Studies on the Left

Volume 6, No. 5 — September-October, 1966

Studies on the Left is published bi-monthly by Studies on the Left, Inc., 260 West Broadway, Room 202, New York, New York 10013. Subscription: $5.00 per volume ($6.00 foreign). Single copies $1.00. Second Class postage paid at New York, New York. Unsolicited manuscripts will not be returned unless accompanied by a stamped, self-addressed envelope. Communications of 1,500 words or less are welcome; those that exceed 1,500 words will be edited accordingly.

CONTENTS

historical trend, the Marxist can view his role as making Americans "see the relevance" of socialism, as working to bring about "socialist consciousness"—whatever that might mean at a time when proletarian class consciousness no longer exists. Although the class whose exploitation and strategic relationship to the means of production made it the agency for revolutionary change is solidly "in" the system, socialism is still taken for granted as the "right" and "necessary" goal of radical political activity. To thus assume socialism, to confuse one's personal commitment with historical necessity is, after all, to be unhistorical. It is to regress to a Platonic conception of a political vision formulated apart from present historical currents and then applied to reality. If we have read Marx, we should know better.

Now to face these facts is to admit we are at zero. It is to realize our political irrelevance. We may understand a great deal, but little of it is related to the actual prospect for a movement. Only by seeing this can we ask the questions which matter most today. Not, "How do we spread our view?" and "How do we create socialist consciousness?", but rather, "Is socialism historically relevant any more?" and "How does the concept of socialism make sense without being rooted in the producing classes?" If our theory is commited to practice, if we are, after all, revolutionary historical materialists, we must face the long-range tendencies, contradictions and possibilities of *this* society —and not one corresponding to the categories of classical Marxism.

No doubt this appears to be a flat and uninspiring conclusion. It offers no insight into how socialism might be relevant, not even the hint of a new theory for a new movement. I have argued for Marxism's irrelevance and said that we have no objective political basis for a commitment to socialism. This is a negative analysis, but being positive in this situation is to be dishonest. It is to perpetuate illusions. It is to avoid entering the uncertain process of reconstituting our identity.

Books

MONOPOLY CAPITAL

Michael Lebowitz

Baran, Paul, and Sweezy, Paul. *Monopoly Capital.* Monthly Review Press. New York. 1966. $8.95. Pp. 402.

Unlike Paul Baran's *The Political Economy of Growth,* Paul Sweezy's *The Theory of Capitalist Development,* and for that matter, Karl Marx's *Capital, Monopoly Capital* is meant to be widely read. The book is oriented neither to the economist nor to the rabbinical Marxist, but rather to a non-specialized general reader who wishes to understand monopoly capitalism. In their preface to *Monopoly Capital* Baran and Sweezy state that the book is addressed to people both in the United States and in underdeveloped countries who are "in a state of genuine ignorance" about monopoly capitalism.

In their earlier works both of the authors individually demonstrated their ability to work with and to handle abstract theoretical arguments in a manner which won respect from academics and Marxists. This joint effort, however, is oriented differently, and it is crucial to keep this in mind when examining the book. Orientation to the general reader explains the

Michael Lebowitz is an Assistant Professor of Economics at Simon Fraser University, and an associate editor of *Studies on the Left.*

substantiation of arguments by analogy rather than by deductive or mathematical reasoning; it explains the references to the behavior of Cash McCall rather than to analyses of actual corporate behavior; finally, it probably explains the spectrum of concerns and the tone of moral indignation in the book.

In many ways, *Monopoly Capital,* written over a period of ten years, bears the mark of that period. It examines advertising waste, alienation, status-seeking, orgasms, poverty and other such issues raised recently by muckrakers and critics of the quality of American society. Yet the authors intend far more than a rehash of that literature. It appears that Baran and Sweezy set out to collect all the criticisms of modern American society and to demonstrate that all were intrinsically related to the functioning of monopoly capitalism.

Thus, it follows that one can not talk about extirpating any one of these flaws or evils because they all flow logically from the system. The authors often return to this theme. When discussing the possible elimination of unnecessary advertising, they argue that advertising "cannot be meaningfully dealt with as some undesirable excrescence on the economic system which could be removed if 'we' would only make up our minds to get rid of it. . . . Advertising constitutes as much an integral part of the system as the giant corporation itself" (p. 122).

When discussing the possibility of "civil rights" for the Negro masses, they conclude that "nothing short of a complete change in the system . . . the substitution of a society in which wealth and power are shared by all . . . can transform their condition" (p. 279). So it is with the examination of the possibility of a shift from military spending to social welfare expenditures, of the possibility of "enlightened" policies in relation to social revolutions, of the possibility of an end to alienation under monopoly capitalism—in each case, the logic of the system is seen as the opponent of piece-meal reform.

One message of *Monopoly Capital* is that it is impossible to talk intelligently about specific evils of the society without a prior understanding of the workings of monopoly capitalism. For all those concerned about specific flaws Baran and Sweezy produce a framework which integrates the criticism within a theoretical whole. In a sense the authors provide a theory of the elephant to indicate to the blindmen what they were, in fact, criticizing.

Bringing order to the various disparate criticisms of American capitalism at a level which the general reader can comprehend

is an extremely difficult and absolutely necessary job. Yet there are some inherent problems in this approach. If the book was conceived as an attempt to integrate the criticisms of the society by muckrakers and the like, then any problem which escaped the attention of the muckrakers could similarly escape the attention of the integrators. So for a book conceived in the Marxist tradition, there is a glaring omission in the absence of an extended treatment of the relationship of labor to the productive process. To be sure, the authors recognize and apologize for this neglect (p. 9); nevertheless, the omission suggests that the ordering and selection of issues was left to the muckrakers. The implications of changes in the composition of labor certainly should have priority over a discussion of the limitations of IQ tests.

A more critical problem which is related to the orientation of the book is the extent to which the desired level of discussion works against the use of rigorous analysis. For the proposition which the authors wish to demonstrate, the extreme lack of flexibility of monopoly capitalism in modifying its "flaws," a careful and closely reasoned proof is required.

On the other hand, would such an approach lose the general reader? This conflict between the level of argument desired and the rigor of analysis required is one which haunts much of the book.

The problem of the level of analysis employed is particularly crucial because *Monopoly Capital* is not intended merely as a simplification of an accepted body of theory. The book has a second character. In addition to presenting material about monopoly capitalism to those in a state of ignorance, the authors also attempt to revise Marxist economic theory to take account of the changes in business organization since the time of Marx.

Just as the Preface sets the tone for the popularizing aspects of the book, so the Introduction, criticizing Marxist social scientists and describing the failure of Marxist economists to incorporate monopoly into their economic analysis, sets the tone for a revision of Marxist theory. Their approach, the authors argue, is a radical break with the competitive model envisioned by Marx. Monopoly requires a "radical change in thinking," and in place of the tendency of a falling rate of profit, Baran and Sweezy directly substitute the law of rising surplus (p. 114).[1]

1. It is clear that the book is conceived as a theoretical breakthrough. The message is announced on several pages, is extolled on the inside of the book jacket, and, finally, is graphical-

Obviously, this substitution of the law of rising surplus *is* a major break with traditional Marxist analysis. Thus, it is unfortunate that the level at which the book is pitched prevents the authors from doing justice to their innovation. Their case would have been strengthened immeasurably if they had shown that the tendency of a falling rate of profit no longer operated under conditions of monopoly, or that emphasis upon that tendency yields false predictions of the behavior of giant corporations. Baran and Sweezy do not do this. Instead they simply state that their law is more appropriate to a period of monopoly (p. 72). We are left somewhat confused as to whether the law of rising surplus is really inconsistent with the tendency of a falling rate of profit, or whether the law of rising surplus merely involves an emphasis upon the mass of surplus and *is* consistent with the latter.

In the absence of such a direct confrontation the argument of Baran and Sweezy suffers. They tell us that earlier Marxists did not sufficiently explore the implications of monopoly, that the competitive model cannot be simply patched up and amended, that monopoly involves qualitative modifications of Marxian laws, but they do not demonstrate *how* the competitive model is invalid. This failure must be attributed to the commitment of the authors to a book oriented to the general reader.

The Concept of the Surplus

The central theoretical argument of *Monopoly Capital* revolves around the concept of the economic surplus, its tendency to rise under monopoly capitalism and the increasing difficulty of finding acceptable outlets for this surplus. Baran and Sweezy identify as the central theme of the book: "the generation and absorption of the surplus under conditions of monopoly capitalism" (p. 8). Since the concept is crucial it is unfortunate that the authors are never particularly clear as to what *exactly* constitutes the surplus. The first definition of the surplus which confronts the reader is the "difference between what a society produces and the costs of producing it" (p. 9). Later, the reader is told that a first approximation of economic surplus is aggregate profits (p. 72). This is followed by a definition of the surplus, describing it as the "difference between total social output and the socially necessary costs of producing it" (p. 112). Finally, the surplus is identified as the "difference between aggregate net output and the aggregate

ly presented on the book jacket itself: "*We* put the Monopoly in *Capital!*"

real wages of productive workers" (p. 125).

At no point do the authors sufficiently explain the new definitions, nor do they attempt to reconcile them. This is particularly troubling because the last of these definitions appears without any previous discussion as to what specifically constitutes a productive worker. Do the authors propose to limit the term to individuals directly engaged in commodity production? Or does the term include a worker who provides services and, in the process, produces surplus value for his employer? Both approaches have precedents, and it should be clear that the magnitude of the surplus will differ according to the definition of productive worker. Baran and Sweezy avoid such a definition and thus avoid the necessity of defending it. The absence of precision in this definition is not necessarily crucial, as Baran argued previously. Yet it *is* crucial and a serious flaw if the lack of clarity in the definition produces ambiguity in the arguments which follow. There is such an ambiguity because it appears that more than one concept is included in the economic surplus as it is used in the book.

In *The Political Economy of Growth* Baran distinguished three variants of the concept of economic surplus, two of which are relevant to this discussion. *Actual* surplus he defined as the difference between society's actual current output and its actual current consumption. *Potential* surplus, on the other hand, was the difference between the level of output which *could* be produced (with given resources and technology) and the level of essential consumption. The latter variant, he argued, "presupposes a more or less drastic reorganization of the production and distribution of social output, and implies far-reaching changes in the structure of society" (*Political Economy of Growth*, p. 24).

Which of these two quite separate concepts (if either) is meant by Baran and Sweezy in *Monopoly Capital* when they speak of the economic surplus? Of the four definitions appearing in the book noted above, the first two approach the concept of *actual* surplus. The last two are ambiguous in their reference to "socially necessary costs" and "productive workers." It is unclear as to whether these terms involve value judgments outside of existing relationships and thus refer to a concept of potential surplus. In the *Political Economy of Growth* Baran's definition of unproductive labor is directly tied to a concept of potential surplus. Briefly, it is labor which is present under capitalism, but "which would be absent in a rationally ordered society" (p. 32). If so, the successive definitions were a means of shifting from the concept of actual surplus to that of potential surplus without warning.

In their arguments the authors appear to use both concepts of the surplus. When they include advertising and distribution expenditures, the costs of automobile model changes and all government spending as waste and surplus, they do so from the perspective of a reorganized society and thus are employing the concept of potential surplus. Similarly, when Joseph Phillips, who compiled the statistical appendix according to their arguments, states that an estimate of output foregone due to unemployment "might reasonably" be added to the surplus, it is obvious that the concept of surplus which he understands is one of potential surplus (p. 370).

On the other hand, when Baran and Sweezy talk about the growth of surplus and the failure of consumption and investment outlets to provide for its absorption, they are referring to the problem of the utilization of the *actual* surplus. When they argue that repatriated foreign profits aggravate the surplus absorption process, they do so in order to show that foreign investments are not a successful outlet for domestically generated (actual) surplus because their effect is to expand the surplus. And, when Baran and Sweezy conclude that the result of the failure of normal outlets for the surplus is a tendency toward stagnation, it is actual surplus (and the tendency to generate actual surplus) which is central to the argument—rather than a concept of surplus presupposing a reorganized society.[2]

The problem of *Monopoly Capital* is not whether one concept of the surplus is more valid than the other, for both concepts have their uses. However, their uses differ, and the choice between them depends on the intent of the author. A concept of actual surplus can be used to analyze the current operations of the economy; potential surplus, on the other hand, is a means of understanding the irrationality of the economy and of morally indicating the economy for its waste of human and material resources. The confusion in the book occurs not because the authors employ both concepts, but because they do so interchangeably.

The Generation of Surplus

In Marx's discussion of surplus value he identified the productive process as the source of surplus value. Surplus value was generated by the existence of unpaid labor time in the production of goods and services. Capitalist entrepreneurs, however, were unable to retain all of the surplus generated; part of the surplus was claimed in the form of interest, rent, merchant profits, government expenditures and expenses of circulation (which supported unproductive workers) undertaken by capitalists themselves. These latter portions of the surplus were seen as substractions from or charges against the surplus which itself had its source in production. Thus, in theory, one could derive a measure of the surplus in two equivalent ways: by examining the productive process and estimating surplus directly, or by totalling the various components of the distributed surplus.

Baran and Sweezy begin their discussion of surplus in the same manner. Where Marx began with a discussion of the operations of the individual productive unit, they turn their attention first to the price and cost structure of large corporations. Large corporations, they argue, are able to price in monopolistic fashion and at the same time engage in continuous cost-cutting efforts. The result is continuously widening profit margins and a strong and persistent tendency for surplus (presumably defined here as the difference between the value of output and the cost of producing it) to rise.

It should be emphasized that Baran and Sweezy by no means engage in a sufficient examination of corporation behavior. They spend much of their time considering the implications of *Cash McCall* and attacking a straw man in the form of "soulful corporations." They do not directly confront, on the other hand, much of the recent work on corporate behavior which casts some doubt on *continuous* maximizing behavior and a continuous search for efficiency. Similarly, in support of their conclusion of continuously widening profit margins, they offer no proof other than a footnote citing a *Business Week* discussion of AT&T (p. 71). Thus, even at the outset, their argument rests upon a weak foundation.

Accepting, however, their hy-

2. To those familiar with traditional economics the resemblance of the Baran and Sweezy discussion of the problem of surplus absorption to the Keynesian stagnationist arguments should be apparent. With a simple substitution of "savings" for surplus, a Marxian-inspired argument is transformed into a Keynesian treatment, *e.g.*, "since [savings] which cannot be absorbed will not be produced, it follows that the *normal* state of the monopoly capitalist economy is stagnation. With a given stock of capital and a given cost and price structure, the system's operating rate cannot rise above the point at which the amount of [savings] produced can find the necessary outlets" (p. 108).

pothesis of widening profit margins and thus a rising surplus, one may still be unclear as to the exact relationship they project between the two. Does, for example, the growth of surplus *depend* on widening profit margins, or may the surplus grow (simply because of a larger base) in the face of constant profit margins? In fact, constant profit margins along with the process of accumulation seem to be sufficient to produce the growth of surplus.

It is possible that what the authors *really* mean to argue when they postulate growing profit margins is that under monopoly capitalism there is a tendency for the *rate* of surplus (value) to rise, and that the operation of this tendency is responsible for the absence of a tendency for a falling rate of profits. Such an interpretation would thus account for their substitution of the law of rising surplus for the tendency of a falling rate of profits. On the other hand, if this is their contention, then they should have framed their argument in terms of the growth of the rate of surplus rather than of the mass of surplus. Also, if this is their argument (which may be quite valid), they should have indicated as much—instead of the vague statement that their law is more appropriate under monopoly capitalism.

Even with the vague formulation noted above, Baran and Sweezy thus far remain consistent with Marx's argument that surplus is created in the operations of business firms. however, the authors subsequently identify an additional source of surplus. In their argument government expenditures appear not as a subtraction from or absorption of the surplus generated in the productive process, but as an additional surplus both generated and absorbed in government.

Their argument is as follows: at a time when economies were assumed to be operating at a full employment level, government activity was judged to occur at the expense of private activity, and government expenses were considered an extraction of surplus from those who possessed it. (To the extent that wages approached a physical minimum, it followed that government expenses could not be borne by labor and that direct taxes upon labor would be "shifted" to the surplus via wage demands.) Now, however, in a stage of normal below-full-employment equilibrium, it is apparent that government expenditures can increase the level of output. Furthermore, the principle of the balanced-budget multiplier reveals that government can exert an influence upon the level of output without operating at a deficit. From the government's ability to create effective demand, Baran and Sweezy conclude that government is able to create and absorb additional surplus. Government spending and taxation, they argue, occur at the expense of no one, and thus all government expenditures may be considered an addition to total private surplus.[3]

Before examining the logic of this argument, let us examine some of its implications. One conclusion which may be drawn from the Appendix, which attempts to measure surplus according to this reasoning, is that the government's contribution to the total surplus accounted for over 56% of the increase in surplus between 1929 and 1963. Another conclusion is that in 1963 the government surplus was 51% of total surplus. Both items suggest that government is a more important generator of surplus than private industry, and therefore government operations are more important to concentrate upon than those of large corporations in this stage of capitalism.

However their reasoning in adding government expenditures to private surplus is invalid. Let us take a simple example. Assume a government purchase of military equipment of $100 million. A conservative estimate of profits on this might be $50 million. According to Baran and Sweezy we are entitled to add the $50 million in private profits to the $100 million government purchase in order to calculate total surplus. Obviously we will be engaging in "double-counting" if we add the two items. The authors have commited the error of adding an element of aggregate demand to a distributive share.

Where did Baran and Sweezy go wrong? In this case government spending allows for the growth of surplus, but it does so not by government creation of surplus, but rather by government creation of opportunities for *private* surplus generation. Thus the effect of government spending is already reflected in the level of private surplus (and should not be added in again).

Not all government expenditures, however, will exert the same effect. Whereas a government purchase of goods from industry will provide immediately for the creation of surplus in industry (and will subsequently allow for further surplus generation via income and linkage effects), government payments to employees or transfer payments will affect surplus creation only at the point when this income is spent for consumption goods. Thus the first category of gov-

---

3. (In effect, this amounts to an implicit argument that government spending adds to total output, but does not increase the costs of producing that output—according to their original definition of surplus.)

ernment spending would seem to have stronger effects upon the surplus, and it would appear important to distinguish among types of government spending according to their effects upon the creation of surplus. (Similarly it would be important to examine the effects of different expenditures upon the various departments.) If it is conceded that a distinction among types of government expenditures according to their economic impact is crucial, then the treatment of government in *Monopoly Capital* must be viewed as a step backward from Sweezy's discussion of the same in his *Theory of Capitalist Development*. Though his categories in that earlier book (p. 231) were mainly suggestive and were not pursued very far, they were far preferable to the undifferentiated treatment of government expenditures in this book.

If the authors had attempted to trace the impact of various types of government spending instead of using a simple Keynesian concept of undifferentiated government spending, it is possible that they would have had a good basis for a discussion of the reasons for support for certain types of government activity. Instead, having lumped all types together and emphasized the magnitude rather than the direction of the expenditures, they are forced to explain the factors affecting spending primarily by reference to interest groups rather than to the surplus itself.

In addition to the issues which have been raised above, there are many others which could be considered in relation to the attempt to modernize Marxist economic theory. Among these are the treatment of taxes, advertising and distribution expenditures, and imperialism.[4] At this point, however, discussion of these issues would expand this review beyond space and time limitations and would only reinforce the main point perhaps unnecessarily, that the commitment to a book for the general reader prevented the authors from approaching the problems in which they were interested at the appropriate level of analysis.

Conceivably someone could argue that the criticisms of *Monopoly Capital* raised here are primarily of a nit-picking variety and that the book is useful as an introduction to monopoly capitalism for the general reader. This would be a weak argument, for the ultimate usefulness of a book which can be easily attacked cannot be very great. On a theoretical level *Monopoly Capital* can be important if the issues it raises become the subject of critical attention and analysis; if it is condemned to dutiful praise, however, it will be a dead end.

Obviously there is a need both for a work oriented to the general reader and for rigorous analytical treatments. The latter need is the more pressing.

Thus *Monopoly Capital* is disappointing in that it represents a waste of scarce resources. Nevertheless, Baran and Sweezy can not be criticized too severely for trying to do too much in one effort when few others are doing anything.

4. For example, the authors do not really have a theory of imperialism. They sketch out a relationship between metropoli and colonies, but they do not specify exactly what the relationship between the two is, other than the characteristic of the subordination of the latter. There is no analysis as to what determines the degree of subordination, and thus Canada and South Vietnam appear simply as members of an American empire, with no indication as to why one is more subordinate than the other.