It gives me a great deal of satisfaction that Paul Baran's and my book on monopoly capitalism has been made available to Greek readers and has been so well received by them that a second printing is now called for. The special relation which has existed between the United States and Greece in the period since the end of World War II makes it particularly important that the Greek people should understand the socioeconomic structure and the political functioning of the world's most developed and powerful capitalist country. It is my hope, which I am sure would have been shared by Paul Baran had he lived, that this book, so different in its focus and emphasis from the vast majority of studies of the U. S. economy and society, will help them to attain that understanding.

Monopoly Capital first appeared in 1966 and has since been translated into a number of languages, and has been the subject of dozens of reviews by economists and other social scientists, both bourgeois and Marxist. Judging from these reviews and from criticisms appearing in many books and articles, I am sorry to have to say that there has been a great deal of misunderstanding of what Baran and I said or intended to say. This is not the place to attempt to review and correct these misunderstandings, but I would like to take the opportunity to clarify our position on one point.

Many of our Marxist critics have stated, as though it were a self-evident fact, that Baran and Sweezy reject the Marxist theory of value (hence also, by implication, the theory of surplus value). This is not so. At no time in our long period of association and collaboration did it ever even occur to us to reject the Marxist theory of value. Our procedure in Monopoly Capital was to take the labor theory of value for granted and go on from there. I can now see that this was an error. We should have begun our analysis with an exposition of the theory of value as it is presented in volume 1 of Capital. We should then have proceeded to show that in capitalist
reality, values as determined by socially necessary labor time are subject to two main kinds of modification: first, values are transformed into prices of production, as Marx recognized in volume 3; and second, values (or prices of production) are transformed into monopoly prices in the monopoly stage of capitalism, a subject which Marx barely mentioned, for the obvious reason that all of Capital was written well before the onset of the monopoly capitalist period. At no time did Baran and I explicitly or implicitly reject the theories of value and surplus value but sought only to analyze the modifications which become necessary as the result of the concentration and centralization of capital. If we had pursued this course, I believe many misunderstandings could have been avoided. This is not to argue, of course, that our analysis of the modifications made necessary by monopoly is necessarily complete or even correct. That is for the critics to judge. But I insist that they cannot form a useful or valid judgment unless they first have a clear understanding of what we are trying to do. To the extent that lack of such understanding is the fault of the authors, I am truly sorry and offer sincere if belated apologies.
Paul M. Sweezy

COMPETITION AND MONOPOLY

In his *Principles of Political Economy*, John Stuart Mill summed up the classical view of competition as follows:

Political economists . . . are apt to express themselves as if they thought that competition actually does, in all cases, whatever it can be shown to be the tendency of competition to do. This is partly intelligible, if we consider that only through the principle of competition has political economy any pretension to the character of a science. So far as rents, profits, wages, prices, are determined by competition, laws may be assigned for them. Assume competition to be their exclusive regulator, and principles of broad generality and scientific precision may be laid down, according to which they will be regulated. The political economist justly deems this his proper business: and as an abstract or hypothetical science, political economy cannot be required to do, and indeed cannot do, anything more.¹

Competition, in other words, does not determine the content of the laws of economics, but it does provide the pressures which constrain economic subjects (capitalists, workers, landlords, consumers, etc.) to act in ways that conform to these laws. Marx’s view was basically the same, though he expressed it differently. The following passages from the *Grundrisse* are representative of his comments on competition:

Competition generally, this essential locomotive force of the bourgeois economy, does not establish its laws, but is rather their executor. Unlimited competition is therefore not the presupposition for the truth of the economic laws, but rather the consequence—the form of appearance in which their necessity realizes itself. . . . Competition therefore does not explain these laws; rather, it lets them be seen, but does not produce them. (p. 552)

Competition executes the inner laws of capital; makes them into compulsory laws toward the individual capital, but it does not invent them. It realizes them. (p. 752)

Free competition is the relation of capital to itself as another capital, i.e., the real conduct of capital as capital. The inner laws of capital—which appear merely as tendencies in the preliminary historic stages

of its development—are for the first time posited as laws; production founded on capital for the first time posits itself in the form adequate to it only insofar as, and to the extent that, free competition develops, for it is the free development of the mode of production founded on capital; the free development of its conditions and of itself as the process which constantly reproduces these conditions. . . . Free competition is the real development of capital. By its means what corresponds to the nature of capital is posited as external necessity for the individual capital; what corresponds to the concept of capital is posited as external necessity for the mode of production founded on capital. The reciprocal compulsion which the capitals within it practice upon one another, on labor, etc. (the competition among workers is only another form of the competition among capitals), is the free, at the same time the real, development of wealth as capital. So much is this the case that the most profound economic thinkers, such as e.g., Ricardo, presuppose the absolute predominance of free competition in order to be able to study and to formulate the adequate laws of capital—which appear at the same time as the vital tendencies governing over it. But free competition is the adequate form of the productive process of capital. The further it is developed, the purer the forms in which its motion appears. 9

Like the classics before him, Marx thus assigned to competition a very important, indeed an indispensable, role, that of enforcer of the laws of capitalism. But, again like the classics, what interested him were the laws themselves and not the means of their realization. He took for granted that competition would develop along with capitalism and that the laws which competition enforces would become closer and closer approximations to reality. Given this perspective, there was no need for lengthy disquisitions on competition, and in fact Marx's comments on the subject were mostly incidental to discussion of other topics and often more concerned with earlier writers' misconceptions about the role of competition than with analyzing its workings. 9

In this connection it is necessary to keep in mind not only that Marx's focus was on the laws of capitalism rather than on the means of their realization but also that his concern was with the system's "laws of motion," as he explicitly stated in the Preface to the first edition of volume 1 of Capital. For him competition could not be "perfect" or "pure," nor could it end in equilibrium situations lending themselves to analysis as to their uniqueness, stability, etc. Fantasies of this kind were imported into economics only much later by those more interested in concealing than revealing the real role of the economy in shaping the history and destiny of bourgeois society. Neither Marx nor the classics had any interest in playing such intellectual games. For them, and for Marx most of all, competition was an elemental force, somewhat comparable to the force
of gravity, which keeps the parts of the system in place and interacting with each other in intelligible ways.

Marx of course recognized that in practice the freedom of competition met with many obstacles and blockages, but he considered these to be leftovers from precapitalist social formations which were in the process of disappearing with the development and spread of capitalist relations. He did not discuss the possibility that such barriers to competition might arise from the operation of the laws of capitalism itself. And yet his analysis of the concentration and centralization of capital and of the role of the credit system in making possible the creation of much larger units of capital than could be assembled by individual capitalists, obviously implied ongoing changes in the conditions of competition.

In the middle years of the nineteenth century, when Marx was gathering his material and writing the three volumes of *Capital*, the typical English industry, exemplified most clearly in the production of textiles, comprised hundreds of establishments each too small to influence the overall supply-and-demand situation and each striving with might and main to make a greater profit (or avoid a loss) through reducing its costs of production. "The battle of competition," Marx wrote, "is fought by cheapening of commodities. The cheapness of commodities depends, *ceteris paribus*, on the productiveness of labor, and this again on the scale of production. Therefore the larger capitals beat the smaller" (*Capital*, vol. 1, ch. 25, section 2). Further, the credit system, which begins as a "modest helper of accumulation," soon "becomes a new and formidable weapon in the competitive struggle, and finally it transforms itself into an immense social mechanism for the centralization of capitals" (ibid.).

A consequence and bearer of these changes was the "formation of stock companies" (i.e., corporations) to which Marx devoted several pages in volume 3, chapter 27, commenting on phenomena (like the separation of ownership and control) which bourgeoisie economics was to take into account only much later. The conclusions to which the analysis pointed are summed up in the following paragraph:

This is the abolition of the capitalist mode of production within capitalist production itself, a self-destructive contradiction, which represents on its face a mere phase of transition to a new form of production. It manifests its contradictory nature by its effects. It establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance, a new sort of parasites in the shape of promoters, speculators, and merely nominal directors; a whole system of swindling and cheating
by means of corporate juggling, stock jobbing, and stock speculation.
It is private production without the control of private property.

In preparing this material for press two decades later, Engels added a long editor’s insert, beginning, “Since Marx wrote the above, new forms of industrial enterprises have developed which represent the second and third degree of stock companies,” and leading to the conclusion that “the long cherished freedom of competition has reached the end of its tether and is compelled to announce its own palpable bankruptcy.” These new forms of enterprise were the cartel and what we know today as the holding company, that is, a corporation which owns the shares of other corporations and in this way brings them under its control. As an example of the latter he cited the then recently formed United Alkali Trust, “which has brought the entire alkali production of the British into the hands of one single business firm.... In this way competition in this line, which forms the basis of the entire chemical industry, has been replaced in England by monopoly, and the future expropriation of this line by the whole of society, the nation, has been well prepared.”

As this last statement and similar remarks by Marx suggest, Marx and Engels did not see these changes as foreshadowing a new phase of capitalism but, in the words of Marx quoted above, as a “phase of transition to a new form of production,” which they doubtless thought would soon come to occupy the center of the historical stage.

In the light of all this, it certainly cannot be said that Marx was unaware of the changing conditions of competition arising from the capital accumulation process itself. If nevertheless he did not inquire into the possible implications of these changes for capitalism’s “laws of motion,” there are at least two explanations which readily come to mind. One is that at the time of writing Capital (the early 1860s) these changes were still only beginning to appear and very little empirical material was available on which to base an analysis. And the second is that he saw the changes as basically symptoms of an impending transition from capitalism to a new form of production. Now, more than a century later, we know that he was too optimistic (as most revolutionaries are likely to be). Not that the beginnings of such a transition were all that far in the future; it was only that they first made their appearance not in the historical heartlands of capitalism but in the less capitalistically developed periphery of the global system. But even before this started to happen, the concentration and centralization of capital proceeded at an accelerating pace in the metropolitan centers of Western Europe, North America, and soon Japan.

With industry after industry falling under the domination of a
few giant corporations, it could not but become clear to economists and other interested observers that the conditions of competition which had characterized the earlier stage of capitalism had been radically altered. Bourgeois economists began to deal with the new situation in a descriptive way even before the turn of the century, and an extensive popular literature of exposure and protest developed. In the United States, Thorstein Veblen, who was much influenced by Marx but could not be called a Marxist, was the first social scientist to treat the subject theoretically (in his *Theory of Business Enterprise*, 1904); and the Austrian Rudolf Hilferding was the first to do so from an avowedly Marxist point of view (*Das Finanzkapital*, 1910). A few years later Lenin, who was much influenced by Hilferding's work, produced his *Imperialism, the Highest Stage of Capitalism* (written in 1916); and since then it has become a widely, if not universally, accepted tenet of Marxist theory that by the end of the nineteenth century the concentration and centralization of capital had proceeded to the point of transforming capitalism from its competitive stage, on which Marx had focused attention, to a new stage variously referred to as finance capitalism, imperialism, or monopoly capitalism.

The term monopoly recurs with great frequency throughout this literature, but almost never is it used to imply the exclusion or absence of competition. In this respect, the explanation offered by Veblen would almost certainly have been approved by practically all the other writers referred to and by those who have continued to work in this tradition in later years. All producers, he said, are guided by the principle which, in the language of the railroads, is known as "charging what the traffic will bear." And he continued:

Where a given enterprise has a strict monopoly of the supply of a given article or of a given class of services, this principle applies in the unqualified form in which it has been understood by those who discuss railway charges. But where the monopoly is less strict, where there are competitors, there the competition that has to be met is one of the factors to be taken account of in determining what the traffic will bear; competition may even become the most serious factor in the case if the enterprise in question has little or none of the character of a monopoly. But it is very doubtful if there are any successful business ventures within the range of modern industries from which the monopoly element is wholly absent.* They are, at any rate, few and not of great magnitude. And the endeavor of all such enterprises that look to a permanent continuance of their business is to establish as much of a monopoly as may be.*

What is at issue in the transition from competitive to monopoly capitalism, therefore, is not at all the elimination of competition but rather a change in the forms and methods of competition. In the
earlier period when each individual firm supplied only a small share of the market, the main weapons of competition were lowering costs and improving quality; by such means the firm could hope to survive and increase its profits. The competition was not perceived as coming from particular rival firms which were also small and might enter or depart from the industry without noticeably affecting the market as a whole. Rather the competition was perceived as coming from all the other firms in the industry. In order to stay in business and grow, one had to do better than the average of all the other firms, for it was the latter that determined the value (or price of production) of the commodities being produced. Firms with costs above average would be squeezed out, those with costs below average would prosper. None could influence the market as a whole, either in terms of the commodities in demand or in terms of the prices at which they could be sold; all had to accept these as the givens of the situation.

As concentration and centralization proceeded, however, this situation changed. The number of firms in industry after industry (though of course not in all) declined to the point where each one supplied a considerable share of the market. The smaller the number of firms ("oligopolists" in the terminology of neoclassical economics), the greater the possibility for each one to differentiate itself from the others in significant ways and thus to add new dimensions to the competitive struggle. The key problem for a firm was to acquire a special position in a part of the market—through such methods as brand names, advertising and other forms of aggressive salesmanship, reciprocal favors to large buyers, etc.—and then to fight to fortify and extend its share. In this situation a firm conceived its competition as coming no longer from the industry as a whole but rather from one or perhaps two or three firms nearest to it in the market. Competition, in other words, became much more visible and open and often much fiercer than it had previously been. In the early stages of this emerging mode of competition, there was a strong tendency for firms to try to improve their market position through price-cutting. Experience, however, gradually taught the lesson that this was a self-defeating strategy. Price-cutting could be as easily used to defend as to extend market share, with the only result being lower prices and profits for all contenders. In the closing decades of the nineteenth century price-cutting of this kind was very widespread and certainly played an important part in bringing prices sharply down from the peak reached during the Civil War and its aftermath boom to a much lower level by the end of the century. With \( 1873 = 100 \), the wholesale price index fell to 53 in 1898 to the accompaniment of a steady stream of bankruptcies and loud complaints and cries of
alarm from the business community which experienced the period as one of almost unrelieved hard times.  

It was then that U. S. businessmen learned the self-defeating nature of price-cutting as a competitive weapon and started the process of banning it through a complex network of laws (corporate and regulatory), institutions (e.g., trade associations), and conventions (e.g., price leadership) from normal business practice. In this respect the years around the turn of the century marked a watershed in the development of U. S. capitalism: the nineteenth century which, except for the Civil War period, was a century of falling prices, gave way to the twentieth which, again with an exception for the Great Depression, has been equally notable for its rising prices.

The question we now have to ask is whether the transformation of competition brought about by concentration and centralization of capital negates the role assigned to competition by the classics and Marx, that is, as the realizer and enforcer of the laws of capitalism. The answer is definitely not, and in one very important respect it is even true that this role is enhanced and strengthened. This is in the realm of relations between capital and labor. In the classical Marxian scheme of things, competition forces capitalists to produce at the lowest possible cost, which of course is the other side of the coin of maximizing profits. This means that they will buy labor power as cheaply as possible and, having bought it, will squeeze out of it the maximum attainable amount of production. This is a necessary, though not necessarily sufficient, condition for the validity of all the laws of value, surplus value, and profit. And the mechanism which produces it operates after, as well as before, the transition to monopoly capitalism. Capitalists are still forced by competitive pressures to produce at lowest possible costs. A weighty tome by Michael Porter, a Harvard Business School professor, explains why. There are, according to the author, five competitive forces which "continually work to drive down the rate of return on invested capital toward the competitive floor rate of return, or the return that would be earned by the economist's 'perfectly competitive' industry." And in "coping with the five competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry: (1) overall cost leadership, (2) differentiation, (3) focus." Of these the first is by far the most important. In Porter's words:

Having a low-cost position yields the firm above-average returns in its industry despite the presence of strong competitive forces. Its cost position gives the firm a defense against rivalry from competitors, because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry. A low-
cost position defends the firm against powerful buyers because buyers can exert power to drive down prices to the level of the next-most-efficient competitor. Low cost provides a defense against powerful suppliers by providing more flexibility to cope with input cost increases. The factors that lead to a low-cost position usually also provide substantial entry barriers in terms of scale economies or cost advantages. Finally, a low-cost position usually places the firm in a favorable position vis-à-vis substitutes relative to its competitors in the industry. Thus a low-cost position protects the firm against all five competitive forces because bargaining can only continue to erode profits until those of the next-most-efficient competitor are eliminated, and because the less efficient competitors will suffer first in the face of competitive pressures.

There can thus be no doubt that survival and growth are as crucially dependent on minimizing costs as they were in the earlier stage of capitalism. But we can go further and say that in its ability to squeeze the most out of labor power, the giant corporation of today has greatly surpassed its small-scale ancestor. Here we can do no better than to quote the leading authority on the subject, Harry Braverman:

The crucial developments in the processes of production date from precisely the same period as monopoly capitalism. Scientific management and the whole “movement” for the organization of production on its modern basis have their beginnings in the last two decades of the last century. And the scientific-technical revolution, based on the systematic use of science for the more rapid transformation of labor power into capital, also begins . . . at the same time. In describing these two facets of the activity of capital, we have therefore been describing two of the prime aspects of monopoly capital. Both chronologically and functionally, they are part of the new stage of capitalist development, and they grow out of monopoly capitalism and make it possible.

Marx considered that the “determining element” in all class societies—that which defines their fundamental nature—is “the specific economic form in which unpaid surplus labor is pumped out of the direct producers” (Capital, vol. 3, ch. 47, section 2). Under capitalism this specific form is the capital-wage-labor relationship. The transformation of competitive into monopoly capitalism not only does not negate this relationship, it refines and perfects it. With respect to certain secondary characteristics of the system, most notably the distribution and forms of utilization of the surplus value, however, the transformation does bring about important changes, and this is why a specific theory of monopoly capitalism is necessary.

The altered forms of competition which prevail in monopoly
capitalism create not the tendency toward a system-wide average rate of profit which Marx analyzed in part II of the third volume of *Capital* but rather a hierarchy of profit rates, highest in the industries which approach most closely to a monopoly status and lowest in those in which small-scale competitive enterprise continues to predominate. Since surplus value is distributed through the mechanism of profit rates, and since there is a rough correlation between the height of the profit rate and the number and size of firms in a given industry, it follows that there is a strong tendency, given a continuing process of concentration and centralization, for more and more surplus value to be sucked up from the smaller scale and more competitive sectors to the larger scale and more monopolistic ones. But since the amount of surplus value available for accumulation is always greater in proportion to the size and profitability of the unit of capital to which it accrues, it follows that the same total amount of surplus value will tend to support a more rapid rate of accumulation the more monopolistic the overall structure of the economy is.

There are important implications of this for the actual unfolding of the accumulation process which cannot be analyzed here. But I do want to call attention to several points which have not been mentioned and which would require further exploration in a fuller treatment of competition and monopoly.

First, one should be careful not to freeze monopoly capitalist theory into the kind of rigid static molds which are the hallmark of neoclassical economics. When we say that the average rate of profit is superseded by a hierarchy of profit rates, there is no implication that the industries (or firms) at various levels of the hierarchy must always be the same. There is constant movement within the hierarchy in response to both internal and external factors. At the time of writing (early 1981), a particularly dramatic example is the reversal of the positions of the U.S. oil and automobile industries. A few years ago the automobile industry was on top by a wide margin, with oil at a considerably lower rung on the ladder. The sharp and increasing rise in the price of oil since 1973, together with sluggish adaptation to new conditions by the auto giants, has propelled oil to the top and plummeted autos to the bottom. Estimates appearing in the business press put the profits of the oil industry, dominated by a dozen or so huge corporations, at 30 to 40 percent of total nonfinancial corporate profits—clearly an unprecedented situation—while the three auto giants have been reporting the largest losses in U.S. corporate history. This relationship obviously will not last; oil will come down and autos will go up. But there is no guarantee that their relative positions will be restored to what they
were before. Similar, if less dramatic, examples could be drawn from the experience of many other industries. To which should be added that with the trend of recent years toward conglomerations, the relationship between firms and industries becomes increasingly blurred: most of the big oil companies are into petrochemicals and other forms of energy, and many are moving into mining; U. S. Steel, the biggest steel producer, is diversifying into chemicals, coal, oil, and gas; Armco, the fifth largest steel producer, already gets more than half its profits from energy-related operations, especially oil-field equipment; and so on and so on. Since profits accrue to firms rather than to industries, the meaning of ranking industries by profitability becomes increasingly problematic. At the same time, however, the general proposition that the distribution of surplus value is increasingly skewed in favor of the larger units of capital is less and less open to question. And this is the heart of the matter as far as the relation between monopoly and accumulation is concerned.

Second, it is of more than passing interest to note that while Marx made no attempt to analyze the effect on the accumulation process of changing forms of competition, there is an intriguing passage very near the end of the third volume of Capital (in a chapter entitled "The Semblance of Competition") which suggests the direction his thinking might have taken if he had lived two or three decades longer:

[1]If the equalization of the surplus value into average profit meets with obstacles in the various spheres of production in the shape of artificial or natural monopolies, particularly of monopoly in land, so that a monopoly price would be possible, which would rise above the price of production and above the value of the commodities affected by such a monopoly, still the limits imposed by the value of commodities would not be abolished thereby. The monopoly price of certain commodities would merely transfer a portion of the profit of the other producers of commodities to the commodities with a monopoly price. A local disturbance in the distribution of the surplus value among the various spheres of production would take place indirectly, but they would leave the boundaries of the surplus value itself unaltered. If a commodity with a monopoly price should enter into the necessary consumption of the laborer, it would increase the wages and thereby reduce the surplus value, if the laborer would receive the value of his labor power the same as before. But such a commodity might also depress wages below the value of labor power, of course only to the extent that wages would be higher than the physical minimum of subsistence. In this case the monopoly price would be paid by a deduction from the real wages (that is, from the quantity of use values received by the laborer for the same quantity of
labor (power) and from the profit of other capitalists. The limits within which the monopoly price would affect the normal regulation of the prices of commodities would be accurately fixed and could be closely calculated.

While Marx has in mind in this passage only a "local disturbance in the distribution of surplus value," clearly the reasoning can be extended to encompass a more generalized spread of monopoly, that is, of industries able to charge prices above price of production or value, whichever is higher, and a continuing process of concentration and centralization. In addition to a redistribution of surplus value from more competitive to less competitive sectors, there could take place an increase in total surplus value at the expense of real wages (implying a rise in the rate of surplus value) if workers are unable to protect themselves against monopoly prices for wage goods. To this it might be objected that monopoly prices cannot raise the rate of surplus value except through depressing wages below the value of labor power, and that this would be essentially an unstable and temporary effect. This objection, however, fails to see monopolization as a process which must be viewed historically and as an ongoing part of the accumulation process. While at any particular time the value of labor power can be treated as a given, over a period of time it tends to rise (because of increasing costs of producing labor power and workers' struggles to improve their standard of living). In this context growing monopolization must be seen not as depressing wages below the value of labor power but as slowing down the rise in the value of labor power. To this extent it favors capital against labor by raising the rate of surplus value above what it would otherwise have been. It thus appears that two of the central ideas of the modern theory of monopoly capitalism—that the transformation of competition brought about by concentration and centralization of capital both raises the rate of surplus value and skews the distribution of surplus value in favor of the larger units of capital—are logical developments of a line of thought which Marx clearly adumbrated in the third volume of Capital.

The same cannot be said, however, of the other central thesis of monopoly-capitalist theory, namely that the changing size and composition of surplus value are accompanied by changes in the utilization of surplus value, exemplified especially by the enormous growth, both absolute and relative, of selling costs in the last hundred years or so. In discussing the costs of circulation, Marx clearly established that these are deductions from the surplus value going to productive enterprises, and he thought of them as falling within
the realm of merchant capital. Since there was thus a conflict of
interest between industrial and merchant capital, and since the
former was growing more powerful all the time, he thought that
the tendency in the course of capitalist development was for the
relative importance of the costs of circulation to decline. This was
ture enough in the period of competitive capitalism. But with the
decline of price competition, other forms of gaining market share
came to the fore, and these were heavily focused on the realm of
salesmanship (product differentiation, branding, advertising,
packaging, and the like). Some of these activities add use value to
the buyer, but by far the larger proportion are concerned with
salability pure and simple and are therefore, for the most part, to
be treated as additions to the cost of circulation. Both the labor and
the capital devoted to these purposes are unproductive (they con-
sume but do not produce surplus value) and therefore, from a
social point of view, are to be accounted as sheer waste.

In the further course of development of monopoly capitalism,
additional changes in the pattern of utilization of surplus value—
notably those related to imperialism, militarism, and efforts by the
state to counteract blockages in the accumulation process—
emerged and grew steadily more important. In the second genera-
tion of Marxist theorists, these questions were placed at the center
of inquiry by Hilferding, Rosa Luxemburg, and Lenin; and they
have of course continued to preoccupy Marxists ever since. But in
closing this brief discussion of competition and monopoly from a
Marxist point of view, it is fitting that we should recognize that the
first theorist to achieve a comprehensive vision of monopoly
capitalism and its long-run consequences was an American, Thor-
stein Veblen. As early as 1904 Veblen delivered the following diag-
osis which rings truer today than it did three-quarters of a century
ago:

A disproportionate growth of parasitic industries, such as most
advertising and much of the other efforts that go into competitive
selling, as well as warlike expenditure and other industries directed
to turning out goods for conspicuously wasteful consumption, would
lower the effective vitality of the community to such an extent as to
jeopardize its chances of advance or even its life. The limits which the
circumstances of life impose in this respect are of a selective character,
in the last resort. A persistent excess of parasitic and wasteful efforts
over productive industry must bring on a decline. But owing to the
very high productive efficiency of the modern mechanical industry,
the margin available for wasteful occupations and wasteful expendi-
tures is very great. The requirements of the aggregate livelihood are
so far short of the possible output of goods by modern methods as to
leave a very wide margin for waste and parasitic income. So that
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instances of such a decline, due to industrial exhaustion, drawn from the history of any earlier phase of economic life, carry no well defined lesson as to what a modern industrial community may allow itself in this respect.16

One may legitimately wonder, as we enter the last two decades of the twentieth century, whether this safety margin is not now at long last in grave danger of being used up. This is the question which lies at the heart of the crisis of our time.

Notes

3. Volume 1 of the Marx-Lexikon zur Politischen Ökonomie, compiled under the direction of Samezo Kuruma of the Ohara Institute for Social Research of Hosei University, Tokyo, is devoted entirely to Konkurrenz (Competition). It contains, apart from prefaces, appendices, and the like, 559 pages, of which half are Japanese translation, in other words, about 180 pages taken from a wide variety of Marx’s original texts. There are 176 separate passages, averaging just over a page apiece. And much of the space is taken up with providing the context of the remarks on competition rather than bearing directly on the subject. The Marx-Lexikon, of which eleven volumes had been published up to the end of 1979, is an invaluable source book and reference work.
4. Thorstein Veblen, The Theory of Business Enterprise (1904; New Brunswick, N.J.: Transaction Books, 1978), p. 54. The asterisk refers to a note which reads as follows: "‘Monopoly’ is here used in that looser sense which it has colloquially, not in the strict sense of an exclusive control of the supply, as employed, e.g., by Mr. Ely… This usage is the more excusable since Mr. Ely finds that ‘monopoly’ in the strict sense of the definition practically does not occur in fact."
5. It should be noted, however, that in terms of physical output, as distinct from prices and profits, the period was one of fairly rapid growth. Gross Domestic Product increased about threefold from 1870 to 1900, which compares favorably with any other three-decade interval for which estimates are available. See Historical Statistics of the United States from Colonial Times to 1957 (Washington, D. C.: U. S. Department of Commerce, 1961), pp. 140-41.
6. The classic study of this whole process is Arthur R. Burns, The Decline of Competition: A Study of the Evolution of American Industry (1956; reprinted Westport, Conn.: Greenwood Press, 1974), an influential work in the late 1930s but one that has been almost totally ignored since the Second World War, a fact reflecting the ideological swing to the right
of all the academic social sciences which was initiated by the cold war and strengthened by McCarthyism. (Arthur R. Burns is not to be confused with Arthur F. Burns, the erstwhile chairman of the Federal Reserve Board.) It should be added that the banning of price competition has not been, and indeed could not be, complete. There are conjunctures in which an aggressively managed company with ample financial banking finds it worthwhile to deliberately incur losses in order to increase its market share, confident of its ability to raise prices and recoup when the dust of battle has settled. Still more important is the case of new industries (like electronics in the last two decades) in which the whole question of which of many small firms will survive and grow has yet to be decided. Here we have to do with a shakedown process which in effect repeats the experience through which many older industries had to pass many years earlier. These are exceptions which should not be allowed to obscure the truth of the dictum enunciated by the editors of Business Week when they wrote (June 15, 1957) that the price system "works only one way—up."


8. Ibid, pp. 35-36.


flow from the dialectic of value and of the laws of capital accumula-
tion.

Cogoy will perhaps be surprised to learn that I entirely agree
with both these points, and I commend him for stating them so
clearly and concisely. At the same time, I would hope that he will
agree with me that the theory of value in its most abstract expres-
sion, that is, as elaborated in volume 1 of Capital, is not the final
form of the "instrument" he is talking about. There are two issues
involved here: (1) the dropping of the assumption that all indus-
tries have the same organic composition of capital; and (2) the
introduction of monopolistic market structures. Let us consider
them in turn.

(1) In reality of course the organic composition of capital varies
widely from one industry to another. Once this is taken into ac-
count, as Marx showed in part II of volume 3, we move from values
to prices of production. Bourgeois economists from Böhm-Bawerk
have seen in this a contradiction and an abandonment of the
Marxian value theory. This view is absolutely incorrect. Prices of
production are not what Cogoy calls "empirical exchange relations"
but modified values: without the theory of value there could be no
theory of prices of production. The question then arises as to
whether the passage from values (volume 1) to prices of production
(volume 3) brings with it significant changes in the accumulation
process. And the answer is definitely that it does not. It follows that
in discussing capitalism's overall laws of motion one is fully justified
in ignoring prices of production and operating directly with the
theory of value and accumulation as developed in volume 1.

(2) Matters are different when it comes to taking account of
monopoly. Marx himself did not take this step in any systematic
way, in spite of the fact that in his dynamic theory (in this respect
totally different from orthodox neoclassical theory) competition of
capitals is virtually identical with the concentration and centraliza-
tion of capitals. The period of monopoly capitalism was just begin-
nning at the time of his death, and it is not surprising that he
produced no theory of the transformation of values (or prices of
production) into monopoly prices. However, there is one very strik-
ing passage near the end of volume 3 which permits us to see that
he was fully aware of the problem and to surmise some of the ways
he would have handled it. In the chapter "The Semblance of Com-
petition," he wrote that

if the equalization of the surplus value into average profit meets with
obstacles in the various spheres of production in the shape of artificial
or natural monopolies, particularly of monopoly in land, so that a
monopoly price would be possible, which would rise above the price of production and above the values of the commodities affected by such a monopoly, still the limits imposed by the value of commodities would not be abolished thereby. The monopoly price of certain commodities would merely transfer a portion of the profit of the other producers of commodities to the commodities with a monopoly price. A local disturbance in the distribution of the surplus value among the various spheres of production would take place indirectly, but they would leave the boundaries of the surplus value itself unaltered. If a commodity with a monopoly price should enter into the consumption of the laborer, it would increase the wages and thereby reduce the surplus value if the laborer would receive the value of his labor power the same as before. But such a commodity might also depress wages below the value of labor power, of course only to the extent that wages would be higher than the physical minimum of subsistence. In this case the monopoly price would be paid by a deduction from the real wages (that is, from the quantity of use values received by the laborer for the same quantity of labor) and from the profit of other capitalists.\footnote{\textit{}}

Here Marx treats monopoly price not as a mere "empirical exchange relation" but as a modification of value and/or price of production which in no sense transcends "the limits imposed by the value of commodities." But this does not mean what many of today's younger Marxist economists seem to assume, that the presence or absence of monopoly makes no difference to the accumulation process. I believe it can be shown that in this crucially important respect, the modification of values brought about by the introduction of monopoly is quite different from the modification of values brought about by the introduction of unequal organic compositions of capital.

Marx does not analyze the effects of monopoly on the accumulation process, but the above passage provides valuable guides. Monopoly does not change the total amount of value produced—except indirectly to the extent that it affects the total volume of employment—but it does bring about a redistribution of value. Marx indicates that this can take two forms: first, a transfer of surplus value from competitive to monopolistic capitals; and second, a transfer of value from wages to surplus value. If we are talking about an isolated instance of monopoly, as Marx seems to be doing in the quoted passage, these effects would obviously be of negligible importance in relation to the economy as a whole. In this case it is not only justified but necessary to abstract from monopoly in the analysis of the accumulation process, which of course is what Marx does. But as soon as monopoly seizes hold of quantitatively significant sectors of the economy, this is obviously no longer so.
Then, following Marx's line of reasoning, we would have to say that the total of surplus value increases relative to the total of wages (this is also equivalent to an overall rise in the rate of surplus value), and that more of this larger total of surplus value is concentrated in fewer hands. Both of these changes would obviously tend to raise the rate of accumulation.

If we leave the matter there, however, we would be guilty of treating the problem in a static, and hence completely un-Marxian, way. We know that a fundamental aspect of the accumulation process is the concentration and centralization of capital which, at a certain stage, brings about the transformation of competitive capitalism into monopoly capitalism. But concentration and centralization do not cease at this point: both theory and historical experience teach that they form an integral and inseparable part of the whole accumulation process from beginning to end. What we have to deal with, therefore, is not simply an economy which contains elements of monopoly but an economy which is becoming increasingly more monopolized. And this creates powerful tendencies, which are not present in competitive capitalism, for the rates of surplus value and accumulation to rise (the latter not only because of the rising rate of surplus value but also because of the concentration of surplus value in larger and larger units). These tendencies of course operate along with other tendencies of a social and technological character, and there is no a priori way to say which one or which combination will predominate. But I for one have no hesitation in saying that to refuse to take account of these "monopolistic" tendencies and the forces which generate them can only have the effect of paralyzing Marxian theory at a time when what is most needed is further to strengthen and develop it to cope with situations and problems which Marx did not and could not analyze a hundred years ago.

Let me now turn to another aspect of the literature typified by the works of Cogoy and Yaffe cited above, that is, a tendency toward what I consider to be the fetishization of the falling tendency of the rate of profit. Cogoy, for example, speaks approvingly (p. 398) of "a tendency of accumulation which rests on (s'appuie sur) the tendential fall of the rate of profit," a formulation which obviously transforms a deduction from the theory of accumulation into its foundation. And while the other authors in question may not be quite so specific, they nevertheless all treat the falling tendency of the rate of profit as the pivot around which the whole Marxian theory of accumulation and crises revolves. This subject deserves much fuller treatment than can be accorded to it in a brief essay: I
will try only to indicate some of the main points which need elaboration.

Basically there are two issues here. The first has to do with the logic and interpretation of the theory of the falling tendency of the rate of profit as such. The second concerns its role in the overall theory of accumulation.

If we denote the rate of profit (the ratio of surplus value to total capital) by \( p \), the rate of surplus value (the ratio of surplus value to variable capital) by \( s' \), and the organic composition of capital (the ratio of constant to variable capital) by \( o \), then we have

\[
p = \frac{s}{c + v}, \quad s' = \frac{s}{v}, \quad \text{and} \quad o = \frac{c}{v}.
\]

Dividing the numerator and denominator in the expression for the rate of profit by \( v \), we get

\[
p = \frac{\frac{s}{v}}{\frac{c + v}{v}} = \frac{\frac{s}{v}}{\frac{c}{v} + 1} = \frac{s'}{o + 1}
\]

from which it follows that the rate of profit varies directly with the rate of surplus value and inversely with the organic composition of capital.

The theory of the falling tendency of the rate of profit is given formal expression by Marx in part III of volume 3 of Capital, but the essential elements are worked out much more fully and satisfactorily in part IV ("Production of Relative Surplus Value") and part VII ("The Accumulation of Capital") of volume 1. The kernel of the argument is that capitalists in pursuing their unchanging goal of increasing the amount and rate of surplus value progressively mechanize the processes of production. The consequence is twofold: the amount of machinery per worker increases, and each worker operating machines processes more raw and auxiliary materials than a worker using more primitive methods. Both effects contribute to increasing the amount of constant capital relative to the amount of variable capital, that is, to raising the organic composition of capital. At the same time, of course, the productivity of the worker is increased, which means that he now reproduces the value of his labor power in less time and therefore has more time left over to work for the capitalist, which is only another way of saying that the rate of surplus value rises. The law of the falling tendency of the rate of profit asserts that in the long run there is a strong and persistent tendency for the rise in the organic composition of
capital to outweigh the rise in the rate of surplus value in their opposite effects on the rate of profit, hence for the rate of profit to fall.

Why did Marx feel so sure that the organic composition of capital must rise relatively faster than the rate of surplus value? For my part, I have no doubt that the reason is that this is precisely what happened during the period of the industrial revolution beginning in the eighteenth century and still continuing at the time in the 1850s and 1860s when he was working on Capital. The transition from manufacture to machinofacture manifestly represented a quantum leap forward in the relative importance in industry of constant capital (or dead labor) compared to variable capital (or living labor). The rate of surplus value of course also increased sharply—this indeed is what the introduction of machinery was all about—but it was obvious to Marx, who was an extremely close student of all aspects of capitalist reality, that the relative increase in the organic composition had been the dominant trend in the preceding century. It was only natural, therefore, for him to assume that this would continue to be the case in the future.

What has to be emphasized, in contrast to the views of the present-day Marxist economists with whom we are here concerned, is that while it was perfectly natural for Marx to make this assumption—indeed, given what he knew, what other assumption could he possibly have made?—it was not something which was logically dictated by his theory of accumulation. From the point of view of the capitalist there is obviously no inherent virtue in increasing the organic composition of capital: he does it only because that is the way to increase the rate of surplus value. But if he can see ways to increase the rate of surplus value while at the same time economizing on constant capital, he will of course be delighted to avail himself of them. And whether or not this is possible depends not at all on the "concept of capital" (as Yaffe seems to believe) but on the direction and potentialities of technological change. And in this respect the situation of an already mechanized economy is significantly different from that of the mechanizing economy of Marx's day. The problem for the capitalist is no longer so much that of substituting machines for hand labor but rather of substituting more productive machines and processes for less productive machines and processes all along the line. And there is no a priori reason whatever for supposing that this must involve an increase (or a decrease either for that matter) in the organic composition of capital.

The only way this question can be decided is through the empirical study of capitalist practice, much as this view may offend those
like Yaffe who wish to deduce everything from "pure" theory. And in this respect there are available by now numerous studies which demonstrate beyond a reasonable doubt that while the organic composition of capital rose in accordance with Marx's assumption through the nineteenth and into the twentieth century, for the last half-century the tendency has been in the other direction. Most of these studies have been carried out by bourgeois researchers using non-Marxian concepts and categories, with a consequent problem of translating their findings into the language of Marxism. But at least one, that of Joseph Gillman, is the work of a Marxist economist, and its findings are unequivocal: the organic composition of capital in the United States rose up to 1919, leveled off in the 1920s, and thereafter declined (except for the early 1930s when the trend was temporarily obliterated by the unprecedented severity of the Great Depression). Gillman's statistical procedures have been justifiably criticized, but so far as I am aware no one has suggested that his basic findings would have been different had all the criticisms been fully met.

It is no part of my intention in these brief notes to suggest that from now on the organic composition of capital in the advanced capitalist countries can only fall, still less to undertake a comprehensive critique of Marx's law of the falling tendency of the rate of profit. But I do want to contend, emphatically, that underlying the entire argument of Cogoy, Yaffe, and others who think like them is an absurdly untenable notion, that is, that the capital accumulation process necessarily implies a runaway organic composition of capital, increasing without assignable limit and much more rapidly than the rate of surplus value. Whatever else may be said about Gillman's statistics, they are surely accurate enough in indicating orders of magnitude to demolish this notion as totally unfounded. They show that in the United States during the three decades 1923-1952 the organic composition (c/u) fell from 4.2 to 3.6 (by 14 percent), while the rate of surplus value (s/u) rose from 121 to 192 (by 9 percent). Not only are these results contrary to the expectations of the falling tendency law; even more important from our present point of view, these ratios move within quite narrow limits and so cannot possibly sustain the grand generalizations which our authors wish to rest upon them.

In this connection—and here we come to the second point noted above for subsequent analysis—it is necessary to understand the argument which is being deduced from the theory of the falling tendency of the rate of profit in this recent literature. A comparison with the classics and Marx may be helpful.

The classical theory of the falling rate of profit rested on two
supposed natural laws, the law of diminishing returns and the Malthusian population law. With wages relatively fixed at or near the subsistence minimum and with population expanding under the stimulus of capital accumulation, it is necessary to have recourse to progressively inferior land. The consequence is that more and more of the surplus product (over and above that which goes to the laborers) must be paid out by the capitalists to the landlords. Rent rises and the rate of profit falls, eventually to the point where total profit also begins to decline. At some point in this process the rate of profit falls so low that the incentive to further accumulation is extinguished. This was the nightmare which haunted the classical economists who, no less than Marx, regarded capitalism as quintessentially a process of capital accumulation. To be sure, John Stuart Mill tried to soften the blow by picturing the "stationary state" which would emerge when capital accumulation stopped as a rather more attractive condition than the frantically expanding capitalism of Victorian England, but in taking this tack Mill really only revealed his incipient apostasism from the ranks of loyal bourgeois ideologists. For them there was no doubt that the end of accumulation would be effectively the end of capitalism, and this is why classical political economy earned for itself the name of the "dismal science."

It is clear that Marx was fascinated by this aspect of the thought of the classical political economists. He wrote:

Those economists who, like Ricardo, regard the capitalist mode of production as absolute, feel nevertheless that this mode of production creates its own limits, and therefore they attribute this limit not to production but to nature (in their theory of rent). But the main point in their horror over the falling rate of profit is the feeling that capitalist production meets in the development of productive forces a barrier which has nothing to do with the production of wealth as such; and this peculiar barrier testifies to the finiteness and the historical, merely transitory character of capitalist production. It demonstrates that this is not an absolute mode for the production of wealth, but rather comes in conflict with the further development of wealth at a certain stage.  

And again:

The rate of profit is the compelling power of capitalist production, and only such things are produced as yield a profit. Hence the fright of the English economists over the decline of the rate of profit. That the bare possibility of such a thing should worry Ricardo shows his profound understanding of the conditions of capitalist production. The reproach moved against him, that he has an eye only to the development of the productive forces regardless of "human beings,"
regardless of the sacrifices in human beings and capital values incurred, strikes precisely at his strong point. The development of the productive forces of social labor is the historical task and privilege of capital. It is precisely in this way that it unconsciously creates the material requirements of a higher mode of production. What worries Ricardo is the fact that the rate of profit, the stimulating principle of capitalist production, should be endangered by the development of production itself. And the quantitative proportion means everything here. There is indeed something deeper than this hidden at this point, which he vaguely feels. It is here demonstrated in a purely economic way, that is, from a bourgeois point of view, within the confines of capitalist understanding, from the standpoint of capitalist production itself, that it has a barrier, that it is relative, that it is not an absolute but only a historical mode of production corresponding to a definite and limited epoch in the development of the material conditions of production.

Much of Marx's discussion of the falling tendency of the rate of profit is in a similar vein. He regarded it as a significant and striking contradiction of capitalism that the increase in the productive power of labor should express itself in a manner tending to obstruct the unfettered development of the system. But he did not formulate a specific theory of crisis, let alone capitalist breakdown, on this basis; and he was careful to make the point that he was not predicting an actual fall in the rate of profit but was dealing only with a tendency which, like other tendencies, was opposed by various counteracting causes. For Marx, the falling tendency of the rate of profit was a manifestation of only one of capitalism's many contradictions, and I see no reason to believe that he would have considered the system to be any more viable had he foreseen that the future direction of technological change would mitigate or even eliminate this particular contradiction in the form which it assumed in the period of the transition from manufacture to modern industry.

Matters are different in the case of the theorists with whom we are here dealing. For them, the falling tendency of the rate of profit is the central contradiction of the accumulation process. Problems of realization and underconsumption (and/or overproduction) are derived from the theory of the falling tendency of the rate of profit and have no independent existence. The following passage from Cogoy's article is representative of the position held by all these authors:

If the increase in the organic composition is not counterbalanced by an increase [in the rate] of exploitation, the rate of profit will have a tendency to fall. If exploitation does not increase, it is no longer possible to produce a sufficient quantity of surplus value for the con-
tinued expansion of capital (pour la mise en valeur du capital), and the conditions cease to be fulfilled which alone permit, in a regime of capitalism, production for consumption.

As Matick demonstrates, Marx was not an underconsumption theorist, because the overproduction of goods and the decline of consumption are manifestations of the contradiction of capitalism rather than its causes. For Marx, in effect, the result of the process described above is certainly also a fall of consumption, but this effect is produced by a path different from that described by [Joan] Robinson. The starting point of the depression process is not, for Marx, on the side of consumption but on the side of the expansion (valorisation) of capital which cannot take place because of the tendential fall in the rate of profit.19

It would seem to follow from this line of reasoning that any questioning of the general and universal validity of the falling tendency of the rate of profit for all capitalist societies in all stages of their development is tantamount to saying that capitalism's contradictions are only relative and under certain conditions may even disappear. Since the authors in question obviously do not want to be forced into this position, they are obliged to assert the validity of the law of the falling tendency of the rate of profit in the most absolute way possible. And in the course of doing so they have recourse to some rather strange arguments. I quote Cogoy again:

The formula for the rate of profit . . . shows that the fall in the rate of profit can be checked by raising (the rate of) exploitation or by maintaining the same organic composition. In other words, capitalist development can take place on condition that it seizes all opportunities to brake the fall in the rate of profit. Empirical data purporting to prove the maintenance of the rate of exploitation or of the organic composition therefore do not prove either the truth or the falsity of this law. They are rather the provisional result of the effort put forward by the system to maintain its variables in a constant relation or to make them vary according to precise proportions with a view to avoiding the fall in the rate of profit. Marx does not consider these variables as data which should be the starting point of the analysis, but rather as the resultants of the social forces which underlie them and which it is the task of analysis to reveal. In this sense the central task of modern Marxist political economy is to analyze how, up to a point, the social system of production provisionally organizes itself with a view to maintaining certain variables at the required level in conditions of rapid technological development with strong capital intensity . . .

The Marxist law of accumulation and of the tendential fall of the rate of profit . . . does not express empirically verifiable relations from which the analysis can begin. The fall of the rate of profit, seen as a tendency of the system to depart from the narrow path of growth can never manifest itself empirically except in crises. It is the negative rule
of capitalism; it represents the shoals to be avoided if capital is to be able to continue to be accumulated without shocks."

It will be seen that Cogoy sets up a straw man by introducing the notion of the rate of exploitation and the organic composition as "empirically verifiable relations from which the analysis can begin." Those of us who question the universal (for capitalism) validity of the law of the falling tendency of the rate of profit obviously entertain no such ridiculous idea. Moreover, I imagine that most if not all of us would agree that these variables "are the resultants of the social forces which underlie them and which it is the task of analysis to reveal." But Cogoy should ask himself what these social forces are before assuming, as he evidently feels entitled to do, that they naturally and normally operate in such a way as to produce a falling rate of profit, for it is precisely this assumption which we maintain cannot be justified.

What, then, are these forces? They are many and interrelated in complicated ways: here we can do no more than mention the most important. First, there are the forces (including, according to Marx, historical and moral elements) which determine the value of labor power. Second, there are science and technology which govern the productivity of labor and the composition of capital. And third, there is the class struggle which controls the length of the working day and the intensity of labor, and which is also of course a codeterminant of the value of labor power. Marx studied all these forces, historically and empirically, on the basis of the data available to him more than a hundred years ago. He reached certain conclusions which he formulated as capitalism's "laws of motion," including the law of the falling tendency of the rate of profit and its countervailing causes.

The question I would like to put to Cogoy and the others who think like him is this: Do you maintain that these laws were established once and for all by Marx, that they are invariant to changes in the forces which underlie them, and that there is therefore no reason for us to follow Marx's example in studying capitalist reality and drawing our own conclusions from our studies?

If the answer is yes, if these theorists really believe that Marx said the last word on capitalism's laws of motion, then I for one can only say that I cannot take them seriously. Their Marxism has degenerated into a sterile orthodoxy which cannot help us to understand and deal with the problems of capitalism in the last third of the twentieth century.

On the other hand, if one rejects the notion that all of Marx's laws are as valid now as they were in his time, and if one concludes
on the basis of the data available to us today that the law of the falling tendency of the rate of profit is no longer operative, then one must conclude that an analysis of accumulation which, in Cogoy's expression, "rests on the tendential fall of the rate of profit" is doomed from the outset to futility. And it follows of course that one must pursue a different course in seeking to unravel the contradictions of the accumulation process. How this can be done was indicated very clearly by Marx himself in the same part of volume 3 which is devoted to the falling tendency of the rate of profit. Here is the relevant passage:

The conditions of direct exploitation and those of the realization of surplus value are not identical. They are separated logically as well as by time and space. The first are only limited by the productive power of society, the last by the proportional relations of the various lines of production and by the consuming power of society. This last-named power is not determined either by the absolute productive power or by the absolute consuming power, but by the consuming power based on antagonistic conditions of distribution, which reduces the consumption of the great mass of the population to a variable minimum within more or less narrow limits. The consuming power is furthermore restricted by the tendency to accumulate, the greed for an expansion of capital and a production of surplus value on an enlarged scale. This is a law of capitalist production imposed by incessant revolutions in the methods of production themselves, the resulting depreciation of existing capital, the general competitive struggle, and the necessity of improving the product and expanding the scale of production for the sake of self-preservation and on penalty of failure. The market must therefore be continually extended so that its interrelations and the conditions regulating them assume more and more the form of a natural law independent of the producers and become ever more uncontrollable. This internal contradiction seeks to balance itself by an expansion of the outlying fields of production. But to the extent that the productive power develops, it finds itself at variance with the narrow basis on which the condition of consumption rests. On this self-contradictory basis it is no contradiction at all that there should be an excess of capital simultaneously with an excess of population. For while a combination of these two would increase the mass of the produced surplus value, it would at the same time intensify the contradiction between the conditions under which this surplus value is produced and those under which it is realized."

Some people have called the kind of theory toward which this passage points "underconsumption." The designation is perhaps unfortunate since it singles out for emphasis one strand of a complex whole. A better description might be to call it a theory which centers on the contradiction between the capacity to produce and the capacity to consume of a society organized on capitalist lines.
This contradiction—but not the falling tendency of the rate of profit—is in fact already implicit in the concept of capital as self-expanding value. Capitalism's utopia in a sense is a situation in which workers live on air, allowing their entire product to take the form of surplus value; and in which capitalists accumulate all their surplus value. This would represent the maximum conceivable rate of expansion of capital. But, alas, it would also represent the total abolition of value as such, since the aggregate of commodities produced, not entering into human consumption, would lack use value without which there can be no value. The ultimate contradiction of capitalism is that it strives with might and main to reach this utopia, acting in the process as though use value were only an obstacle to its success; but the closer it seems to approach, the more imperatively does use value assert its character as the alter ego of the very value which is the object of the frantic efforts at expansion.

This contradiction between the power of production and the power of consumption, between self-expanding value and contracting use value, vents itself in crises and stagnation which capitalism seeks to overcome not through producing what the workers need to live decent lives (that would be to negate its own nature), but by creating irrational and inhuman modes of consumption more in keeping with the spirit of capital.

I believe that it is along these lines that a fruitful analysis of the accumulation process must proceed. It will be noted that the central contradiction between the power to produce and the power to consume grows in severity with the increasing productivity of labor and the rising rate and volume of surplus value which characterize advanced capitalist societies. It is in this context that the monopolistic tendencies discussed above—acting to raise both the rate of surplus value and the rate of accumulation—take on their greatest significance. It is only under conditions of fully developed monopoly capitalism that lagging consuming power threatens to plunge society into a profound and permanent stagnation and hence gives rise to the most monstrous and destructive forms of forced consumption.

Notes

Economists (Winter 1972): 5-58. Both Cogoy and Yaffe pay tribute to
the work of Paul Mattick, who perhaps deserves to be called the dean
of this school of thought.

2. For a demonstration of this, see my Theory of Capitalist Development (first
pp. 125-30. Only if there were a systematic tendency for the organic
compositions of capital to develop differently in different sectors of
the economy (means of production, wage goods, luxury goods) would
it be possible to argue that the accumulation process in an economy of
prices of production would differ significantly from that in an econ-
yomy of values. I know of no suggestion, let alone proof, that there is
any such systematic tendency for the organic composition to differ in
different sectors. Unfortunately, some Marxist economists have never
understood what is involved in the transformation of values into prices
of production and have continued to treat it as a real process with
important consequences for the functioning of the system. See, e.g.,
Science & Society (Winter 1971); and Michael A. Lebowitz, “The In-
creasing Cost of Circulation and the Marxian Competitive Model,”
Science & Society (Fall 1972).


4. It might be objected that monopoly prices cannot raise the rate of
surplus value except through depressing wages below the value of
labor power, and that this would be an essentially unstable and tem-
porary effect. This objection, however, fails to view monopolization as a
process which must be considered historically and as an integral part
of the accumulation process as a whole. While at any particular time
the value of labor power can be treated as a given, over a period of
time it tends to rise. (There are several reasons for this, the most
important of which are increasing costs of production of labor power
and the workers’ struggle to improve their standard of living.) In this
context growing monopolization must be seen not as depressing the
value of labor power but as impeding the rise in the value of labor
power. To this extent it favors capital against labor by raising the rate
of surplus value above what it otherwise would have been.

5. On Marx’s relation to the industrial revolution, see "Karl Marx and
the Industrial Revolution," in Paul M. Sweezy, Modern Capitalism and

6. On Yaffe, note the following statement: “What we have tried to show
from an examination of the concept of capital is the necessity of . . .
replacing on an increasing scale living labor by objectified (dead) labor.
It follows from this that both the technical composition of capital and the
organic composition of capital must increase in the process of capitalist
production.” (Yaffe, "The Marxian Theory of Crisis," p. 19.) There is
not the slightest justification for this view. Nothing follows from the
concept of capital except that capital is self-expanding value. This is
the beginning of any serious analysis of capitalism, but no deductions
or conclusions can be drawn from it without the introduction of
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further assumptions which are either dreamed up out of nowhere (in the manner of present-day neoclassical economics) or are historically and empirically based, as in the case of Marxism. Yaffe and others who pride themselves on their Marxian orthodoxy are simply accepting and attributing universal validity to assumptions derived from nineteenth-century reality. That this is the way to stultify rather than develop Marxism as a social science seems to have escaped them altogether.

7. Marx was of course aware of this and if he had lived to complete volume 3 it is quite conceivable that he would have incorporated it into his analysis of the tendency of the rate of profit. See, for example, the following passage from volume 1 (which, it must be remembered, was completed after the texts which make up volume 3): “A part of the functioning constant capital consists of instruments of labor such as machinery, etc., which are not consumed, and therefore not reproduced or replaced by new ones of the same kind until after long periods of time. . . . If the productiveness of labor has, during the using up of these instruments of labor, increased (and it develops continually with the uninterrupted advance of science and technology), cheaper machines, tools, apparatus, etc., replace the old. The old capital is reproduced in a more productive form. . . . Like the increased exploitation of natural wealth by the mere increase in the tension of labor power, science and technology give capital a power of expansion independent of the given magnitude of the capital actually functioning. They react at the same time on that part of the original capital which has entered upon its stage of renewal. This, in passing into its new shape, incorporates gratis the social advance made while its old shape was being used up” (volume 1, pp. 663-64).


9. Yaffe, for example, attempts to support this notion in “The Marxian Theory of Crisis,” pp. 24-26.


11. Ibid., pp. 304-5.

12. Cogoy, “Les Théories Néo-Marxistes,” p. 406. There is a problem of translating into English such expressions as mise en valeur and valorisation. I assume that they are used as equivalents of Marx’s Verwertung which is generally best rendered as “expansion of value” or in some cases “self-expansion of value.”


14. Capital, vol. 3, pp. 286-87. Cf. also the powerful passage a few pages later which begins: “The real barrier of capitalist production is capital itself. It is the fact that capital and its self-expansion appear as the starting and closing point, as the motive and aim of production, that production is merely production for capital, and not vice versa, the means of production mere means for an ever-expanding system of the life process for the benefit of the society of producers” (p. 293).
15. To quote the opening paragraph of the *Critique of Political Economy*: "At first sight the wealth of society under the capitalist system presents itself as an immense accumulation of commodities, its unit being a single commodity. But every commodity has a twofold aspect, that of *use value* and *exchange value*.

16. It is important to understand the radical difference between this theory and the shortage-of-effective-demand theory of the left-Keynesians. Cogoy correctly cites Joan Robinson as an exponent of the latter theory, quoting her ("Les Théories Néo-Marxistes," p. 403n) as follows: "The maldistribution of income restricts consumption, and so increases the rate of investment required to maintain prosperity, while at the same time it narrows the field of profitable investment, by restricting the demand for the consumption goods which capital can produce." (The quotation is from *An Essay on Marxist Economics*, 2nd ed. [London: Macmillan, 1966], p. 71.) The crux of the matter here is what the Keynesians consider to be maldistribution of income, clearly implying that matters can be put right by a suitable redistribution of income and thus opening the way for all sorts of reformist illusions. Apart from matters of formulation, this places the Keynesians squarely in the tradition of such liberal and social democratic reformers as Hobson in England and Conrad Schmidt in Germany. Marxism, on the other hand, has no place at all for the concept of maldistribution of income: the root of the problem lies in the very nature of capital as self-expanding value, and this cannot be changed except through the overthrow of the system and the establishment of entirely new relations of production.
John Bellamy Foster

THE LIMITS OF U.S. CAPITALISM:
SURPLUS CAPACITY AND
CAPACITY SURPLUS

For anyone interested in understanding the confused state of contemporary economics, it is significant that John Maynard Keynes couched the modern theory of national output primarily in terms of the employment of labor. In this, as in other important respects, his approach differed markedly from that of the neo-Marxian economist Michal Kalecki, who discovered all the essentials of "the Keynesian revolution" some years before Keynes. Kalecki always went straight to the heart of the modern employment problem: the degree to which existing capital stock is gainfully employed (and the effect of this on new investment). Unemployed labor does not, in itself, pose a problem for capital (which bases its rule on the existence of a sizeable industrial reserve army), but unemployed plant and equipment is quite a different matter. In general, we can say that capitalism, taken in its entirety, is concerned with the full utilization of employed labor power and existing material capital; the full employment of labor as a whole is inimical to its nature and purpose.

To be sure, the concept of "full employment" can be used to suggest either "as near full employment [of labor] as is reasonable" (in Joan Robinson's words), or full utilization of practically attainable productive capacity. And if the economy were to be seen only in static terms, there would be no perfectly obvious reason to choose one point of view over the other. But in the real world economy of capitalist dynamics, the beginning and end-all is capital accumulation. Marx's own theory of labor employment ("the general law of accumulation") was deduced from the motion of capital itself. A political economy of growth conceived primarily in terms of the employment of workers, however much this may conform to humanity's real interests, only serves to obscure the broad outline of history.

Considered in this way, it is clear that the object of Keynesian economics in its heyday (now past) was to promote full capacity production, according to "ideal" capitalist standards (complete

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realization of potential surplus product), and not full employment of labor in any real sense. Thus the Keynesian miscarriage should not be viewed as the inability of capitalism to abolish unemployment (which was always self-evident and never seriously contemplated), but in terms of its outright failure even to get as far as the elimination of undesired excess capacity.¹

Small wonder that the expression "full-employment capitalism," commonly used to characterize economic conditions (and policy) during the first quarter-century after World War II, is of dubious value. Without question, some concrete way of distinguishing the previous period of relative prosperity from the current era of stagflation is needed. But mythologizing the past will not help. "Full-employment capitalism," even if understood in the limited sense of full capacity output with involuntary unemployment, was never realized. And in this lies the chief clue to the present economic impasse.

A realistic way of dealing with the facts would focus on the existence of "equilibrium excess capacity" (the inability of the system, even during its prosperity phase, to close the gap between actual and potential capitalist output), in spite of the prodigious amount of waste which has gone into propping up the productive core of the economy. In this way we could begin to understand why socialism as a mere objective necessity is long overdue.

A plausible theory of contemporary economic stagnation in its making would have to take account of the fact (brilliantly foreseen by Rosa Luxemburg) that capital is unable to centralize markets at a rate equivalent to the ongoing centralization of production and appropriation. As accumulation expands in both relative and absolute terms, a proportionately larger amount of demand needs to be accounted for out of profits (rather than wages) in the form of further productive investment. But such investment, besides providing profits for capital, has the additional property of being useful. And its ultimate use is the production of goods for final consumption. With a high rate of accumulation, however, the share of consumption itself is depressed. Hence, in practice, an investment boom soon reaches the point where further investment in plant and equipment is no longer warranted, given existing profit margins.

This contradiction, though inherent to accumulation itself, only emerged as a serious impasse for capitalism once it had passed from its competitive to its monopoly stage. The modifications in the nature of pricing, output, and investment introduced by giant corporations have limited, to a very large extent, the system's room to
maneuver. To understand why this is so, it is necessary to turn to the theory of monopoly capital, as exemplified by the neo-Marxian tradition of Michal Kalecki, Josef Steindl, Paul Baran, Paul Sweezy, and Harry Braverman.

Although the neoclassical myth of "perfect competition" never actually pertained, it is nonetheless true that the small firm capitalism of the nineteenth century was, in certain very important ways, more competitive than the mature capitalism of our day. At this point in our argument, we can differentiate between early and late capitalism by listing three distinguishing characteristics of the former (though, as we shall see later, this is by no means exhaustive): (1) price competition (prices rose and fell in response to changes in supply and demand), (2) full capacity production under equilibrium (noncrisis) conditions, and (3) virtually automatic accumulation (allocation of capital for expanded reproduction of investment goods and wage goods) of the vast portion of surplus value created. It is worth noting that all of these conditions were generally assumed by Marx himself in his theory of a "purely capitalist society," modeled after the economic reality of his day.

It has long been understood by economic theorists, though as a rule only radicals have been willing to face up to the fact squarely, that the modern economy is dominated by a handful of giant firms that do not engage in traditional price competition. To the extent that they enjoy some degree of monopoly over their markets, these corporate leviathans can raise prices to increase their profit margins (and the rate of surplus value), provided that they exercise careful control over their output (supply). In concrete terms, this usually takes the form of restricting output to a level consistent with prevailing or planned monopolistic profit margins.

Naturally, no corporation will ever be able to control output and impose price increases at will. A number of constraints, such as the threat of ultimately generating new competition, will enter the picture to a greater or lesser extent. More important, prices and profits are always limited by what the market will bear. Within these limits, however, the giant firm often has considerable latitude to raise its rate of surplus value by imposing an excessive price mark-up (by competitive standards) on prime production costs, at the expense of real wage growth and the profits of smaller, more competitive capital. The fact that most major industries are dominated by a very few (oligopolistic) firms rather than by a single "pure monopoly" in no way alters the essential nature of the case, since these firms, by a process of indirect collusion (following the price leader), tend to price much as a pure monopoly would. Thus, since the turn of the century (with the noted exception of the Great
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Depression) the overall price level has gone only one way—up—a fact which clearly marks U.S. monopoly capitalism off from the small-firm American economy of the nineteenth century, when falling prices were the rule.

Output can only be "rationally" controlled by planning some degree of utilization of existing capital stock, and through the careful expansion of plant and equipment in accordance with some intended operating rate. Notwithstanding popular myth and economic parables, it is a well-known fact among economists that the modern large firm seldom utilizes its productive capacity to its full potential but instead maintains some level of planned excess capacity. The reasons for this are fairly straightforward. Idle capacity is kept in reserve to enable a firm to take advantage of sudden increases in demand or to drive out potential competitors. Corporations also engage in the practice of "building ahead of demand" during a boom. It can therefore be assumed that the level of planned surplus capacity will always (even during a peak in the business cycle) tend to be somewhat higher than zero.

The very notion of planned surplus capacity suggests that it is possible to have either "undesired excess capacity" or insufficient reserve capacity (both in relation to the individual firm and, by aggregation, to the economy as a whole). If the utilization of plant and equipment falls below the planned level, we can safely assume that business has far less incentive to invest in additional productive capacity. Conversely, if the operating rate of industry rises to the extent that the amount of idle capacity is less than the planned level, business will readily invest in additional means of production.

If asked to account for undesired excess capacity, a mainstream economist would answer that this is the result of "disequilibrium" (crisis) conditions. Yet, as we shall demonstrate later on, there is ample evidence to suggest that considerable amounts of undesired excess capacity have consistently prevailed in peacetime (we are clearly deviating from the usual practice of established economics here, which claims that the early 1950s and mid-1960s were times of "peace"). And with undesired excess capacity as a fairly persistent condition, productive investment itself is seriously dampened over the long-run.

It is essential to understand that this undesired excess capacity is nonetheless deliberately held by the giant corporations. In the face of a downward shift in demand, monopoly capital maintains its high profit margins (and excessive rate of surplus value) by adjusting its rate of output—which in the short run means its operating rate, and in the long run its rate of productive investment or capital formation—rather than lowering prices. But what causes the
downward shift in demand in the first place? The main answer is obvious: growth of monopolistic profit margins.

Capital has always faced a double barrier to accumulation posed by accumulation itself. On the one hand, it maximizes its potential profits by raising the rate of exploitation of labor power. To do this, capital engages in an incessant battle for infinite control over the labor process. Its main weapons are its capacity to revolutionize the means of production (including the further subdivision of tasks within the workplace), and its ability to discharge workers. On the other hand, as the rate of exploitation rises within production, capital finds it increasingly difficult (though not necessarily in the same proportion) to realize its potential profits by selling the goods which could at present be produced. By keeping down the relative value of real wage income, capital at the same time restricts the demand for wage goods (leaving out the effect of credit, and assuming quite reasonably that workers don't save) to exactly that amount. Hence, surplus value produced can only be realized to the extent that a corresponding demand for capital goods (means of production) and capitalist luxury consumption (which must be withdrawn from surplus value) is found. The latter is restricted by the tendency for even the most ostentatious consumption to reach its natural limits quickly, and by the inner necessity of the capitalist (and particularly the corporation) to accumulate. Investment in capital goods, as mentioned previously, is limited by the fact that such investment is useful. This is because fixed capital is also productive capacity, the value of which is lost if not used. But if used to capacity, a rapid expansion of investment ensues, up to the point where a sufficient portion of output cannot be sold. Sooner or later (and under modern conditions usually sooner), the market for means of production is temporarily undermined by the limited market for final consumption. This is the social disproportionality problem between productive capacity and consumption potential which was at the core of Lenin's theory.

Of course capital can always overcome this problem of realization or "underconsumption" to a limited extent, and especially during certain favorable historical periods. Capitalism, as the Russian economist Tugan-Baranovski long ago emphasized, is not a harmonious system but an antagonistic one. The production of exchange value, which is the sole concern of capital, has its own absurd necessity, somewhat independent of the fulfillment of real social needs. Means of production, after all, can be produced for the purpose of creating more means of production and so on. However, one does not have to be fresh out of a course in logic to see that such a process (much to capital's horror) is limited. Capital
is never completely able to escape the fact that a commodity, in order to be marketable, has to have both an exchange value and a use value, and in the last instance the purpose of all plant and equipment is to serve final consumption.

The foregoing leads us to the conclusion that for capital the rate of surplus value is always, in certain respects, both too high and too low; and particularly so in times of economic crisis. It is too low for the simple reason that potential surplus value is enlarged in direct proportion to any reduction in the value of real wages as a percentage of total social product. It is too high since the market for wage goods, upon which any sustained growth in output depends, is limited to the level of real wages. Confronted with this double-horned dilemma, capital has a tendency to impale itself on the second while staring fixedly at the first.

The monopoly rents charged by the modern giants of capital, and the output and investment strategies upon which these rents are predicated, intensify this general tendency toward overaccumulation (implicit overproduction), which is embedded in the very nature of the capitalist system. On the one hand, the monopolistic corporation is enormously successful at accumulation (partly as a result of its management of labor power which it directly controls, and partly due to its power to appropriate the benefits of growth which would otherwise accrue to workers and small-scale capital). On the other hand, it only accomplishes this by carefully controlling both current output and the growth of potential output. Hence, big business demonstrates an enormous fear of overinvestment, and of spoiling its entrapped market. Its conservative investment strategy is exemplified by its tendency to sandbag innumerable innovations which threaten existing capital values and market power. Thus the modus operandi of monopoly capital pretty much guarantees that insufficient productive investment will be forthcoming to compensate for the enormously centralized pattern of accumulation. Consequently, a bottleneck of surplus capital appears in the monopoly sector(s), with a concomitant tendency toward secular stagnation—defined by Paul Sweezy as "a combination of sluggish growth, rising unemployment, and a chronically low level of utilization of productive capacity."\(^6\)

When U.S. monopoly capitalism operates at a rate anywhere near its full capacity level it throws off a massive quantity of profits or actual economic surplus. We may use the term "capacity surplus" to refer to that level of surplus which is realized when all surplus capacity has been fully eliminated. This, in fact, means that the total surplus value potentially produced in the labor process is now actually produced and realized. Under U.S. monopoly capitalism
thus far this point has only been reached during World War II; and
has only come within sight, in any case, with the help of enormous
quantities of wasteful consumption by industry itself. In practice,
the actual surplus accruing to capital—it would only confuse mat-
ters to speak of total surplus value in amounts not determined by
the actual rate of exploitation of labor power with full capacity pro-
duction—is almost always much lower than capacity surplus, in di-
rect proportion to the level of surplus capacity that exists within the
economy. Hence, monopoly capitalism systematically deviates from
the "ideal" standards of capital itself, which require that potential
surplus product be entirely realized.

Hindered by their inability to utilize capital equipment that they
already have at their disposal, the giant corporations refuse to in-
vest at a high rate, but consume revenue in numerous socially
unreproductive ways. Only the government is able to artificially
induce these firms to expand their output and investment more
fully. But the very conditions upon which such state intervention is
predicated make this reliance on socially unreproductive external
markets dynamic and inflationary. Having induced industry to ex-
and faster than is warranted by the underlying economic condi-
tions, the state must give it an even larger injection in the next
budget, and so on. Thus a huge inflationary overhang, and a mas-
sive debt structure, appears cumulatively on top of an economy
which at its roots demonstrates an almost permanent tendency to-
ward stagnation. The modern term for this general condition is of
course "stagflation."

It is surely of more than passing interest that our approach here
finds strong support in the historical evidence itself. In 1960
Donald Streever constructed a famous index of capacity output of
U.S. manufacturing and mining for the years 1920-55. A slightly
more refined version of the Streever data was shortly afterwards
developed by V. Lewis Bassie, then Director of the Bureau of Eco-
nomic and Business Research at the University of Illinois. Follow-
ing a method employed by Baran and Sweezy, who used Streever's
data (Monopoly Capital, pp. 237-43), we can derive a rough indica-
tion of the operating rate of U.S. industry by dividing the Streever-
Bassie capacity index into the Federal Reserve Board's series for
industrial production. The resulting index of capacity utilization
(up to 1947) is shown in columns 1 and 3 of Table 1. Alongside this
series, in columns 2 and 4, is placed U.S. government data on gross
plant and equipment expenditures over the same period.

These figures give us a reasonably accurate representation of the
basic changes that occurred in the U.S. economy during this critical
period, which included the Great Depression and World War II and ended with the unrivaled hegemony of U.S. monopoly capitalism within the world order. Looking first at the capacity-utilization index, it is immediately clear that an overabundance of capacity has been a persistent problem for U.S. capitalism. The notorious boom of "the roaring twenties" was based on an overexpansion of investment (capital goods production rose at an average annual rate of 6.4 percent) in relation to consumption (consumer durables and nondurables grew at rates of 5.9 and 2.8 percent, respectively). Hence, we see a gradual enlargement of excess capacity during the twenties. When the bubble finally burst in 1929 this already sizeable amount of surplus capacity grew to vast proportions. In 1932 at least 55 percent of all plant and equipment in the United States was lying unused. Moreover, the depression continued to drag on with no sign of internally generated recovery. In the 1938 downturn the output of U.S. manufacturing and mining was 38 percent short of its potential.

However, in 1939, with the beginning of World War II in
Europe, conditions changed. Over the next five years, fueled by the tremendous demand for war goods, the operating rate of American industry skyrocketed, and in 1944 exceeded "capacity output" by well over 30 percent. After World War II there was a sudden drop in the utilization of capacity, which by 1947 was already forty-one points lower than its wartime peak.

Perhaps even more significant is the relationship between the rate of capacity utilization (columns 1 and 3) and gross fixed capital investment in manufacturing (columns 2 and 4). A mere glance at the figures shows that there is a direct correspondence between upward and downward movements in capacity utilization, on the one hand, and the rise and fall in investment activity, on the other. In 1928, however, we see a rise in investment at the very moment that capacity utilization was experiencing a serious drop. Undoubtedly, this is an indication of the infamous speculative boom of the period, which further contributed to the building up of overcapacity, and brought the expansion of the twenties to an abrupt end. During World War II there also appears to be a discrepancy between movements in capacity utilization and investment. Yet, in this case, the exception to the general rule is more apparent than real. During its World War II years the U.S. economy was, in a very real sense, operating at an overheated level by capitalist standards. The massive outpouring of government subsidized unproductive war expenditures was by then occurring at the direct expense of capital goods and wage goods. The immense profits available for the production of each additional tank and airplane had siphoned capital away from social reproduction in the usual sense (the expansion of the capacity to produce and consume) and geared it to the creation of sheer waste on an unprecedented scale. Under these circumstances, net investment tended to stagnate, in direct proportion to the expansion of output beyond normal capitalist capacity. Consequently, in the immediate post-World War II years, industrial investment soared, even as the operating rate of industry moved below its wartime level. Corporations hurriedly attempted to once more enlarge their plant and equipment; spurred on by the vast amount of unrealized (and liquid) consumer demand which had built up during the war years, and by the new hegemonic role of North American capitalism within the global system.

Our case here receives further support if the economic record for the period of undisputed U.S. hegemony is consulted. Since 1948 the Federal Reserve Board has maintained its own index of capacity utilization. This new series, together with data on gross nonresidential fixed investment, is provided up to the year 1975 in Table 2 (which, it should be noted, cannot be directly compared to
Table 2
Capacity Utilization in Manufacturing and Gross Nonresidential Fixed Investment Expenditures, 1948-75a

<table>
<thead>
<tr>
<th>Year</th>
<th>Capacity utilization</th>
<th>Gross nonresidential fixed investment in billions of 1972 dollars</th>
<th>Year</th>
<th>Capacity utilization</th>
<th>Gross nonresidential fixed investment in billions of 1972 dollars</th>
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<tr>
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aNot directly comparable to Table 1.

Once again we find that there is a strong positive correlation between movements in capacity utilization and industrial investment. Capacity utilization and investment declined hand in hand as the United States continued to wind down from World War II. But with the onslaught of the Korean war, utilization again rose rapidly (with investment close behind) to a level (in 1953) which was not passed until the United States invaded Vietnam. After the Korean war there is an immediate nine-point drop in the operating rate of U.S. factories, with a corresponding sag in investment.

Between 1955 and 1957 a discrepancy in the movements of utilization and investment is indicated, with investment rising by $5 billion at the same time that utilization has dropped over three points. Since real investment in plant and equipment was occurring at a time when business was already cutting back on the operating rate of its existing factories, it is scarcely surprising that during 1957-58 there was a massive increase in surplus productive capacity, with utilization dropping seven points in a single year. Over the same year, gross capital formation, reflecting this development,
dropped by over 10 percent. A similar if less apparent dynamic followed the other years (1959-60 and 1968-69) when investment rose while utilization fell. In 1961 investment stagnated and then bounced back, along with capacity utilization, during the following year. This resilience is undoubtedly a reflection of the enormous boost in military spending which occurred from the outset of the Kennedy administration, based initially on the infamous "missile gap" hoax. In 1968-69, as the rate of expenditure for the war in Indochina was beginning to weaken (in the face of impending Vietnamese victory), investment again rose while utilization was on the decline. This unwarranted growth of capital formation clearly set the stage for the well-known crisis of the U.S. economy (and the dollar) in 1970-71, as the contradiction between actual and potential output widened.

At any rate, the index of capacity utilization provided by the Federal Reserve Board clearly demonstrates that the post-World War II U.S. economy has always been in greater danger of stalling than overheating, despite an inflation of rhetoric to the contrary. At no time in the years covered here, except during the Korean and Vietnamese wars, did the U.S. economy achieve anything even distantly resembling full capacity output. And of course things have only gotten worse as the general crisis of U.S. capitalism has deepened. In 1975 capacity utilization dropped to 72.9 percent. In the years immediately afterwards it rose slowly, but by 1979 had not yet reached its 1970 level. Naturally, with the appearance of the new phenomenon of "back-to-back recessions" in 1980, 1981, and 1982, utilization of productive capacity once again plummeted, with the average shortfall of actual output from capacity output in 1982 rising to 30 percent. Millions of workers are unemployed because capital is unable, given existing profit margins, to realize its capacity surplus, and this in direct proportion to the surplus capacity which has appeared in the economy.

Of course it is conceivable that one might interpret the above evidence in another way altogether. It is obvious that utilization of capital stock and investment are always, to some extent, mutually determining. A tendency for investment to stagnate could therefore be seen as producing the excess capacity rather than the other way around (in which the latter assumes the role of a servomechanism or shut-off valve for the former). However, it would then be necessary to explain why investment (capital formation) follows a pattern which can be described as fluctuation around a trend-line of zero net investment, in conjunction with a constant and widening gap between potential and actual capitalist output.

One of the most common ways of explaining the ups and downs
in capital formation, particularly within the more traditional Marxist circles, is to turn to the rate of profit itself. Business expands production when it is profitable to do so and refrains when it is not. Undoubtedly, as V. Lewis Bassie pointed out in the work referred to above, "This line of thinking is incontrovertible if one does not look beyond profits to the underlying conditions on which they depend" (p. 361).

Thus, one might argue that investment rises when the average rate of profit rises and falls when it falls. But then one has to explain why profits rise and fall. And, moreover, why the gross profit margins of the largest corporations have tended to widen over time. Within traditionalist Marxian literature it is often suggested that there is a secular tendency toward a falling rate of profit due to the growing capital intensity (in value terms) of industry, relative to the rate of exploitation. Yet, the empirical basis for such a theory is extremely weak. For good reason, there are no serious historical studies which indicate that this tendential law has any direct and consistent bearing on the evolution of the capitalist mode of production over the last fifty years or so. It therefore requires a rather large leap of faith to assume that it can be utilized to explain either the relative slow growth of capital formation under modern U.S. capitalism (by historical standards) or the year-by-year fluctuations in investment and operating rate.

In any case, what is determinant for new investment is not so much current earnings as expected earnings on new productive capacity. An approach that centers on capitalized use values has the advantage of emphasizing the root factor determining long-term profit expectations, and hence the willingness to invest. An overcapacity to produce in relation to existing markets will generally dampen new investment even if profit rates were previously rising.

At least as far as the long run is concerned, economists generally look on investment as being exogenously determined. The chief element in this regard is of course innovation (or revolutionization of the means of production). Far from controverting our thesis, however, this factor can be brought into play in order to elucidate, on a more fundamental level, the problem of maturity and stagnation. Monopoly capital theorists, particularly Baran and Sweezy, have generally argued that the transition of capitalism from an economy of small firms to one dominated by giant corporations with considerable discretion in their actions has drastically altered the role of innovation as well. In the first place, there has been a general shift in the focus of accumulation. Under the early industrial period of competitive capitalism there was a rapid expansion of department 1 (producing means of production), allowing
capitalism to sustain an accelerated rate of growth. As capitalism "matured" in certain states, however, the possibilities for revolutionizing the means of production tended to diminish relative to the scale of the economy as a whole. It was no longer a matter of simply replacing precapitalist relations of production with the form and content of modern industry, but of replacing already existing capital with marginally more efficient capital, and at a time, moreover, when the capacity to produce was already near the ceiling warranted by existing and prospective markets. In addition, monopoly capital has had the effect (as Joseph Schumpeter understood) of staving off certain investment opportunities. Of course certain epoch-making innovations like the steam engine, the railroad, and the automobile (which contributed substantially to the most recent wave of prosperity in the U.S. economy) might feed a new period of growth. But innovations of such quantitative and qualitative significance are few and far between.

In fact, if monopoly capitalism were no more than what we have emphasized thus far it would be difficult to see how such a system could survive at all. At this point, it is useful to recall Tugan-Baranovski's notion that capitalism is an antagonistic system. It survives beyond its comparatively rational and historically necessary competitive stage only by intensifying its antagonistic and irrational characteristics. In a nutshell, the prevalence of surplus capacity makes waste (i.e., the production of luxury goods such as military hardware, and unproductive outlays on circulation, like advertising) enormously profitable. Indeed, expenditures on war have the peculiar use value (for capital alone) of expending rather than augmenting productive capacity, while neither depending on nor seriously cutting into wage-based demand. Capital therefore loses much of its traditional indifference to particular use values, having discovered that it is able to promote certain commodities which have the special property of being useless from the standpoint of social reproduction; and which therefore provide seemingly inexhaustible markets for the absorption of economic surplus (though over the long run this simply produces stagflation). 14

Marx believed that capitalism as a comparatively rational and socially necessary stage in historical evolution would in his lifetime fall prey to its own internal contradictions. He was correct. By the final quarter of the nineteenth century monopoly capitalism had emerged: a society which was increasingly irrational even by capitalist standards, and which sustained itself (and this is where Marx may have underestimated capital) by its very irrationality. In fact, the massive contradictions of the contemporary socioeconomy in the advanced industrial states (and the increasingly deranged
forms of dependent capital that have been forced upon the third world) are due almost entirely to the fact that socialism as a mere objective necessity is long overdue.

Notes

1. The real slack in the labor market should never be confused with official unemployment statistics, which are based on a straightjacket survey that counts as unemployed only those who are immediately available for work and who have actively sought employment during the last four weeks—thereby systematically excluding discouraged job-seekers, the underemployed, and those who would be more than willing to join the labor pool if adequate opportunities for productive employment were available. On top of this, much of existing employment is devoted to the production of sheer waste, from the standpoint of social reproduction. As a general rule, we can say that the sum of actual unemployment, underemployment, and socially unproductive (or unreproductive) employment is always much higher than the amount of potential labor power that the system can absorb, on a productive basis, at full capacity output. Thus social liberal economists sometimes use the term "Marxian unemployment" to refer to the level of real unemployment which exists at Keynesian "full employment equilibrium" (or full capacity capitalist output). See Adrian Wood, A Theory of Profits (Cambridge: Cambridge University Press, 1975), pp. 124-28. All of this merely indicates that the growth rate of capitalism is inherently depressed, in relation to the planned growth in output of a rationally organized socialist society.

2. Contrary to widespread impression, there is no determinate theory of monopoly price. Mainstream textbooks still present the notion (useful as a first approximation) that the price and output of the "pure monopoly" will be determined by the point at which marginal revenue and marginal cost for an additional unit of output are equated. Business, however, has no concept of marginal revenue (as Joan Robinson, Josef Steindl, and Paolo Sylos-Labini have emphasized). The most that can be said with any certainty is that the markup will be determined by the "degree of monopoly" and what the market will bear.

It is worth adding that the neoclassical practice of equating monopoly with "pure monopoly," and then claiming that the real situation in concentrated markets is one of "imperfect competition," which can be generalized as "perfect competition," is both erroneous and deliberately misleading. One might get closer to the truth by saying that the determining element within the modern economy is one of impure monopoly, in which the nature of competition is transformed.

4. Aside from the fact that workers are by necessity long-term dis-savers, the assumption that they refrain from saving is more than reasonable in this context, since any savings out of wages would only make the realization problem, based in the wage goods sector, more serious, while not otherwise altering the general case.

The overall theory of distribution employed here is fundamental to both Marx and Kalecki.

5. See Michal Kalecki, “The Problem of Effective Demand with Tugan-Baranovski and Rosa Luxemburg,” in this volume.


10. Anyone acquainted with Keynesian theory would no doubt expect such a correspondence, since higher investment (ceteris paribus) induces higher utilization in the short run. But it should be kept in mind that the other components of aggregate demand in a closed economy—consumption and particularly government—do not always follow a course that parallels that of capital formation. All that can be said with certainty then is that high utilization tends to spark investment and low utilization shuts it off. The operating rate therefore plays the role of a “thermostatic device.”

11. Proof of this can be found in graph form on page 349 of Bassie's study, referenced in Table I above. The same chart reveals an almost exact positive correlation between calculated new investment (with the capacity and production indexes as the independent variables and capital formation as the dependent variable) and actual new investment. In fact, the coefficient of determination, r² (percent of total variance in one set of data which can be accounted for by its linear relationship to another), was .97.

12. Two issues demand brief consideration here. First, the Streever-Bassie index, while employing extremely sophisticated techniques for the year-by-year calculation of real capital formation and its effect on capacity, has as its benchmark the famous estimation of capacity utilization for 1929, provided by Edwin G. Nourse and associates in America's Capacity to Produce (Washington, D.C.: The Brookings Institution, 1934), and like most studies relying heavily on a single benchmark could be expected to produce a larger margin of error over time. It is therefore best to switch over to the more credible Federal Reserve Index once that series begins in 1948. Nonetheless, it is worthwhile to point out that as the Streever-Bassie estimates of utilization are, on the average, slightly above those of the Federal Reserve during the years (1948-54) when the two indexes overlap, it would be logical to infer that the latter series, if employed earlier, might well have indicated even larger amounts of excess capacity than are shown in Table I.
Capacity, Demand, and Accumulation

Second, for recent years there are four major indexes of U.S. manufacturing capacity (including that of the Federal Reserve) which can be expected to differ slightly as to the absolute amount of excess capacity at any given point in time (though the cyclical swings are always very similar). For the textbookish economist, optimal capacity is defined as the minimum point on a short-run average cost curve (where it is tangent to the long-run average cost curve), which means that utilization of capacity is determined without reference to the expected price of output. What survey-based capacity utilization indexes (provided by the Federal Reserve, McGraw-Hill, and the Bureau of Economic Analysis) actually measure, however, is an estimation by business itself of its excess capacity, which (for large firms at least) takes account of both cost and price. Generally, we can assume that business specifies its present undesired excess capacity, and not its reserve or its "engineering" (real) excess capacity. This presumption is reinforced by the fact that all plants that are completely idle are excluded from the capacity estimates. Thus all such estimates are notoriously conservative in real terms, as the data for World War II indicate. But since much of our interest here is in understanding the relationship between the willingness of business to actually invest and its undesired excess capacity (judged by capitalist standards), it is the normal perception of business itself which is of chief importance. The Federal Reserve's composite index is probably superior to the pure survey approach (McGraw-Hill and BEA) since it merges survey information with data on capital formation. For a useful discussion see John E. Cremens, "Capacity Utilization Rates—What Do They Mean?" Business Economics 13, no. 3 (May 1978): 41-46.

13. This is true for Japan as well, which by 1979 had only regained 90 percent of its 1970 level, and where underutilization of capacity has now become a serious problem (accompanied by slower growth of capital formation). See Taka Taka Nakamura, The Postwar Japanese Economy (Tokyo: University of Tokyo Press, 1981), pp. 231-35, 247.

There is, in my opinion, no direct connection between value theory and crises, nor between the kind of price theory some wish to substitute for value theory and crises. Crises (in the broad sense that Marxists ordinarily use the term) are enormously complicated phenomena, and they differ from one another so much that no general theory, and still less no simple theory, can hope to provide more than the beginning of a serious analysis of any given crisis situation. Nevertheless, I think it is true that crises cannot be understood properly unless they are envisaged as integral to an overall conception of the nature and functioning of the capitalist accumulation process, and I for one find the theory of value to be the only basis on which such a conception can be built.

Perhaps I should say that I find it the only basis presently available on which such a conception can be built. I am aware that those, like Ian Steedman, who want to throw out the theory of value altogether but who nevertheless concede that it provided the approach which enabled Marx to arrive at his understanding of the accumulation process still do not think that value theory is in any way essential to this achievement. You can, they say, substitute price theory à la Sraffa without precluding any further inquiries along Marxian lines you may care to undertake. To quote Steedman (the concluding sentence in his recent book Marx After Sraffa): “It can scarcely be overemphasized that the project of providing a materialist account of capitalist societies is dependent on Marx’s value magnitude analysis only in the negative sense that continued adher-
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ence to the latter is a major fetter on the development of the former."

It has occurred to me that by speaking of Marx's "value magnitude
analysis," Steedman may be implying that there is another kind of
value analysis, a qualitative value analysis, concerned with social
relations rather than economic magnitudes, which helps instead of
hindering "the project of providing a materialist account of capital-
ist societies." If so, I entirely agree with him. Only I happen to
believe that the marriage of the qualitative and quantitative analyses was one of Marx's greatest achievements and that separating
them runs the danger, as in the case of separating Siamese twins, of
killing them both.

In many years of writing and teaching (which also ought not be
separated), I have found this a position difficult, and all too often
impossible, to explain. Those brought up in capitalist society are as
a rule totally accustomed to the increasingly elaborate division of
labor which it fosters and which is reflected in a corresponding
division of knowledge and the professional specializations which
deal in knowledge. Against this background, it is only natural to
take for granted that theoretical systems can be taken to pieces,
with some parts being retained and others rejected, more or less as
diners confronted with a smorgasbord take the dishes that appeal
to them and bypass the others. Anyone who thinks in this way has
little hesitation in disassembling Marx's analysis of capitalism and
holding onto or discarding constituent components according to
his or her particular tastes. It doesn't occur to such a person that
the theoretical system may be more like a machine or an organism
which needs all its parts to function.

But analogies can be no more than suggestive. Let me try to
make my point more directly. Roughly the first two parts of the first
volume of Capital plus most of the first three chapters of the third
part (amounting in all to about one-quarter of the volume as a
whole) are predominantly qualitative in the sense indicated, that is,
they focus on identifying and clarifying the basic relations of com-
mmodity-producing societies in general and capitalism in particular.
Thereafter—and this holds in the main for the second and third
volumes as well—there is a heavier emphasis on quantifying these
relationships or rather the economic variables and their intercon-
nections which express these relationships. Throughout, reasoning
is in terms of value theory, and there is no effort to make an explicit
distinction between the qualitative and quantitative dimensions of
value. For Marx the quantitative is saturated with the qualitative,
and the qualitative is expressed through the quantitative.
The beauty of this approach, as I see it, is that it enables us to achieve a clear and coherent vision of capitalism as a historical process. The early history of capitalism is seen not (or not only) as a chaos of rapine and violence but as the process through which the distinctively capitalist mode of production came into the world, with the capital/labor relation replacing the lord/serf relation as the central relation of exploitation in a new form of class society. Every class society is characterized by the necessary/surplus labor dichotomy, hence by an implicit rate of exploitation; but only in capitalism does this take the value form, with the rate of exploitation expressing itself as a rate of surplus value. This, and not the rate of profit (as Steedman et al seem to believe), is the crucial variable which enables Marx to get a firm handle on the history of capitalism. By dividing surplus value into absolute surplus value and relative surplus value (neither of which would make sense without the concept of a rate of surplus value), Marx was able to lay bare the anatomy of the class struggles which were endemic to capitalism from its earliest beginnings. This task was carried through in the third and fourth parts of the first volume of Capital, and especially in the incomparable chapter 15 on "Machinery and Modern Industry."

From there, using the results already achieved, Marx went on to analyze the accumulation process, showing among other things: (1) how the mechanism for adjusting the rate of wages to the value of labor power is radically different from that which adjusts the price of any other commodity to its value, with the reserve army of labor (or relative surplus population) playing the key role of "pivot upon which the law of demand and supply of labor works"; (2) how the normal outcome of capitalist accumulation must be a polarization between riches and poverty; (3) why the form of the accumulation process must be one of cyclical ups and downs rather than a linear progression; and (4) the manner in which competition of capitals must lead, via concentration and centralization, to its own transformation into monopoly.

Have I made my point now, that is, that it was through marrying qualitative with quantitative value theory that Marx was able to illuminate the history of capitalism in a way that no theorist before or after him has been able to hold a candle to? If not, perhaps it will help to quote Schumpeter, who was a severe critic of Marx but at the same time understood what Marx was trying to do better than most of those who consider themselves to be Marxists. The following passage from Schumpeter's Capitalism, Socialism, and Democracy, if I interpret it correctly, says about Marx's achievement pretty
much what I have been trying to express but does so in very different language:

There is . . . one thing of fundamental importance for the methodology of economics which he [Marx] actually achieved. Economists have always either themselves done work in economic history or else used the historical work of others. But the facts of economic history were assigned to a separate compartment. They entered theory, if at all, merely in the role of illustrations, or possibly of verifications of results. They mixed with it only mechanically. Now Marx's mixture is a chemical one; that is to say, he introduced them into the very argument that produces the results. He was the first economist of top rank to see and to teach systematically how economic theory may be turned into historical analysis and how the historical narrative may be turned into histoire raisonnée. (p. 44)

Schumpeter could hardly have been expected to agree that value theory was the key to Marx's success in this enterprise, but it is difficult to see how he or anyone else could deny that it guided Marx every step of the way. And it would be equally difficult to make out a case that any theorist since Marx, dispensing with the theory of value, has had a success comparable to his. Nor do I think it at all likely that anyone following the advice of Ian Steedman, Joan Robinson, and others to chuck the theory of value in favor of a Sraffa-type theory of prices will make any significant contribution to the solution of Marx's "problematic."

Here we meet what I suppose would be the ultimate objection of these critics of value theory. Economic magnitudes in the real world, as Marx was of course well aware, are expressed in terms of prices of production, not values. From a Marxist standpoint this, in and of itself, is not a weakness or flaw in the theory, rather the contrary. Reality is made up of appearance and essence. Prices of production belong to the realm of appearance, values to the realm of essence. Unless we can move back and forth between them as needed, we can never achieve more than a quite superficial understanding of capitalism. But, say the critics, you cannot move back and forth between the two realms except under very special assumptions; and if these assumptions are dropped, seriously misleading distortions result.

This at any rate is the way I interpret Steedman's argument which is summed up in a diagram on page 48 of Marx After Sraffa. The diagram has a box on its left-hand side labeled "Physical production and wage data." From this an arrow (a) in the northeasterly direction connects to a box labeled "All value quantities," and another arrow (b) in the southeasterly direction to another box.
labeled "Profits and prices."\textsuperscript{3} Between the value box and the price box there is a dotted and interrupted arrow (c). Steedman comments: "The dashed and 'blocked off' arrow (c) represents the fact that one cannot, in general, explain prices and profits from value quantities as set out in the general value schema. . . . We thus have to picture our theoretical structure as having a 'fork-like' character, with a value prong, arrow (a), and a 'profit-price' prong, arrow (b).

There is, in general, no way from one prong to the other." (p. 49) This, unless I have misunderstood Steedman, is his entire reason for wanting to jettison what he calls value magnitude analysis.

My answer is essentially simple, though it could undoubtedly be elaborated at considerable length. Despite what Steedman says, there are general ways of getting from the value prong to the price-profit prong. This of course is what is known in the Marxist literature as the transformation problem. As is by now well known, the way proposed by Marx himself is faulty (Steedman spends more space on this than he needs to, in view of the large amount that has been written on the subject in recent years). But there are other ways which are logically impeccable. One is the Bortkiewicz solution of which there are a number of variants and refinements; and another is what may be called the iterative solution, presented most fully by Anwar Shaikh.\textsuperscript{3} It is true that in general a logically satisfactory solution to the transformation problem yields results different in certain respects from those of Marx's faulty method. Total price does not equal total value, and the rate of profit in the price scheme is not equal to the rate of profit in the value scheme. But there is no reason to think that these differences have any special bearing on the structure and functioning of the capitalist economy, from which it follows that analyzing the accumulation process on the basis of values yields results which do not need to be altered in any significant way by shifting to prices.

Aha, you may say, if this is true, then why do we need the value analysis at all? Reality presents itself in terms of prices. If it can also be analyzed in terms of prices, why bother with those alleged value "essences" and the whole rigamarole of transforming them into prices? But wait a minute! I did not say that reality could be analyzed in terms of prices: I said that the results of the analysis would not be significantly altered by shifting to prices. I do not believe that the analysis could (or would) have been made in terms of prices. And the reason is that the key concept and variable in the analysis, the center of gravity which holds everything else in place, is the rate of surplus value, and it is precisely the rate of surplus value which disappears, vanishes without a trace, from an analysis made in terms of prices.
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I would like to stress here, though it is not possible to develop the point within the limits of this essay, that in comparison with the rate of surplus value the rate of profit is both a secondary concept and one which, taken by itself, tends strongly to foster fetishistic thinking. The notion that the rate of profit is somehow, and unlike the rate of surplus value, an "operational" concept in terms of which capitalists make decisions is without foundation. Capitalists do not know what the average rate of profit is, and each one makes decisions on the basis of his own rate of profit which is rarely, and then only by accident, equal to the average rate. (This is of course even more true when we abandon the competitive assumptions which make the average rate the norm around which individual rates tend to fluctuate.) And the fact that the rate of profit states a relationship between profit and total capital rather than between profit and variable capital all too easily—as shown by the entire history of bourgeois economic thought—gives rise to the theory of the productivity of capital, an example par excellence of fetishistic thought.

Crises must of course be analyzed within the framework of a theory of the accumulation process, and in this restricted sense value theory is essential to the analysis of crises. An understanding of the accumulation process tells us why crises are possible and even inevitable. But a great deal more is involved, and if we are to understand particular crises we have to take account of much that does not figure in value theory. Here I want to focus on two factors which I believe play a specially important role in the crises which characterize the present phase of capitalist development, including the one which the capitalist world is currently undergoing. These are (1) monopoly (using the term to include oligopoly), and (2) finance (money and debt). I shall limit myself to the briefest possible outline.

As pointed out above, the competition of capitals leads, via the twin phenomena of concentration and centralization (both inseparable aspects of the accumulation process), to the replacement of free competition by various forms of monopoly. This in turn means that the mechanism whereby an average rate of profit is formed ceases to operate in the assumed way, and without an average rate of profit there is no longer any reason to assume an orderly correspondence between values and prices of production. If we start from a situation (competitive capitalism) in which economic reality presents itself in terms of prices of production, we now have a situation (monopoly capitalism) in which this role is played by monopoly prices. These are transformed prices of production in ex-
actly the same sense that prices of production are transformed values. There is, however, this difference, that there are no general rules for relating monopoly prices to prices of production as there were for relating prices of production to values. About all we can say is that monopoly prices in various industries tend to be higher than prices of production in proportion to the difficulties new capitals have in entering those industries. And of course a corresponding hierarchy of profit rates will emerge, highest in the industries most difficult to enter, lowest in those where entry is free (as is assumed to be the case under competitive capitalism). An average rate of profit still exists in a mathematical sense, but it is not one which tends to impose itself on individual capitals and it does not govern the distribution of surplus value throughout the system as the average rate of profit does under competitive conditions.

I have long been arguing, beginning with The Theory of Capitalist Development and on various occasions since, that the transition from competitive capitalism to monopoly capitalism has a profound effect on the accumulation process. The redistribution of surplus value in favor of large monopolistic units of capital and to the disadvantage of small competitive units greatly enhances the system's accumulation potential. At the same time, however, attractive outlets for capital investment are curtailed. To put it another way, the big monopolies tend to be very profitable and hence able to accumulate rapidly, but at the same time they are afraid of spoiling their own markets by overinvesting, so they go slow in expanding their productive capacity. To protect their monopolistic positions they erect what barriers they can against outsiders invading their markets (one of the most effective ways is to maintain a considerable margin of unused capacity which can be quickly activated in retaliation against unwanted newcomers). Such typical monopolistic behavior adds up to a recipe for much slower growth than the economy would be capable of, and slow growth relative to the economy's potential is another name for stagnation, precisely the situation in which the global capitalist system now finds itself.

The implication of this line of reasoning is that in a developed monopoly-capitalist economy (and especially one in which the process of monopolization is continuing or even accelerating as it has been in the United States and Western Europe throughout the present century), stagnation—slow growth, heavy unemployment, much idle productive capacity—must be regarded as the norm, not the exception. Hence what needs to be explained is not stagnation but extended periods of buoyancy and rapid expansion such as we in the West have been living through since World War II.
This is the problem which Paul Baran and I posed and attempted to explore in *Monopoly Capital*. Clearly, it requires that attention be directed not only to the internal logic of the accumulation process—a logic which cannot help but be abstract in the sense of focusing on a small number of variables—but also to the overall historical environment within which the accumulation process unfolds. In interpreting the development of U.S. capitalism over the past century, Baran and I attributed decisive importance to "epoch-making innovations" (the railroad and the automobile) on the one hand and major wars and their aftermaths on the other. The great railroad boom of the second half of the nineteenth century, we argued, came to an abrupt end with the panic of 1907. Incipient stagnation characterized the period from then until 1914 when World War I took over, followed by its aftermath boom and the automobile-led prosperity of the 1920s. Stagnation, unmitigated by further shocks or stimuli, set in with the cyclical downswing of 1929-33 and lasted throughout the decade of the 1930s. This was interrupted by World War II, which was duly followed by a reconversion and reconstruction boom.

After that, however, and largely as a consequence of the vast changes in the structure and organization of world capitalism brought about by the war, the historical determinants of the course taken by the accumulation process were transformed in important respects. There was never any doubt that the internal logic of the monopoly-capitalist system was functioning in what had long since become the normal fashion, but the environment within which this logic worked its way was new and enormously complicated. Baran and I did not attempt to analyze this new pattern of interaction in any detail, and the few comments we devoted to it were unsystematic and impressionistic.18

It is of course not my intention to try to repair this omission here. I want only to mention what we can now see in retrospect were some of the major factors, and to stress one, the huge growth of debt, which I think has been unduly neglected, and is just at this time precipitating what I have elsewhere called a "crisis within the crisis."19 It needs to be integrated into the theory of the accumulation process in a way which, so far as I am aware, has not yet even been attempted.

By far the most important postwar development was the imposition of U.S. hegemony on the capitalist world: for the first time since the decline of British hegemony in the late nineteenth century, the international capitalist system came under the dominant leadership of a single great power. This had, among other things, the following consequences: (1) the establishment of a new interna-
tional monetary system based on the gold-linked dollar which now served as standard of value, reserve currency, and international means of payment; (2) the extensive dismantlement of old empires and of the trading and currency blocs which had grown up in the interwar period, with a resultant vast growth of world markets, including the capital market and (to a lesser but still important extent) the market for labor power; (3) the build-up in the United States of a military machine of historically unprecedented proportions which had the dual function of policing the world capitalist system and facing up to the military power of the "socialist" bloc under the hegemony (until the Sino-Soviet split) of the USSR. In discharging its global responsibilities the United States was involved in fighting two major regional wars—in Korea and Vietnam—and many lesser armed confrontations.

In this new historical environment capitalism experienced a secular boom comparable to, and in many respects exceeding, anything in its earlier history. The accumulation of capital on a world scale was released from paralyzing restrictions which had grown up during and as a result of the Great Depression of the 1930s. The United States, benefiting from its hegemonic position and with its economy continuously stimulated by enormous military budgets, acted as a dynamo standing at the center of the system as a whole and driving it inexorably onward and upward. As always happens in such a period but now more than ever, capitalists became infected with a spirit of optimism which was reinforced and provided with a seemingly scientific foundation by various brands of "new economics" purporting to prove that panics and depressions were a thing of the past and that ahead lay endless expansion punctuated only by minor setbacks and recessions. In this heady atmosphere, there seemed to be few limits to the amount of capital investment which could be profitably undertaken, the only question being whether the payoff would begin next year or a few years later. Under these conditions the exigencies of competition dictated action now, and the combined action of all the competitors created mutual markets for their products which appeared to be self-sustaining, and hence to guarantee against the old disease of overproduction.

What was really happening of course was what had happened innumerable times in the past: behind the illusion of self-sustaining growth was the process of building up excess capacity. What brought the true situation to light was the cyclical downturn of 1974, coinciding with sharply increased oil prices following the Yom Kippur war of 1973. Suddenly the economic climate changed: excess capacity showed up in industry after industry—steel, auto-
mobiles, shipbuilding, textiles, heavy chemicals, and many more; capital accumulation faltered; unemployment grew beyond anything known in the postwar period; the rate of growth of industrial production fell below the postwar average and remained there even during the ensuing cyclical upswing. A new period of stagnation, reminiscent of the 1930s, had apparently arrived.

There was, however, one highly significant exception to this pattern—the United States itself. There the cyclical upswing began early in 1975. By the end of 1976 the growth rate of industrial production was back up to the postwar average, and it has remained above the average ever since. At the same time the unemployment rate, which had reached 8.5 percent of the labor force in 1975, has steadily declined to 6 percent at the time of writing (November 1978).  

Why this exception? The answer is clear: the expansion of the U.S. economy has been fueled by a veritable explosion of public and private debt. To quote the most prestigious journal of American business and finance: “Since late 1975 the U.S. has created a new debt economy, a credit explosion so wild and so eccentric that it dwarfs even the borrowing binge of the early 1970s” (Business Week, October 16, 1978). The crux of this phenomenon has been the growth of consumer debt which both causes and reflects the leading role of consumption in the current recovery (contrary to the usual pattern of investment-led recovery). Also important has been the persistence of federal government deficits (almost $50 billion in 1978) into the fourth year of a cyclical recovery, a quite unprecedented occurrence.

But it is not only at the national level that the financial sector has played a crucial part in the recent behavior of the capitalist system. Thanks to its hegemonic role, the United States was able to supply the liquidity requirements of a rapidly expanding world capitalist economy through running a persistent deficit in its balance of payments. The dollars thus injected into the central banks and monetary systems of other countries served for more than a decade to lubricate the global mechanisms of trade and finance while conferring on the United States itself a seemingly limitless power to command the resources and control the destinies of the subordinate units in the world system. This continuing deficit in the U.S. balance of payments was also the main source of what came to be known as eurodollars, a form of transnational money not under the control of any central bank or governmental authority. Eurodollars in turn became the basis of a credit expansion which added many billions to the pool of dollars outside the United States. It is symptomatic of the uncontrolled (and unprecedented)
nature of this phenomenon that no one knows how large this pool is, though it certainly runs into hundreds of billions and some estimates have been as high as $600 billion.

Borrowers from this vast pool of money have included not only corporations and financial institutions but also governments all over the world. To quote again the Business Week report cited above:

It is that massive flow of funds from the international market that is enabling nations to keep rolling over old debt and taking on new debt nearly without limit. In just four years, the industrialized countries of the world have doubled their Euromarket debt, the less developed countries that do not export oil have tripled their Euromarket debt, and now even many of the OPEC nations themselves are borrowing on so vast a scale that they will owe nearly $10 billion by the end of this year, compared with a mere $900 million in 1974.

This enormous expansion of debt, on both the national and international levels, has of course had the effect of cushioning the impact of the sharp downturn of 1974: without it there can be little doubt that the end of the secular postwar boom would have been the beginning of a depression at least comparable to that of the early 1930s.

Stressing the role of debt expansion in the recovery from the recession of 1974-75 is necessary, but it could also be misleading if it were taken to imply that we are dealing here with a factor which has become important to the functioning of capitalism only in recent years. The truth is, as Marx himself observed many times and in many contexts, that debt (or credit which is the same thing looked at from the other side) has been crucial to capitalism since earliest times. The growth of long-distance trade is scarcely imaginable without a developed credit system; the public debt acted as a lever of primitive accumulation and has always been a keystone of every modern banking system; all the great speculative manias that have punctuated the history of capitalism, from the South Sea Bubble through the Crédit Mobilier to the great Wall Street stock market boom and crash of the 1920s, have been exercises in the use and misuse of credit; one can even argue, as Samir Amin has recently done, that the functioning of a fully developed, highly complicated capitalist production/circulation process—such as Marx sought to portray in the expanded reproduction schemes of volume 2 of Capital—would be impossible in the absence of credit.13 And yet it would be hard to deny that something quantitatively and qualitatively new has been added in the latest period, beginning with the establishment of U. S. hegemony at the end of World War II and growing steadily in importance ever since.

This is obviously not the occasion to try to elucidate a subject
which is as complex as it is important. I will only mention some of the main elements which would have to be taken into account and accorded their due weight: (1) the development, pioneered by the United States, and greatly facilitated by improved communications and information-processing technologies, of a comprehensive and flexible network of financial institutions geared to serving the needs of giant corporations and the governments which support and defend them; (2) the multinationalization of banking, following in the wake of the multinationalization of industrial and commercial capital; (3) the adoption by capitalist states, directly and through their central banks, of fiscal and monetary policies aimed at preventing the recurrence of serious depressions, such as that of the 1930s, which are perceived by all ruling bourgeoisies as a potentially mortal threat to the continued existence of capitalism. Fiscal and monetary policies of this kind began to be consciously formulated in the 1930s and became normal and accepted functions of the capitalist state after World War II. Originally conceived as anticyclical (e.g., government deficits in the down phase of the cycle would be matched by surpluses in the upswing), these policies were gradually extended to encompass antistagnationist goals, in other words, to exercise an uninterrupted expansionary pressure on overall demand for goods and services. In the United States, which has been the leader in developing these policies (just as it has been in fashioning the new financial institutions to implement them), government deficits had become perennial before the end of the 1960s; and the explosion of private debt, a major consequence of expansionary fiscal and monetary policies, likewise began long before the recession of 1974-75.

One might suppose, following the logic of Keynesian theory, that persistent expansionary fiscal and monetary policies of this kind could at least overcome the tendency to stagnation. But, paradoxical as it may seem, this has not been the case. The underlying reason is that the economies of the advanced capitalist countries, which constitute the core of the global capitalist system, are by now so dominated by giant monopolistic corporations able to control their price and output policies in the interest of maximizing profits that a very large part of the impact of expansionary fiscal and monetary policies takes the form of inflation rather than increases in real output. Furthermore, inflation, once it has reached a certain intensity in terms of magnitude and duration, tends to perpetuate itself through its effects on costs (including the cost of living which is a major determinant of wages) and on expectations.

None of this is to argue that the explosion of debt—which we can now see is but one manifestation of a very complex set of financial
and political mechanisms—has no countercyclical and/or counter-
stagnationist effects. Without it capitalism would probably long
since have sunk into a state of near collapse. But sooner or later—
and perhaps sooner rather than later—it may turn out that the
cure creates problems no less serious than the disease. Already the
chemical mixture of growing monopolization, exploding debt, and
endemic inflation has given rise to a situation of great and growing
instability and tension, reflected particularly in increasingly erratic
movements in world financial and foreign-exchange markets. Only
time will tell what the future holds in store, but even now it seems
safe to say that the crisis of world capitalism is only in its early
stages and that many shocks and surprises still await us.

Notes

1. I should add that I doubt that Sraffa would endorse this view. Steed-
man himself points out that "Sraffa's Production of Commodities by Means
of Commodities presents no criticisms of Marx": it was, in other words,
what its subtitle proclaims, "A Prelude to a Critique of Economic
Theory," economic theory of course meaning neoclassical orthodoxy.
And Joan Robinson, who was as down on value theory as Steedman
and put her own interpretation on Sraffa's work, warns against at-
tributing her view to Sraffa: "Piero," she said, "has always stuck close
to pure unadulterated Marx and regards my amendments with suspi-
[December 1977], p. 56n).

2. How solidly Marx established the framework for his analysis is shown
by the way Harry Braverman could use it without essential
modification more than a hundred years later, in Labor and Monopoly
Capital, to bring the story up to date.

3. This mechanism, not to mention its enormous implications for the
functioning of capitalism, necessarily escapes the attention of those
who, like Steedman, confine their attention to economies which are
"fully developed, capitalist commodity economies, in which all
[emphasis added] production activities are organized and controlled
by capitalists (or their agents)" (Marx After Sraffa, p. 16). This just
happens not to be true of capitalism in the real world where produc-
tion of by far the most important single commodity, labor power, is not
organized or controlled by capitalists. Much that is most distinctive
and valuable in Marx's analysis of capitalism stems from the fact that
he never for one moment lost sight of this crucial difference between
labor power and other commodities. Let me add, though this is not the
place to elaborate on the matter, that, if account is taken of this special
characteristic of labor power, it involves a total misconception of
Marx's theory to write, as Steedman does: "Wages are treated in this work, as they were by Marx, as being exogenously determined ... in a given economy in a given period" (ibid., p. 20). It could be argued, to my mind unpersuasively, that Marx treated the value of labor power as exogenously determined, but never wages.

4. Schumpeter himself might be put forward as a candidate for the honor, and his own conception of the scope of his theoretical endeavor would at least give the nomination a certain plausibility. But, as I have argued elsewhere (Modern Capitalism and Other Essays [New York: Monthly Review Press, 1972], pp. 140-41), history has not dealt kindly with Schumpeter's theory of capitalist development in the more than half a century since it was first formulated; and of course as far as Marxists are concerned the absence of any theory of class antagonism or class struggle from Schumpeter's version of histoire raisonne renders it largely irrelevant. On this, see my note "Schumpeter's Theory of Innovation" in The Present as History (New York: Monthly Review Press, 1953), pp. 274-82.

5. By "prices" Steedman means what Marx called "prices of production"; neither is concerned with market prices.

6. "Marx's Theory of Value and the "Transformation Problem,"" in Jesse Schwartz, ed., The Subtle Anatomy of Capitalism (Santa Monica, CA: Goodyear Publishing, 1977). For the record I should like to state that an arithmetical version of the iterative solution was put forward in an unpublished manuscript many years ago by my late friend Harmon Alexander, who at the time was a screen writer and only later, in his fifties, acquired a formal training in economics.

7. I did not understand this when I was writing The Theory of Capitalist Development some four decades ago. As a result the fifth and sixth sections of the chapter on the transformation problem (entitled respectively "The Significance of Price Calculation" and "Why Not Start with Price Calculation?"), while not wrong, do not reach the heart of the matter, which is the crucial role of the rate of surplus value in the entire Marxian theory of capitalism.

8. It follows of course that monopoly prices are also transformed values. Hence analyzing monopoly prices does not imply repudiating the theory of value (as some critics of Paul Baran's and my Monopoly Capital have alleged). But, as argued in Monopoly Capital and also below, shifting from value to monopoly price does have important consequences for the accumulation process, which is not true of shifting from value to price of production.


10. See pages 244-48. This brevity was at least partly because Monopoly Capital was conceived and largely written in the early stages of the postwar prosperity and, as noted, "it is still not possible to say when the whole movement will lose its momentum" (p. 245). In the event the
momentum was sustained for more than a decade after this was written.


12. It should be obvious that this performance of the U. S. economy, so much stronger than that of other advanced capitalist countries, has acted to keep the latter from faltering even more dramatically than has been the case. Without a relatively vigorous U. S. recovery, the world capitalist system would have been in considerably worse shape than it actually is.