability in a narrow economic sense. His influence made the theory of ‘monopoly capital’ less economistic than it might otherwise have become, and gave Marxian political economy in North America an unusually powerful focus on the cultural and ideological dimensions of work, education and family life.20

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**Biography of Paul Baran**

Baran was born in Nikolaev on the Black Sea in December 1910, into a family of Polish Jews; his father was a doctor. He was educated in Poland, Russia and Germany, where he was briefly a member of the Communist Party. After studying in Moscow under Preobrazhensky, Baran returned to Germany in 1928. Here he joined the Social Democratic Party, worked at the Frankfurt Institute as research assistant to Friedrich Pollock, and wrote a PhD under the supervision of Emil Lederer. After 1933 Baran lived in Paris, Moscow, Vilna and London before emigrating to the United States in 1939. He studied at Harvard, where he began his long association with Paul Sweezy, and during the war worked with John Kenneth Galbraith on the US Strategic Bombing Survey. From 1949 until his death in March 1964 Baran taught at Stanford University, where he occupied a lonely and uncomfortable position as the only avowedly Marxist professor of economics in the United States.

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Third, Baran augmented Sweezy’s rather sketchy analysis of the capitalist state. In a major essay on economic planning, published in 1952, he identified six forms of government expenditure which might offset underconsumption. Four of them – improved social services, overseas aid, investment in prod-
uctive enterprises, and direct consumption spending – would arouse business hostility, he claimed, because of the threat they posed to the dominance of capitalist ideology. For Baran only arms spending and unproductive civilian projects (‘leaf raking’) were immune to these objections. Hence planning could not render full employment consistent with peaceful, liberal-democratic capitalism, as social democratic politicians believed. Apart from socialism, the alternatives were a militaristic fascist regime or the abandonment of full employment, in order to ‘keep labor in its place’.21

Baran’s final, and most important, contribution to the partnership with Sweezy was the concept of the economic surplus, which was at the heart of his book *The Political Economy of Growth*, published in 1957 (see Chapter 9 below). Strictly speaking, there are three distinct concepts: the planned, actual and potential surplus. The *planned surplus* is the difference between the optimum output of a socialist economy and its optimum consumption, ‘optimum’ being defined in terms of the ‘considered judgement of a socialist community guided by reason and science’.22 It is not relevant to capitalism, and bears no direct relation to the traditional Marxian notion of surplus value. The *actual surplus* is the difference between actual output and actual consumption; in a closed economy and ignoring the state it is equal to current saving, and is less than surplus value by an amount equal to capitalist consumption minus any saving by workers. It could in principle be calculated – in market prices rather than labour values – from conventional national income accounts.23

Baran defines the *potential surplus* as ‘the difference between the output that could be produced in a given natural and technological environment with the help of employable productive resources, and what might be regarded as essential consumption’. It has four components. The first is consumption by the upper class and part of the middle class in excess of socially-defined acceptable minimum standards. Then there is the output forgone because of the employment of unproductive workers: the makers of armaments, luxury articles and objects of ostentation, government and military officials, clergyman, lawyers, advertising agents, brokers, merchants and speculators. (The first and second categories overlap, raising the danger of double-counting.) Third comes the output lost by ‘the irrational and wasteful organisation of the existing productive apparatus’, including normal (that is, non-depression) excess capacity, forgone economies of scale, senseless product differentiation, and the suppression of technical advances to protect existing royalties and profits. Finally there is the output which is never produced because aggregate demand is inadequate. Baran’s potential economic surplus is thus a hybrid concept, relating both to existing capitalist reality and to his vision of a rational socialist future. Its harnessing to useful purposes ‘presupposes a more or less drastic reorganisation of the production and distribution of social output, and implies far-reaching changes in the structure of society’.24
In *The Political Economy of Growth* Baran makes no attempt to measure the potential surplus, refuses to speculate about its long-run tendency as a proportion of total output, and disposes of its relationship to conventional surplus value in a single footnote. (Unlike surplus value, potential surplus includes output lost through underemployment or misuse of productive resources, but excludes essential consumption by capitalists and essential outlays on public administration.) The concept is, however, of crucial importance for his entire theoretical system in two ways. First, it offers a powerful tool for the critical analysis of existing non-socialist economic systems, both backward and advanced. If the potential surplus were to be realised, and channelled into socially productive activities, the rate of growth could be increased and unemployment reduced. Both the standard of living and the quality of life would be greatly improved. In fact ‘waste’ constitutes Baran’s chief argument against monopoly capitalism in advanced countries, and it is defined by his concept of potential surplus. Second, the concept of potential surplus allows a new and more defensible formulation of underconsumption theory. Critics of underconsumptionism had objected that neither profits nor savings had increased as a proportion of national income, in the way that the theory seemed to require; instead both the savings ratio and the profit share had remained roughly constant for long periods. This, Baran argued, was to confuse reality with potentiality. Realised profits, and actual savings, might not have increased in relation to income, but their potential magnitudes had indeed risen. The gap between them had been filled – that is, surplus had been absorbed – by excess capacity and unproductive consumption. Growing waste was therefore the clearest possible evidence in support of underconsumptionism. Without it, stagnation and crisis would be evident.

*The Theory of Capitalist Development* had ended on a relatively optimistic note, with Sweezy looking forward to the early victory of socialism in Western Europe and the possibility of a (longer) peaceful transition from capitalism in the United States. Fifteen years on, *The Political Economy of Growth* offered an altogether gloomier prospect. Monopoly capital was hostile to full employment, on essentially disciplinary grounds, and would resist the expansion of civilian government spending. This made private waste and state expenditure on imperialist domination (especially armaments) the only significant outlets for the potential surplus. Baran concluded that the stability of the system was highly precarious in economic, political and military terms. If stagnation was to be avoided, it could only be at the cost of McCarthyite hysteria and the constant threat of war.

**IV Monopoly Capital**

Most of the pieces for a theory of monopoly capital had now been assembled: underconsumption and the analysis of the monopoly enterprise
by Sweezy, potential surplus and constraints on state intervention by Baran. All that remained for the Monopoly Capital jigsaw to be complete was the discovery of one missing component, later labelled 'the law of the rising surplus'. If it could be demonstrated that the potential surplus did have a clear tendency to increase over time, the case for a revised theory of underconsumption would be greatly strengthened. The history of advanced capitalism (at least in North America) could be rewritten, and it would be possible not only to explain the long boom after 1945 but also to predict its impending demise.

The first hint of a law of rising surplus came in a paper published by Baran in 1959, soon followed by two articles jointly written with Sweezy, their first co-authored publications in over 20 years of collaboration. They were a first draft of the core chapters of Monopoly Capital, which finally appeared in 1966, two years after Baran's death and having taken almost exactly ten years from the first tentative outline to the date of publication. The book's starting-point is 'the giant corporation', which has replaced the individual capitalist as the prime mover in a system in which small business plays a purely passive role. For Baran and Sweezy the corporation's incentive to maximise profits is every bit as strong as that of the traditional entrepreneur; the interests of both shareholders and management coincide in the quest for higher profits, which increase the size and strength of the firm and offer the greatest security and the best promotion prospects for its managers. The corporation does compete with its rivals but this competition does not take the form of price-cutting, since oligopolists recognise that this would be self-defeating. Price wars are replaced by tacit collusion, in which price and output levels are agreed on and approximate to those which a single monopolist would find most profitable. This 'joint profit maximisation' model of price formation was derived, quite unashamedly, from contemporary microeconomic theory.

Vigorous competition does continue, Baran and Sweezy suggest, but using such non-price weapons as product differentiation, product innovation and selling costs. Monopoly capital does not so much retard innovation as prevent it from lowering prices. Since production costs continue to fall, while prices are fixed, profit margins widen. This is a microeconomic law; at the macroeconomic level it is reflected in the tendency for the surplus to rise, relatively as well as absolutely.

In Monopoly Capital Baran and Sweezy define the surplus as 'the difference between what a society produces and the cost of producing it', referring the reader to The Political Economy of Growth for further details. In an Appendix they present Joseph Phillips's statistical estimates. Phillips measures the surplus as the sum of property incomes, wasteful expenditures, government spending and costs resulting from 'the penetration of the production process by the sales effort' (for example, the costs of unnecessary model and design changes). This is neither the actual nor the potential
surplus defined in Baran's book (it differs from the latter in making no attempt to allow for output forgone due to unemployment and excess capacity). Phillips's work has been heavily criticised, as we shall see in the following section. At present it is sufficient to record his conclusion: between 1929 and 1963 surplus rose from 46.9 per cent to 56.1 per cent of US GNP. By the latter year property incomes accounted for less than one-third of the total surplus.36

How this rising surplus might be absorbed is a central question of Monopoly Capital. Neither capitalist consumption nor investment was up to the task, Baran and Sweezy concluded. Since a declining proportion of corporate profits was paid out in dividends, consumption by shareholders is of decreasing significance and the investment-seeking part of the surplus rises. Underconsumptionist considerations make it extremely unlikely that the ratio of investment to output can continually increase even if the incentive to invest were not weaker in monopoly than in competitive capitalism. Baran and Sweezy also reject Lenin's suggestion that capital exports to underdeveloped regions are ultimately surplus-absorbing. The United States was receiving more income from its assets in poor countries than it invested there; surplus was being transferred, but in the wrong direction.37

This leaves selling expenses and expenditure by the state. Monopoly Capital is probably best known, among its non-Marxian readers, for its description of the 'Sales Effort' as an outlet for surplus:

The function of advertising, perhaps its dominant function today, thus becomes that of waging, on behalf of the producers and sellers of consumer goods, a relentless war against saving and in favour of consumption. And the principal means of carrying out this task are to induce changes in fashion, create new wants, set new standards of status, enforce new norms of propriety. The unquestioned success of advertising in achieving these aims has greatly strengthened its role as a force counteracting monopoly capitalism's tendency to stagnation and at the same time marked it as the chief architect of the famous 'American Way of Life'.38

As for the state, ideological prejudice and opposition from private vested interests ensure that it is not civilian but military expenditure which dominates the government's absorption of surplus.39 The discussion of civilian spending in Monopoly Capital adds little to that in Baran's book; its treatment of military expenditure will be discussed in the following chapter of this book. Baran and Sweezy conclude that the orthodox communist term 'state monopoly capitalism' is inappropriate, since the state is not an independent force and there has been no qualitative change in its economic role.40
They argue that monopoly capital dates from about 1870, with the emergence of the giant corporation as the dominant dynamic influence in the US economy, and the law of rising surplus can be detected from then onwards. Stagnation has been the normal state of monopoly capital, Baran and Sweezy maintain, except when it has been offset by world wars or by 'epoch-making' innovations such as the railways (1870–1900) or the internal combustion engine (in the 1920s).41 The first really clear signs of stagnation can thus be found in the long depression of 1907–15, while the Great Depression of the 1930s should be seen 'not as the Great Exception but as the normal outcome of the workings of the American economic system'. After 1945 the expansion of the sales effort and the unrelenting growth of military spending masked stagnationist tendencies which, by 1963, were coming increasingly to the fore. The end of the long boom was in sight.42

Significantly the book does not end there. A chapter on racism provides a link between revolution in the underdeveloped Third World and marginalised groups in the heartlands of capitalism (see Chapter 9 below). Following this, Baran and Sweezy go on to dissect the quality of life under monopoly capital. It has not satisfied human needs nor made people happy, they argue in a chapter which recalls Marcuse and Galbraith no less than Marx. There is a crisis of values revealed in growing disorientation, apathy and despair, together with the continued survival of poverty and poor housing and the problems engendered by suburban sprawl and the collapse of public transport and education.43 Drawing heavily upon Critical Theory, the final chapter of *Monopoly Capital* assesses the rationality of the system. The giant corporation ensures that US society is rational in its parts, Baran and Sweezy suggest, but cannot prevent the increasing irrationality of the whole. Bourgeois ideology is itself disintegrating, despite the infiltration of calculation and pretence into every sphere of daily life. People are more and more alienated at work, due to the dehumanising effects of the intensive division of labour to which they are subjected, and also in consumption, where even 'leisure' has become a grind. The destructive hand of monopoly capital reaches deep into the personal realm to affect family life and sexual gratification.44

The most important conclusion of all is that, for Baran and Sweezy, the proletariat of the advanced capitalist countries can no longer be relied upon as the agent of social transformation:

Industrial workers are a diminishing minority of the American working class, and their organised cores in the basic industries have to a large extent been integrated into the system as consumers and ideologically conditioned members of the society. They are not, as the industrial workers were in Marx's day, the system's special victims, though they suffer from its elementality and irrationality along with other classes and strata – more than some, less than others.
Monopoly capital will be overthrown, if at all, by revolutionary war in the Third World (see Chapter 9 below).\textsuperscript{45}

V \textit{Monopoly Capital} and its Critics

There is a sizeable critical literature on Baran and Sweezy, dating from the publication of \textit{The Political Economy of Growth} and continuing to the present day. One part of it claims that their methodology is un-Marxian, while the remainder points to substantive defects of theory and evidence. As to the former, orthodox Marxists maintain that \textit{Monopoly Capital} ignores the labour process and the determination of wages; stresses the realisation of surplus value rather than its production, and is therefore 'left Keynesian' rather than Marxian; replaces Marx's scientific concept of surplus value with the vague, ahistorical and moralistic notion of 'surplus'; says almost nothing about the working class in the United States (and what it does say is distinctly unflattering); looks to the peasant masses of the Third World rather than to the Western proletariat for revolutionary zeal; repudiates the theory of the falling rate of profit; and abandons key elements of the Leninist analysis of imperialism. Above all, the labour theory of value plays no part in Baran's and Sweezy's theory.\textsuperscript{46}

Much of this is correct, though to show that a proposition is inconsistent with Marx is of course irrelevant to its truth or falsity. Sweezy was to react to the last criticism by claiming that he and Baran had not rejected Marx's theory of value, but rather taken it for granted. In competitive capitalism labour values are transformed into prices of production, while monopoly capital requires a second transformation, from competitive to monopoly prices. It was this process, understandably neglected by Marx, which \textit{Monopoly Capital} had investigated.\textsuperscript{47} This rather lame defence brings to mind Samuelson's tongue-in-cheek description of transformation as a process of erasure and replacement.\textsuperscript{48} Sweezy might have been better advised to admit the irrelevance to monopoly capital of the labour theory of value, interpreted as a quantitative theory of price determination, and to have defended instead the continuing significance of Marx's qualitative analysis of value as a theory of alienation and fetishism.\textsuperscript{49} He had always emphasised this aspect of the theory, and it was equally consistent with Baran's sympathy for the Frankfurt School.

To some extent Baran's and Sweezy's neglect of work and workers was later put right by Harry Braverman's \textit{Labor and Monopoly Capital}, which will be considered shortly. Our critical discussion of their treatment of surplus and surplus value also comes a little later in this section. Otherwise Sweezy was on firm ground, both methodologically and theoretically, in denying the charges of heresy. Marx's own materialist analysis of ideas requires that theory be amended as social reality changes, so that there is
absolutely nothing improper in recasting political economy for a new stage
of capitalist development. Moreover, those elements of traditional Marxian
economics discarded in *Monopoly Capital*, especially the falling rate of profit
theory and Lenin’s treatment of capital exports, were among the weakest
aspects of accepted theory, while underconsumptionism had a long and
quite honourable pedigree in both the Second and Third Internationals (see
volume I of this book and Chapter 1 above). And who, in the period when
Baran and Sweezy were writing, could seriously have expected a proletarian
revolution to occur in the United States?

Quite apart from these ‘fundamentalist’ considerations, there are five
substantive objections to the theory of monopoly capital which deserve to be
taken seriously. They concern the validity of underconsumption theory in
general; the conceptual and empirical status of the particular form which it
assumed in the ‘law of the rising surplus’; the lack of a theory of wages, and
the related issue of overaccumulation; the analysis of state expenditure; and
(crucially) whether modern capitalism actually is monopolistic rather than
competitive in nature. All have a bearing on the really central question: can
*Monopoly Capital* indeed account for the post-war boom and its eventual
collapse?

The central problem with any theory of underconsumption was exposed
by Tugan-Baranovsky at the turn of the century: capitalism is driven by
profit and not by the consumption requirements of working people. Taken
collectively, capitalists are to a very large extent their own customers, so that
the demand for a particular type of producer-good often depends on the
output of other types of producer-good: ‘mills to produce mills to produce
mills’, in the familiar paraphrase of Tugan’s argument (see volume I,
Chapter 9, of this book). In a capitalist economy there is no obvious
reason why the ratio of capital to consumption may not rise indefinitely,
no matter how absurd it may be from the viewpoint of a hypothetical,
rationally planned, socialist order. One way of salvaging the conclusions of
underconsumption theory, however, was suggested by Sweezy’s Harvard
colleague, E.S. Domar. It involves replacing the supposedly constant
relation between capital and consumption with an (empirically more
defensible) constancy in the capital–output ratio. This. Domar pointed
out, actually strengthens Sweezy’s conclusions, since deficient effective
demand may now result – under some circumstances – even if there is no
decline in the average propensity to consume while, if there is a tendency for
the savings ratio to rise, demand-deficiency can be avoided only by an
accelerating growth rate.\(^{50}\) Whether Domar’s model is one of ‘undercon-
sumption’ or not is a moot point, but the strong possibility of stagnation or
crisis which it reveals is surely what really matters.

The second set of criticisms concerns the economic surplus and its alleged
tendency to rise. As we saw in the previous section, the concept of potential
surplus found in *The Political Economy of Growth* is a tool of social criticism
and is only loosely related to Marx's notion of surplus value. In *Monopoly Capital* a less ambitious definition is offered, and it can be argued that 'the difference between what a society produces and the cost of producing it' is actually very close to Marxian surplus value, allowing for the fact that the employment of unproductive labour represents the absorption of surplus value and does not contribute to its creation. The precise demarcation between productive and unproductive labour, however, remains extremely controversial. Baran and Sweezy were criticised in particular for treating all state spending as unproductive or surplus-absorbing, and ignoring the productive necessity of many state functions. Further objections have been raised against Phillips's techniques of measurement because of his use of price rather than value magnitudes, his confusion of output and income definitions of the surplus, and the double-counting which is involved. None of these flaws is fatal. Most were corrected in a very careful study by E.N. Wolff in 1977, which found the 'adjusted rate of surplus value' (a close proxy for Baran's and Sweezy's surplus as a share of GNP) to have risen appreciably in the 20 years after 1947, largely as a result of the growth in unproductive activity.

The problem, as liberal critics have never failed to note, is that there was little or no evidence of stagnation in this period. Neither unemployment nor the degree of excess capacity was on a clearly rising trend, and the rate of economic growth, although slower than in Western Europe and Japan, remained quite respectable. The obvious conclusion is that surplus absorption proved less difficult than Baran and Sweezy supposed.

This is reinforced by a consideration of the third objection to the theory of monopoly capital. In *The Theory of Capitalist Development* Sweezy had explained crises in terms of a falling rate of exploitation near the top of the boom, due to the rise in real wages as unemployment fell (see Chapter 1 above). Nothing of this sort is to be found in *Monopoly Capital*, where there is no theory of wages at all. This gives rise to the question whether 'overaccumulation', discussed by Sweezy in his earlier book, might not become a semi-permanent feature of an economy in which the forces working against stagnation have become so strong. Even Harry Braverman's *Labor and Monopoly Capital*, with its impressive but rather one-sided emphasis on the subjectivity of the American worker under Taylorist 'scientific management', contributed very little to the theory of wages, and left open the possibility that rising real wages might be a major form of surplus absorption. Weaknesses in *Monopoly Capital*'s treatment of the state added to these doubts about the validity of the underlying theoretical analysis. At least one Marxist reviewer found the supposed limits to the growth of military spending quite implausible. Other critics complained that Baran and Sweezy had greatly exaggerated the obstacles to expanding civilian government expenditure, much of which was in fact essential, under late-twentieth
century conditions, for the profitable accumulation of private capital. Several objected, too, to what Joan Robinson described as Baran’s ‘slapdash’ treatment of public finance, with its quite unconvincing denial that budget deficits resulting from tax cuts could significantly stimulate effective demand in the long run.

In some ways, however, the most damaging charge against Baran and Sweezy was that they had totally mis-specified the nature of contemporary capitalism, which remained (and remains) fiercely competitive. According to some critics, *Monopoly Capital* had grossly overstated the degree to which the giant corporation was insulated from competitive pressure upon its prices and profit margins. Mere size does not give monopoly power, in view of the multi-product character of most huge enterprises. There is great scope for both potential and actual ‘cross-entry’ into one industry by corporations from another which possess relevant expertise and adaptable excess productive capacity. A second consideration must be taken into account here. The ‘degree of monopoly’ in many industries should be measured on a global rather than a purely national scale, given the post-war liberalisation of trade and capital flows, and the continuous and growing pressure of international competition. On these arguments ‘monopoly capital’ is an illusion.

VI An Assessment

There is much to be said for the third, fourth and fifth criticisms of the theory of monopoly capital, concerning wages, the state and the degree of international competition. With hindsight it is evident that the ideas of Baran and Sweezy were very much a product of their time and place. Writing in the United States of the 1950s and early 1960s, they viewed American capitalism as the mirror in which all other capitalist countries could see their future, just as Marx had used Britain (and Hilterding, Germany) as a paradigm. A few contemporaries were uneasy about this vision, which so clearly reflected US economic dominance in the immediate aftermath of the Second World War. David Horowitz regretted ‘a tendency in [*Monopoly Capital*] to rely too heavily on the US as the archetypal monopoly capitalist society, and to ignore the interdependencies of the international system’, while Maurice Dobb doubted the relevance of the book to Western Europe and James O’Connor went so far as to ask, ‘does the US show Gaullist France the future, or is it the other way round?’

By the early 1970s this question was beginning to appear less pertinent, as the United States was reduced from its former economic supremacy to being merely the first among equals in a world of open, competitive, statified and inflationary capitalist economies with intermittently troublesome labour movements. It is thus hardly surprising that *Monopoly Capital* had so little influence in Western Europe, where an alternative tradition of monopoly
capital theory had developed under the influence of Michal Kalecki and Josef Steindl. This European school, represented in the 1980s by writers such as Keith Cowling and Malcolm Sawyer, offers an analysis which is much more rigorous than that of Baran and Sweezy, but also less obviously informed by a conception of historical materialism. For this reason it is best characterised as post-Keynesian rather than Marxian in nature.

Once the long boom faltered, most North American Marxists turned away from Monopoly Capital, and from underconsumption theory more generally, to alternative sources of crisis theory. Only in two respects did the ideas of Baran and Sweezy have a more permanent impact upon Marxian economics throughout the world. This was in their treatment of armaments expenditure, which is discussed in Chapter 8 below, and in their theory of underdevelopment in the Third World, which is considered in Part III.

Notes

25. Ibid, p. 133n. It is not clear why Baran includes any capitalist consumption as necessary.
27. On this see Steindl, Maturity, pp. 245–6.
28. Sweezy, Theory, Ch. XIX.
32. Ibid, pp. 54–5, 62.
35. Ibid, pp. 216, 23.
40. Ibid, p. 75.
41. Ibid, Ch. 8.
42. Ibid, pp. 235, 239–43.


65. J. Stenlib, Maturity; for Kalecki see Ch. 5, section IV, above.