THEORIES OF MONOPOLY CAPITALISM

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Abstract. This article presents a survey of theories of monopoly capitalism. The defining characteristic of monopoly capitalism is that developed capitalist economies are seen as essentially dominated by firms which operate in oligopolistic industries. It discusses in chronological order the contributions of Hilferding, Lenin, Kalecki, Steindl, Baran and Sweezy, and Cowling to the monopoly capitalism approach. By drawing out some common features of the authors discussed we arrive at an implicit view of the nature of theories of monopoly capitalism. The macroeconomic aspects of monopoly capitalism are discussed with emphasis on the implications for the level of economic activity. A further section discusses the international aspects of the monopoly capital approach. The final section of the paper reviews criticisms of the theories of monopoly capitalism with concentration on those advanced from a Marxist perspective.

Keywords. Capitalism; monopoly; oligopoly; macroeconomics; Marxism

1. Introduction

The defining characteristic of theories of monopoly capitalism is that developed capitalist economies are seen as essentially dominated by firms who operate in oligopolistic industries, by which we mean that the significant firms are few in number but control most of the output. There is interdependence between those firms, which affects the intensity and nature of competition and rivalry between firms. Some authors would follow Rothschild (1947) in arguing that 'the background to oligopoly ... is ... a struggle. But this is, of course, not a continuous struggle. On the contrary, most oligopolists will try to keep such struggles, costly as they are, at a minimum'[1]. However, theories of monopoly capitalism have often been seen (especially by their critics) to suggest that competition and rivalry between firms are much reduced as compared with, say, nineteenth century competition capitalism.

A major part of this paper is devoted to outlining the approaches of a number of authors whose work comes under the heading of theories of monopoly capitalism, with a section on each author arranged in almost chronological order (of publication of major works). However, in order to avoid repetition, there is a section discussing the macroeconomic implications of monopoly capitalism and a further section discussing the international aspects of the monopoly capital approach. By drawing out some common features of the authors disussed, we

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arrive at an implicit view of the nature of theories of monopoly capitalism. The final section of the paper reviews criticism of the theories of monopoly capitalism.

2. Origins of theories of monopoly capitalism

Most authors whose works are considered here have been considerably influenced by the writings of Marx. It is relatively easy to state the relationship between the general idea of monopoly capitalism and the analysis of Marx. First, Marx, writing in the mid-nineteenth century, correctly foresaw that the structure of capitalism would change from the entrepreneurial competitive capitalism of that time with the processes of concentration and centralization leading to the emergence of domination of the economy by large firms. The key question which arises is whether that domination changes the nature of capitalism, and in particular, whether competition is thereby eliminated? In this context competition can be interpreted as either rivalry between firms or mobility of capital leading to a tendency towards an equalization of the rate of profit[2]. An important aspect of this is the question of the nature and source of profits. For Marx, profits arise from the surplus generated in the process of production and captured by the owners of capital. The monopoly which capital has relates to the ownership of the means of production, and the exploitation of workers would arise even under conditions of atomistic competition. The introduction of monopoly elements in the product markets means that some profits can arise from the possession of monopoly power, and hence profits can arise from the process of exchange as well as from the process of production.

Second, Marx discussed the implications of the emergence of joint-stock companies. The joint-stock form of ownership lifts many of the financial constraints on the growth of firms, and (at a minimum) allows the growth of firms in both absolute and relative size. Further, there can be a separation between ownership and management with possible conflicts of interest.

The monopoly capital literature has generally recognized that the organization of the production process ('the labour process') is an important aspect of monopoly capitalism, but has then considered it no further. However, Braverman (1974) published a book entitled *Labor and Monopoly Capitalism*, though space limitations prevent a consideration of this work. Despite its title it is not clear how much Braverman's analysis of the labour process relies on capitalism being monopolistic rather than competitive[3]. Braverman's analysis concerns the impact of 'scientific management' and of technological change on the labour process. Whilst the twentieth century is seen as the era of both monopoly capitalism and the use of 'scientific management', it is not clear whether there is any causal connection between the two.

3. Relationship with industrial economics

There has also been an influence on theories of monopoly capitalism from mainstream industrial economics with two elements being particularly notable.

The first one is the influence of the structure–conduct–performance (SCP) paradigm. The SCP paradigm is strongly imbued with the idea that profitability is an increasing function of the degree of industrial concentration. More generally, conventional economic theory sees (atomistic) competition and monopoly as polar extremes so that a decline in competition (in a structural sense) implies an increase in monopoly not only in a structural sense but also in a behavioural and performance manner.

The second element is the general notion of some separation between ownership and control. In its extreme form, this separation is expressed as divorce, and managers are seen as being in effective control, pursuing their own interests or their perceptions of the social interest. The monopoly capitalism tradition could claim to have recognized the significance of joint-stock companies and the separation between ownership and management before it was generally recognized in the mainstream literature. However, the monopoly capital theories diverge from the managerial theories literature in two major respects. First, the objective of the firm and its controllers remains profits, even if the objective of profit maximization cannot be precisely achieved. Further, some of the profits may not reach the shareholders, for they may be used to pursue the interests of the managers and some privileged 'insider' shareholders.

Second, the sharp distinction between managers and shareholders drawn by Berle and Means (1932) and reflected in well-known theories such as Baumol (1959) and Marris (1964) is rejected. The managers and shareholders (particularly major shareholders) are likely to have similar backgrounds and interests (cf. Baran and Sweezy, discussed in Section 9), so that there is not usually a fundamental conflict of interests. However, there may be differences of interest and control amongst the shareholders. This can be expressed by dividing shareholders into 'insiders' and 'outsiders' (cf. Aaronovitch and Sawyer (1975) pp. 159–64). The 'outsiders' are essentially rentiers or 'money capital' who have directly or indirectly supplied finance to the firm but who do not have any involvement in the management of the company. The 'insiders' are shareholders who are involved in the effective control of the company. These 'insiders' may be involved in the management of the company, and they may have become shareholders because they are managers or they may be managers because of their shareholding and family involvement in the company (cf. Nyman and Silberston, 1978). But the 'insiders' may be financial institutions and banks with substantial shareholdings which allow them to intervene in at least the long-term strategic decisions of the company.

The study of industrial economics has an uneasy relationship with neo-classical economics. Much of industrial economics seeks to reflect aspects of industrial reality as, for example, by taking into account the evolution of the corporate form of firm organization. Further, consumer tastes may be changed by advertising, and consumer preference theory becomes virtually inoperable when products are continually changing under the impact of technical change. Finally (though rarely acknowledged), recognition of the importance of monopoly and oligopoly (as in the SCP paradigm) replaces the marginal productivity theory with the view

that profitability and real wages depend on market power of firms. These features form a 'bridge' with theories of monopoly capitalism, and allow monopoly capital theorists to draw upon much of the empirical work undertaken within industrial economics to support their theories. But is must be emphasized that theories of monopoly capitalism are broader in intention than most of industrial economics, as will be seen below.

4. Lenin

We begin our consideration of individual authors with a slight departure from chronological order by a discussion of Lenin (1916, 1936), which serves as a strong link with the work of Marx, and raises many of the issues which come up in subsequent debates. Our discussion of Lenin is limited to those elements particularly relevant to theories of monopoly capitalism.

Lenin argued that competition had evolved into monopoly. Whilst there were differences between countries (depending on, for example, whether a country adopted policies of trade protection or free trade), nevertheless the rise of monopolies resulting from the conception of production was a 'general and fundamental law of the present stage of development of capitalism' (this and other quotes in this section taken from Lenin, 1936). Lenin drew his empirical material on the extent of monopoly from the most developed capitalist countries, i.e. USA, UK, France and Germany. The change in industrial structure from competition to monopoly was accompanied by a change in the relationship between industry and finance, with the domination of capital in general making way for the domination of finance capital, the change having taken place around the beginning of the twentieth century. Lenin saw monopoly as differing significantly from free competition, with competition being transformed into monopoly.

The monopoly capitalism/imperialism stage of capitalism had, according to Lenin, five essential features. These were, first, that concentration had proceeded so far that the monopolies which had thereby been created were playing a 'decisive role in economic life'; second, 'the merging of bank capital with industrial capital, and the creation, on the basis of "finance capital", of a financial oligarchy.' Third, the export of capital had become extremely important, and, fourth, there was the formation of international monopolies which shared the world out amongst themselves. Fifth, the major capitalist countries had completed the territorial division of the world.

Lenin discussed the method used by monopolists to support their position, including control over raw materials, control over distributive outlets and selling at below costs to drive out firms. The growth of monopoly is closely linked to the employment of 'sundry strategems' to 'prevent competition in... a profitable industry'. This could expressed in the language of industrial economics by saying that oligopolists seek to safeguard their profits by erecting barriers to entry.

Lenin raised a recurring theme in the monopoly capitalism literature, namely the idea that monopoly capitalism generates stagnation. He indicated that

monopolies may deliberately retard technical change, but he did not elaborate on the point, to which we will return below.

Lenin (and also Hilferding) saw the important changes arising from the growth of the power of banks and financial institutions. There is the concentration of ownership amongst banks and financial institutions rather than personal ownership. Further, there is separation of ownership from management, with the question of who exercises effective control.

The development of financial markets and the use of the corporate structure lifts much of the financial constraint on the growth of firms. Thus, 'finance capital, concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever-increasing profits from the floating of companies, issue of stock, state loans, etc., tightens the grip of the financial oligarchies and levies tribute upon the whole of society for the benefit of the monopolies.'

Lenin saw a separation between the ownership and the 'application of capital to production', with rentiers living on income obtained from money capital separated from entrepreneurs and those involved in the management of industrial capital. This involved not only separation but 'the supremacy of finance capital over all other forms of capital [and] the rule of the *rentier* and of the financial oligarchy...'

5. Hilferding

Hilferding's *Finance Capital* (Hilferding, 1910, 1981) has sometimes been described as the fourth volume of Marx's *Capital*, being a deliberate attempt to extend the analysis of Marx and to incorporate developments since the time of Marx. We focus here on parts two and three which are entitled 'the mobilization of capital' and 'finance capital and the restriction of free competition', and those titles are suggestive of the basic themes.

The emergence and growth of the joint-stock company (corporation) in place of one-person firms and partnerships were seen by Hilferding as crucial to the understanding of twentieth century capitalism. We focus on three important elements of the growth of joint-stock companies arising from Hilferding's analysis.

First, there is 'the liberation of the industrial capitalist from his function as industrial entrepreneur.' In other words, it is no longer the case that ownership and management have to be undertaken by the same group of people. The share owners become more like rentiers than entrepreneurs, with the return on shares more akin to interest payments to rentiers, and the rate of return on shares moves towards the general rate of interest.

Second, the control of a corporation is no longer exercised by all the owners, but rather by a relatively small number of owners. 'In practice, the amount of capital necessary to ensure control of a corporation is [amounts] to a third or a quarter, or even less. Whoever controls the corporation also has control over the outside capital as if it were his own'. (This and other quotes in this section are from Hilferding, 1981). In effect, a contrast is drawn between 'insiders' and

'outsiders' with the 'insiders' retaining control with a relatively small proportion of shares, and they also gain from being able to borrow at close to the prevailing rate of interest (through bonds or share issue) but earn a higher rate of profit.

Third, the restraints from a limited amount of finance for expansion are largely lifted by the use of the joint-stock form of organization and other developments in the financial system. Thus, the scale of individual firms' activities can be much larger, aiding the process of concentration and leading to monopoly.

The mobility of capital in the pursuit of profits is seen with the classical and Marxian approaches as leading towards the equalization of the rate of profit. Hilferding argued that technological developments had reduced the mobility of capital, particularly the ability of capital to move out of areas of low profitability. The increased importance of fixed capital (machinery, buildings, etc.) absolutely and relative to circulating capital (stocks of partially complete production, etc.), reduces the ability to move capital from one activity to another. Further, the increasing scale of production 'requires an ever greater absolute sum of capital in order to expand production itself on a corresponding scale or to establish new enterprises. The sums which are gradually accumulated from surplus values are far from adequate to be transformed into independent capitals. It is conceivable, therefore, that the influx of new capital is insufficient or arrives too late.'

There are two related effects of these changes. First, the growth of scale of firms means that structural oligopoly/monopoly has emerged. Second, there are increasing restrictions on the mobility of capital. Both of these would point in the direction of a move away from competition in the Marxian sense.

Hilferding argued that the nature of competition had also changed, from a struggle between the strong and the weak (in which the weak were relatively quickly destroyed) to a struggle between equals. Such a struggle could be a long drawn-out process imposing substantial costs on the firms involved, with the rates of profit being held down during this struggle. This change may also lead to a limitation on the speed of increase of concentration.

A fourth and important change arises from the growth of a small number of banks particularly as owners of industrial firms, which means that one bank can have an ownership interest in a wide range of firms including firms potentially in competition with one another. Thus the bank would have an interest in reducing competition between the firms in which it has an ownership stake in order to increase profits.

Two elements of the analyses of Lenin and Hilferding are largely omitted from later analyses and these could be seen as reflecting the particular circumstance of the pre-First World War period and/or of German industry. The first is that Hilferding and Lenin saw the growing dominance of financial capital. Many later authors have focused entirely on industrial capital, and by implication see financial capital as unimportant or passive in relation to industrial capital. This reflects the view that large industrial corporations have become self-financing (out of retained profits), reducing their dependence on financial institutions.[4]

The second element is the nature of international competition. Within each of the developed capitalist countries, national firms would have some protection

from 'foreign' firms, through transport costs, tariffs etc. There were agreements between firms of different nationalities, with the formation of international cartels. The competition between firms of different nationalities took the form of trying to secure the supply of crucial inputs and of gaining access to markets in third countries. This involved geographic expansion and the championing of firms by national governments. In effect, this analysis strongly suggests the struggle between some developed countries for the control of other countries, leading to an explanation of the causes of the First World War.

6. Kalecki

Much of the recent literature on theories of monopoly capitalism has been strongly influenced by the work of Kalecki. The significance of the contribution of Kalecki in terms of theories of monopoly capitalism can be seen as sixfold[5].

First, Kalecki adopted the general view that (in the context initially of the 'thirties) economies were oligopolistic and monopolistic rather than competitive. It is of some significance that he talked of the degree of monopoly rather than the degree of competition for in one sense they could be used interchangeably (negatively related of course). But such usage does focus on monopoly rather than on competition, and also suggests a counterpoising of competition and monopoly. Kalecki saw that capitalist economies should be analysed in terms of monopoly and oligopoly and regarded the assumption of perfect competition as 'most unrealistic not only for the present phase of capitalism but even for the so called competitive capitalist economy of past centuries: surely this competition was always in general very imperfect' (Kalecki, 1971a).

Second, Kalecki introduced the idea that the mark-up of price over direct costs would depend on the market power of the firms involved, summarized by the term 'degree of monopoly'. The degree of monopoly would depend on the degree of concentration, the extent of tacit collusion between firms, and on advertising and sales promotion, which are rather similar to those variables stressed in much of the SCP paradigm. In some later work (Kalecki, 1971b) he introduced discussion of the effects of trade union activity on the degree of monopoly, and we examine this argument in the next section.

Price is set by $p = (1 + m) \cdot adc$, where adc is average direct (manual labour and material) costs and m is the mark-up which is a function of the degree of market power, which depends on the factors listed above. As a first approximation, Kalecki assumed that average direct costs were constant with respect to output, which makes some algebraic manipulation easier but is not otherwise a fundamental assumption of the analysis[6].

Third, Kalecki developed from his pricing equation the consequences of the degree of monopoly for the distribution of income as between wages and gross profits. The gross profit (P) share in value added (Y) can be written as:

$$P/Y = m \cdot (1 + j)/[(1 + m)(1 + j) - j] \quad (1)$$

where j is the ratio of material input costs to wage costs. Gross profits have to

be divided into reported profits, interest payments and managerial emoluments. This illustrates the relevance of pricing decisions for the distribution of income. But also (and here more importantly) it is suggestive of the idea that the extent of monopoly and oligopoly governs the share of profits and further that the existence of monopoly is required for the existence of profits.

Another important implication of the pricing equation is for the setting of real wages. Average direct costs (*adc*) can be expanded as $w \cdot L/Q + f \cdot M/Q$ where w is money wage, f price of material inputs, L labour input, M material input and Q output. At the level of the firm, the real product wage is then given by:

$$w/p = [1/(1+m)] \cdot (Q/L) - (f/p) \cdot (M/L) \qquad (2)$$

and hence the real product wage depends on mark-up m, productivity (Q/L) and material input usage and price. Thus, the real product wage (of a firm) depends on the market-power of the firm with no references to the labour market and the supply of labour.

Fourth, Kalecki expected that concentration, and hence the degree of monopoly, would generally rise over time, though not at a uniform rate, leading to the view that the share of profits in national income would tend to rise over time.

Fifth, Kalecki was fully aware of the macroeconomic implications for the levels of output and employment of the degree of monopoly. We gather together in the next section the views on the macroeconomic implications of monopoly capitalism.

Sixth, Kalecki indicated (see, for example Kalecki, 1954) that there would be a slow-down in the growth of capitalist economies in the later stages of development, arising from a decline in the intensity of innovation. This arose in part from the declining importance of discoveries of new sources of raw materials, of new land to be developed, and so on, and from the rise of 'assembly industries' which would not generate much technical advance. The view that the increasing monopolistic character of capitalism would hamper the application of new invention since firms would be under less competitive pressure to introduce new products is particularly important and is further explored below.

The major contribution of Kalecki to economic analysis was the discovery of the principle of aggregate demand and the importance of investment demand placed in the context of oligopolistic structure, with the distribution of income seen as important. In this section, we have focused on the oligopolistic side, and in the next section provide a general discussion of the macroeconomic implications of monopoly capitalism.

7. The macroeconomic implications of monopoly capitalism

There are two persistent and related themes running through the monopoly capitalism literature which we explore in this section. These themes are excess capacity (low rates of capacity utilization) and stagnation.

One of the criticisms made of theories of monopoly capitalism is that they neglect the labour process and labour market. This is reflected here in that the

theories have explanations for excess capacity but do not directly provide explanations of unemployment of labour. It is, of course, the case that theories of monopoly capitalism do not anticipate that full employment of labour is usual, and would generally view unemployment as part of the mechanisms by which the labour force is controlled. In macroeconomic terms, decisions on price and on investment are crucial, and serve to determine the level of economic activity. But those decisions are taken by firms in pursuit of profits, and there is no reason to think that those decisions will generate either full employment or full capacity utilization.

The theory of price determination used here, in line with most conventional theories, views the firm as taking the money wage as given when deciding upon price (even though the firm may be involved in negotiating or setting the money wage). Then the price decision sets the firm's real product wage, and then by aggregation across firms the average real wage for the economy can be derived. There is no reason to think that the real wage and employment decided upon by firms yields full employment. It is a feature of many monopoly capitalist theories as well as post-Keynesian theories that the real wage is a product market, rather than a labour market, phenomenon[7]. This stands in contrast to the conventional macroeconomics view expressed in the Phillips' curve, where the real wage is seen as determined within the labour market.

The question then arises as to whether trade unions can have any influence on real wage determination. In the main, monopoly capitalism theorists have not directly confronted the question, and by implication see trade unions as unable to influence real wages. An exception to this is Kalecki (1971b), which argued that trade union pressure on money wages could have an impact on real wages. Trade unions may push harder in industries where profit margins are particularly high. Further, the effect of a money wage push by unions depends on the firms' ability to pass on the wage increase as a price increase. A single firm faced by a wage increase may find it difficult to pass on if its rivals are not faced with a wage increase. Whilst a wage increase at the industry level may be relatively easily passed on, there are limits to wage and price rises in a single industry for eventually that industry would face falling demand in the face of rising prices. Hence, the structure of wage determination (e.g. decentralized or centralized) may be relevant for the determination of money wages and their impact on prices and real wages. Cowling and Molho (1982), and Henley (1986, 1987) provide further exploration of these ideas.

This line of argument leads to a modification of the remarks made just above. Unemployment is likely to influence trade union bargaining power, thereby affecting money wage increases. The degree of monopoly is seen as modified by activities in the labour market, and hence the real wage is influenced by the labour market.

The rate of growth of capital is seen as the driving force behind the overall rate of growth. There is no reason why the rate of growth of capital should be in line with that needed to maintain the full employment of labour. It is generally assumed in the neo-classical growth literature that the growth rate of the labour

force is equal to the growth rate of population. But as Marglin (1984) has argued, the growth rate of employment within the capitalist sectors of the economy can diverge from the growth rate of the population for substantial periods of time. This can arise from changes in the rate of unemployment, changes in the labour force participation rate and the movement of labour into or out of the capitalist sector[8].

Excess capacity may be planned or unplanned (by the individual firms involved) and may be a consequence of individual decision-making or a result of macroeconomic forces. We first look at the explanation of planned excess capacity which arises either as the direct effect of a firm's decisions or the interaction within an industry of the firm's decisions.

It is, of course, the case that standard economic theory predicts that monopoly will produce at a lower output and charge a higher price as compared with a corresponding atomistic competitive industry. The degree to which lower output results in lower capacity utilization will depend on the capacity installed by the monopolist. However, it is in effect indivisibilities of optimal plant size which generates excess capacity rather than monopoly *per se*[9]. Chamberlin's theory of monopolistic competition produces a long-run equilibrium solution under which the tangency solution indicates excess capacity (Chamberlin, 1933). Under these circumstances, firms would generally find it profitable to merge and reduce excess capacity (since lower average costs would result thereby).

These conclusions find some reflection in the monopoly capital literature, but they do not provide an explanation for persistent excess capacity. From the monopoly capital literature, we refer to three explanations of persistent ('equilibrium') excess capacity. The first is due to Steindl (1952). He suggests that 'the first reason [for equilibrium excess capacity] suggests itself very easily by the existence of fluctuations in demand. The producer wants to be in on the boom first, and not to leave the sales to new competitors who will press on his market when the good time is over.... But there is a deeper and more general reason. Any producer who sets up a new plant knows that for an initial period... he will be able to get only a restricted market...' In effect, when there are economies of scale, a new plant will add significantly to the industry's capacity. After a time, demand will grow sufficiently to absorb that new capacity. The excess capacity is planned but arises from the interaction of economies of scale and growth.

The second explanation arises from Spence (1977) (and used by Cowling, 1982) where excess capacity is held by existing firms to help secure their position against potential entrants. The existing firms may find it worthwhile to hold excess capacity to convince the potential entrant that they would expand output and lower prices if entry into the industry did occur.

The third explanation is derived from a consideration of macroeconomic forces. To show this, it is convenient to use a model presented by Steindl (1979), which provides an analysis of both excess capacity and stagnation (slow growth). Kalecki (1968) presents a much more complex model which also involves cycles, but comes to the same type of conclusions. The model is of a closed economy,

with the main focus on the private sector. The omission of foreign sector could be justified on three counts. First, the foreign sector would introduce extra complications without providing further insights. Second, in a flexible exchange rate world, the exchange rate may eventually adjust to balance imports and exports. Hence imports and exports would be equal in the injections-equal-leakages equilibrium condition. Third, at the level of the world economy there is no 'foreign' sector. Hence this model could be seen as applying at the world level rather than the national level.

Savings are made up of savings out of wages (with propensity to save s_2) and by savings out of profits (with a propensity of s_1) with s_1 significantly larger than s_2. The share of labour in output is written as l, capacity utilization as u and the share of profits as $P(u)$ equal to $[(1-l)\cdot u - v\cdot d]\cdot(1-t)$ where d is the rate of depreciation, v the capital–input ratio and t is tax rate on (net) profits. Then savings relative to capacity output are $s_1\cdot P(u) + s_2\cdot(l\cdot u - v\cdot d)\cdot(1-t_w)$, where t_w is the tax rate on wages.

Investment expenditure relative to capacity output is taken to depend on the level of capacity utilization, the level of internal finance (i.e. savings out of profits) and technological opportunities, which we write as $g(u, s_1P(u), T)$, where u is the level of capacity utilization, $P(u)$ the ratio of profits to full capacity output, and T is some measure of technological opportunities.

This formulation differs from that of Steindl (1979) in that the lags between capacity utilization and profitability and investment have been removed. The influence of retained earnings on investment expenditure should be noted, reflecting the view that firms have preference for internal finance over external finance. An alternative formulation would be the influence of the rate of profit on investment expenditure. In algebraic terms, the substitution of the rate of profit for retained profits would have no impact on the results obtained and discussed below.

Let us finally add the government sector with a balanced budget, so that the equality between private savings and investment is maintained, but the level of savings and investment will be influenced by the rate of taxation.

The condition for equality between investment and savings (both expressed relative to capacity output) is

$$g(u, s_1P(u), T) = s_1\cdot P(u) + s_2\cdot(l\cdot u - v\cdot d)\cdot(1-t_w). \tag{3}$$

This formulation is a little more general than is usual in the monopoly capital literature with explicit allowance for the effect of profitability on investment. Our formulation allows for the stimulating effect of a rise in labour's share on consumer demand (and hence depressing effect on savings), but in addition there are indirect effects via capacity utilization and profitability on investment. It is assumed that at low levels of labour's share, a rise in that share would stimulate demand but at high levels a further rise would depress demand.

From equation (3) the impact of changes in the exogeneous variables on capacity utilization can be predicted. An increase in technological opportunities

(rise in T) will lead to a rise in capacity utilization provided that

$$g_1 + s_1 \cdot (g_2 - 1) \cdot (1 - l) \cdot (1 - t) - s_2 \cdot l \cdot (1 - t_w)$$

is negative (where g_i denotes first derivative of g with respect to the ith argument). This condition is equivalent to the increase in savings being more than investment in response to an increase in capacity utilization; this condition is assumed to prevail. It then follows that the effects of a decrease in the degree of monopoly (a rise in l), an increase in profits tax and a decrease in s_1 are all predicted to lead to an increase in capacity utilization. A decrease in s_1 may reflect an increase in capitalists' propensity to consume, but could arise from a diversion of surplus away from reported profits into expenditures such as advertising and managerial expenses.

A rise in the degree of monopoly by lowering labour's share may reduce capacity utilization and the rate of growth of the capital stock and of output. Indeed, if investment expenditure falls thereby, an attempt to increase profits will result in a decline in total profits (even if profits share is higher than before). The alternative way of expressing this result is to say that lower real wages may lead to lower capacity utilization and growth[10].

The investment equation above included the nebulous term T to cover technological opportunities. A decrease in T is predicted to reduce investment, growth and capacity utilization. Two lines of thought on variations in T can be detected, of which the second is specific to theories of monopoly capitalism. The first line of thought is that there are long waves in technological opportunities. For example, the invention of the steam engine promotes considerable investment in railways and so on.

The second line of thought is that oligopoly is less conducive to investment and to technical change than atomistic competition. Steindl (1952) argues that 'the growth of monopoly in the economy may have an adverse influence on investment'. There are two arguments to support this. First, the degree of monopoly rises and thereby capacity utilization falls, having an adverse effect on investment. Second, 'if competitive conditions in an industry are superseded by "monopolistic" conditions, which means few large units, and impracticability of gaining markets at the expense of competitors, then the *fear* of excess capacity in such an industry becomes greater. ... This should lead, again, to a fall in the rate of growth.' Further, he argues on the basis of the model which he presents that 'it is thus possible to demonstrate that the development of monopoly may bring about a decline in the rate of growth of capital'.

Cowling, drawing on Mandel (1968), suggests that 'in attempting to secure their monopoly positions, firms will invest in, say, R & D but, having done so, they will simply put the inventions on the shelf', and this can be optimal behaviour for the firms involved. 'All this suggests that protective R & D is probably a widespread and significant component of planned excess capacity aimed at maintaining and enhancing positions of monopoly power.' But of particular importance here is his view that 'under competitive capitalism it may be reasonable to

assume the Marxian imperative to accumulate in order to survive, but in a world of monopoly or oligopoly this condition must be severely qualified.'

Thus rising monopolization can have a dual impact on excess capacity and growth, both from a reduced propensity to invest and from the shift towards profits which it is anticipated would raise the average savings propensity[11].

In the monopoly capital literature there is a general presumption that the value of u (capacity utilization) derived from equation (3) above would involve excess capacity. One line of argument for this comes from Kalecki (1945), where it is in effect argued that at full capacity there would be an excess of private saving over private investment. This can be indicated roughly as follows. Savings would be $s \cdot Y$ and with investment geared to growth of capital stock, and with a constant capital–output ratio, investment would be $dK = v \cdot dY = v \cdot (dY/Y) \cdot Y = v \cdot g \cdot Y$ (where g is the growth rate of output). The growth of output (with a constant capital–output ratio) would be equal to the growth of employment plus the rate of technical progress. Kalecki argued, in effect, that the values of g, s and v were such that s was greater than $g \cdot v$. Thus there was a deflationary gap by which *ex ante* savings would exceed *ex ante* investment, thereby creating excess capacity and unemployment.

McDonald (1985) combines an investment function based on a fixed pay-off period with a savings function based on profits. He finds that with a firm undertaking investment, provided that its costs are recovered within a fixed pay-off period, the ratio of investment to output is negatively related to the mark-up of price over average costs. Thus a higher profit margin would depress investment but increase savings. McDonald concludes that there are plausible values of the profit margin for which there would be no solution obtained from the equation of investment-equals-savings. Further, 'the results are such that one would not be surprised if for some economies at certain times an empirically based investigation found that market power was a cause of aggregate demand deficiency' (italicized in the original).

The ideas that the adjustment of savings and investment comes through the level of output and that at full employment savings and investment would not necessarily be equal are, of course, familiar Keynesian themes. The monopoly capital approach (in this macroeconomic context) can be seen to differ from the standard Keynesian approach in the following ways:

(i) the industrial structure is seen as oligopolistic rather than competitive;
(ii) the differential savings propensities out of wages and out of profits are seen as important rather than being ignored;
(iii) investment expenditure is related to capacity utilization, profitability and technological opportunities rather than to the rate of interest.

8. Steindl

The work of Steindl which is central for our purposes is his *Maturity and Stagnation in American Capitalism* (Steindl, 1952, 1976). Steindl's work blends some

aspects of Keynesian economics (the emphasis on the savings–investment relationship) with consideration of the impact of growth of oligopoly and of changing corporate structure. The title of Steindl's book indicates his conclusion, namely that the growth of oligopoly leads to stagnation. His approach stresses the importance of capacity utilization and internal finance (retained earnings) for investment decisions (which is reflected in Steindl (1979) which was discussed above). Capacity utilization is then seen as the variable which adjusts to equate savings and investment, and that degree of capacity utilization is influenced by the extent of internal finance (relative to external finance).

Our summary of Steindl (1952) focuses on two elements, namely the nature of competition and monopoly and the implications for capacity utilization and growth. There are other important aspects, particularly the empirical investigations of profit margins and on the accumulation of capital, which are not discussed. At the economy level, the degree of capacity utilization is seen as set (on average) by the requirement that savings and investment are equal, which was reflected in the previous section.

Steindl distinguishes between industries where there are many small producers and those where entry is difficult. There will generally be differences in unit costs between firms, and Steindl focuses on the cost advantages of large firms over small firms. In industries where entry is relatively easy, the marginal small firm will tend to break even, leaving the larger firms with lower costs and higher profits. In those industries where entry is difficult, then 'it should be recognized that the possibility of entry of new entrepreneurs with funds formed in other lines does set a limit to profits of even big producers, but it leaves most probably a considerable range of indeterminacy'. Further, in such industries even the marginal producers are likely to be able to do better than just break even. The forces leading towards equalization of rates of profit are seen by Steindl as rather weak. Within an industry, cost differentials preserve differential profit rates. The withdrawal of capacity from a low profit industry is a lengthy process when fixed capital is involved. Barriers to entry limit the movement of capital into high profit areas.

Profit margins are influenced by the conditions of entry into the industry and cost differentials within the industry. There is a strong link between profitability and growth, but the precise nature of that link depends on the type of industry involved. In an industry where entry is easy, 'the conclusion which emerges... is the following: the rate of internal accumulation is limited by the rate of expansion of the industry and the rate of capital intensification. The net profit margin at given levels of capacity utilization (given the propensity to save) is therefore also limited by these factors'. This can be seen from the following. The finance available to a firm is based on its retained profits ($s \cdot P$ with s savings propensity out of profits P) and its willingness to borrow. With a gearing ratio of h, the finance available is $s \cdot P/h$. The investment undertaken by the firm is DK (change in net capital stock). When firms only invest within their own industry, $s \cdot P/K = h \cdot DK/K$. When capital intensity is no longer changing, $DK/K = DY/Y$ which we signify by x. Then $P/K = h \cdot x/s$, and also $P/Y = (1/sv) \cdot h \cdot x$. These

equations suggest that profitability (whether P/K or P/Y) are determined by growth rate, savings propensity, gearing ratio and capital intensity through the process of competition.

In industries where entry is difficult, the forces of competition are muted. Then 'the internal accumulation [retained profits] therefore tends to exceed the amount required for expansion of capital equipment in these industries. The flow of the "surplus" funds into other industries is impeded by the additional effort required for entering new lines. ... The automatic limitation of the rate of internal accumulation, and thus of the profit margins at given levels of utilization of capacity by the rate of investment is seriously disturbed.'

Steindl emphasizes the gearing ratio and the corresponding distinction between internal and external finance, which arises in a specific phase of capitalism. In an era of entrepreneurial capitalism where the banking and financial systems are underdeveloped, most finance for investment was provided by internal savings. Competition was seen by Marx in that era as imposing an imperative to accumulate so that firms save and hence invest as much as they can in light of their profits. Hilferding and Lenin emphasized the external finance provided by banks and other financial institutions and the power which financial institutions had gained over industrial corporations. The approach of Steindl indicates a mix of internal and external finance, but without implications that the external finance places financial institutions in a dominant position.

The balance between internal and external finance is relevant for at least two reasons. First, firms may be reluctant to use external finance as it may involve greater costs than internal finance, greater risks, and the possibility of loss of control of the firm to 'outsiders'. Second, a rise in internal finance may help encourage investment whereas a rise in external finance (especially when associated with a rise in savings propensity) may help depress aggregate demand and thereby discourage investment.

The general conclusion which Steindl reaches is 'that the maldistribution of profits and internal savings consequent on the growth of oligopoly will have a depressing effect on the rate of real capital accumulation.' There are two further aspects to be explored. The first is the question of whether there are adjustments which would occur to maintain high levels of capacity utilization and growth. Steindl's view is that 'the changes introduced into the economic system by the spread of oligopoly thus make it liable to react... to a *primary* decline of capital accumulation by a further retardation of growth.' For example, an initial decline in capacity utilization would further reduce investment leading to further declines in capacity utilization. Further, there would be little tendency for firms to adjust profit margins downwards (which would have the effect of raising real wages and stimulating aggregate demand).

The second aspect is the impact of the rise of oligopoly on the rate of investment. As indicated above, Steindl saw that rise as tending to reduce the propensity to invest, with consequent effects on output and growth. However, he denied that innovations were an influence on the rate of investment, which later he admitted (Steindl, 1976, p. xii) to be an error.

9. Baran and Sweezy

The publication of *Monopoly Capital* (Baran and Sweezy, 1966) represented a revival of interest in theories of monopoly capital after 15 years of neglect and also forged a link between Marxian and conventional approaches. While the main concern of this section is with Baran and Sweezy (1966), we draw on other writings by those authors, notably Baran (1957) and Sweezy (1942, 1972).

They view their work as within the Marxian tradition, whilst recognizing that Marx 'like the classical economists before him, ..., treated monopolies not as essential elements of capitalism but rather as remnants of the feudal and mercantilist past which had to be abstracted from in order to attain the clearest possible view of the basic structure and tendencies of capitalism.' These monopolies which were remnants of the past were generally protected by statute. In that way, those monopolies correspond closely to the orthodox model of monopoly, i.e. one firm with no threat from new entry into the industry, since entry was not legally permitted. In contrast, the monopoly element of monopoly capital is not a single firm with legal protection but rather dominance of most industries by a few firms (i.e. the structure often described as oligopoly). Further, the evolution of competitive capitalism into monopoly capitalism involves significant changes in the behaviour of the capitalist economy, and hence necessitates corresponding changes to the analysis of capitalism.

Although Sweezy (1942) shows a strong influence of Hilferding (1910), he rejects the Hilferding thesis of the dominance of financial capital over industrial capital, and the analysis of Baran and Sweezy views industrial capital as largely self-financing and in that respect independent of finance capital.

The central theme of Baran and Sweezy (1966) is described by them as 'the generation and absorption of the surplus under conditions of monopoly capitalism', where under monopoly capitalism the typical firm is 'a large-scale enterprise producing a significant share of the output of an industry, or several industries, and able to control its prices, the volume of its production, and the types and amounts of investments.' The economic surplus is defined as 'the difference between what a society produces and the costs of producing it.' (Baran and Sweezy, 1966)[12]. Our discussion focuses on that central theme, and ignores other aspects of Baran and Sweezy (1966).

In the view of Baran and Sweezy, the modern large corporation is controlled by managers but still operated in the interests of the owners. We can summarize the corporate paradigm put forward by Baran and Sweezy in terms of three features. First, large corporations are controlled by the board of directors and the chief executive officer. This does not mean the pursuit of managerial interests at the expense of the owner's interests. There is considerable coincidence of interest between board of directors and shareholders, and outside interests (such as customers, suppliers and bankers) are often represented on the board of directors for interests to be harmonized. Second, the management of a corporation is self-perpetuating, with one generation of managers appointing the next generation. Third, each corporation seeks and usually achieves financial independence

through the provision of internal finance for its investment programme. Thus, the large corporation is able to operate independently of the financial sector, though we can note that banks may be represented on the board of directors.

Large corporations are striving for profits, and could be described as profit-maximizers. Baran and Sweezy portray the typical oligopoly as operating along price leadership lines towards a monopoly (joint profit maximization) outcome. There is generally a lack of price competition, since such competition is seen as likely to set off a downward price spiral which would damage the profits of all. There will be occasions on which if a company 'believes it can permanently benefit from aggressive price tactics [it] will not hesitate to use them. Such a situation is particularly likely to arise in a new industry where all firms are jockeying for position and no resonably stable pattern of market sharing has yet taken shape.'

A distinctive feature of Baran and Sweezy's approach is 'the tendency of surplus to rise'. The surplus at the firm level is the excess of revenue over costs and includes profits and unnecessary costs (which would include advertising and sales promotion expenditure). The basis of their argument is as follows. 'The whole motivation of cost reduction is to increase profits, and the monopolistic structure of markets enables the corporations to appropriate the lion's share of the fruits of increasing productivity directly in the form of higher profits. This means that under monopoly capitalism, declining costs imply continuously widening profit margins. And continuously widening profit margins in turn imply aggregate profits which rise not only absolutely but as a share of national product. If we provisionally equate aggregate profits with society's economic surplus, we can formulate as a law of monopoly capitalism that the surplus tends to rise both absolutely and relatively as the system develops.' As Cowling (1982) observes, this relies on an argument rather like that of the kinked demand theory (Sweezy, 1939) in that firms are seen as loath to lower prices even in response to declining costs.

The rise in profit margins is seen by Baran and Sweezy to arise as a side-effect of falling (real) costs, whereas Kalecki and others have seen it as a result of rising concentration. The 'tendency of the surplus to rise' can also be compared with the Marxian propositions on the rate of exploitation and the rate of profit. Leaving on one side for the moment the question of which type of prices to use (market, prices of production or labour values), there is a parallel in that surplus relative to output rises, but this arises from product market behaviour in the case of Baran and Sweezy (and in monopoly capital theory more generally) and from capitalists' control over the means of production in the case of Marx. However, for Marx capital intensity of production increases, and the net balance between movements in the surplus relative to output and in capital intensity leads to the well-known tendency of the rate of profit to decline. Baran and Sweezy focus on the tendency of the surplus to rise (and its implications for aggregate demand), and do not mention the rate of profit.

The section above on macroeconomic effects indicates that a rise in the degree of monopoly will, *ceteris paribus*, lead to a fall in aggregate income. The effect

on profits depends on the impact of changes in the degree of monopoly and aggregate income on capitalists' spending, particularly on investment. If there are means by which in effect spending out of profits can be increased, then profits themselves will be increased. This expenditure out of profits may be direct (e.g. capitalists' consumption) or indirect (e.g. government expenditure financed by taxation on profits). Further, some of the surplus may not appear as profits but rather appear as expenditure by the firm, and one such category on which Baran and Sweezy focus is advertising.

Much of Baran and Sweezy (1966) is concerned with 'the absorption of the surplus' (which is included in the title of four chapters). In those chapters they explore the absorption of the surplus through capitalists' consumption and investment, the sales effort, civilian government and militarism and imperialism. In each case, the expenditure of the surplus directly or indirectly helps to support the maintenance of that surplus. The particular contributions of Baran and Sweezy are the calculation of the surplus (which involves confronting a number of tricky questions) and an extended discussion of the absorption of the surplus. The absorption of the surplus is a macroeconomic rather than a microeconomic problem. Indeed, the macroeconomic 'solution' to the absorption of the surplus may operate to the short-run detriment of the individual firm. For example, a tax on profits may be used to finance government expenditure, which in effect is one way in which the surplus is absorbed. But the tax on profits would be not welcomed by the firms on whom it is levied, even though it is the route by which the level of profits overall is being maintained.

10. Cowling

Cowling (1982) is an analysis explicitly inspired by the works of Kalecki, Steindl and Baran and Sweezy. Its contribution is seen here as being fourfold. First, it presents a formalization and development of the Kaleckian degree of monopoly, and also serves to link the monopoly capital approach with the structure–conduct–performance (SCP) paradigm. Second, it also seeks to integrate some of the managerialist literature, specifically insofar as managers are seen to have some power to capture profits for themselves. Third, it confronts the argument that the growth of international trade in the post-war world has involved the growth of competition, and in particular that domestic levels of industrial concentration are irrelevant in a world of multinational operations. Fourth, it seeks to use the analysis to explain some key elements of recent British economic history. There are other elements of Cowling's analysis, but we focus on these four elements as particularly significant and discuss them in turn.

The formalization of the Kaleckian degree-of-monopoly approach is based on Cowling and Waterson (1976). The simplest expression relates to an industry of N firms producing a homogeneous product for which the common price is p. The problem facing a firm is seen as the need to maximize the surplus S of revenue over variable costs, i.e.

$$S = p(Q) \cdot q - C(q)$$

where q is the firm's own output and Q the output of the industry. The first-order condition gives:

$$\frac{dS}{dq} = p' \cdot \frac{dQ}{dq} \cdot q + p - \frac{dC}{dq} = 0$$

where p' is the (first) derivative of p with respect to Q, and this can be written as

$$\left(p - \frac{dS}{dq}\right) = p' \cdot \frac{dQ}{dq} \cdot q.$$

Multiplying through by q and summing over all firms yields:

$$\left(p - \frac{dC}{dq}\right) \cdot q = \left(-p' \cdot \frac{Q}{p}\right) \cdot \frac{dQ}{dq} \cdot \left(\frac{q^2}{Q^2}\right) \cdot pQ$$

which can be re-written as:

$$\left[\left(p - \frac{dC}{dq}\right) \cdot q\right] \Big/ p \cdot Q = \left(\frac{1}{e}\right) \cdot \frac{dQ}{dq} \cdot H \tag{4}$$

where e is the price-elasticity of demand and H is the Herfindahl measure of industrial concentration.

Under the (common) assumpton of constant marginal costs (and hence equal to average variable costs), the term on the left hand side of equation (4) becomes the ratio of the surplus of revenue over variable costs to sales. The surplus is divided between profits and fixed costs, where the fixed costs include items such as salaries.

This can be treated as a formalization of Kalecki's degree-of-monopoly approach in that it indicates that the average price–cost margin (left hand side of equation (4)) is seen as determined by the elasticity of demand, the degree of industrial concentration and the term dQ/dq[13]. The last term varies between 1 (when the Cournot response operates) and $1/H$ (when joint profit maximization operates) and can be seen as reflecting the effective degree of collusion between the firms. Further, Cowling argues that the elasticity of demand will be influenced by advertising and sales promotion. Thus we have a list of factors determining the price–cost margin which is very similar to the list provided by Kalecki. This formalization should be treated as providing a mathematical treatment of certain aspects of price determination, whilst other aspects (e.g. the extent to which firms involved are operating in several industries and in several countries) are omitted.

It has generally been recognized, both within the monopoly capital literature and the SCP paradigm, that barriers to entry are relevant to the continuation of monopoly profits. Cowling argues, following Spence (1977), that (in addition to the usual list of economies of scale, and so on) excess capital operates as an entry barrier. The basis of the augument is that a potential entrant will be reluctant to enter an industry if there is the prospect of retaliatory action by the existing firms, which would involve price reductions and output expansion. The threat by firms to undertake such action can be backed up by the existing firms possessing excess

capacity which would enable them to expand output (and hence to supply the demand arising from a lower price).

The significance of the managerialism of large corporations is two-fold. First, managers have some degree of control over the disposal of the surplus and hence of its division between (reported) profits and 'fixed' costs. Since the 'fixed' costs include the manager's own remuneration and perks, the managers will have an incentive to inflate 'fixed' costs at the expense of profits (see Cowling, 1982, pp. 87–8 for examples).

Second, the pressure on firms to invest is seen as less acute under monopoly capitalism than under competitive capitalism. Under conditions of oligopoly firms have some discretion over whether they invest or not. Further, if the surplus is not spent then the surplus itself will not be actually realized. However, if the surplus is used to finance directly or indirectly managerial consumption, the problems of the realization of profits are lessened (that is, a higher level of expenditure leads to a higher level of actual profits). A further use of the surplus in this context would be advertising expenditure and sales promotion, which would help to maintain the level of demand.

The conflict between owners and managers is seen by Cowling as essentially a distributional conflict over sharing out the surplus, rather than involving questions of efficiency and the level of price and output. In effect the firm as an organization seeks to maximize the surplus which it gains, followed by a conflict over the share-out of the surplus as between reported profits and managerial salaries, etc. This conflict does not directly affect price or output (and thereby variables such as real wages).

Much of the SCP literature has implicitly or explicitly been concerned with a closed economy. The post-war growth in international trade, particularly of manufactured goods, is often seen as having decreased the degree of monopoly, although there has been some growth in domestic concentration (particularly in the UK) alongside these changes. It will be seen below that the critics of monopoly capital theories often point to these changes in international competition as undermining the position of domestic oligopolies. Cowling in effect argues that the position is not as straightforward as it may appear and that the growth of international trade, etc., does not have the competitive effects usually assumed.

There is a variety of links between domestic producers and foreign producers. There may be a variety of agreements and joint ventures between them (though these agreements may not be as extensive as there were in, say, the thirties when international cartels were much in evidence). The foreign producer may accept the domestic producer as price leader so that the degree of monopoly may not be upset (though the domestic producer would lose market shares). But most importantly, the domestic producer and the foreign producer can be the same firm, i.e. a multinational enterprise. The multinational enterprise will make its decision on where to produce on grounds of cost minimization. Indeed, a move of production by a multinational enterprise to a lower-cost country may well increase the effective degree of monopoly through a reduction in costs.

Theories of monopoly capitalism identify the share and rate of profits as

crucial variables, both in their own right and for their influence on investment and the evolution of the economy. There is a general presumption within the theories of monopoly capitalism that concentration tends to rise over time, the decree of monopoly and the share of profits also tending to rise over time. During the post-war period (especially up to the late sixties) concentration in Britain rose, and much of that rise can be ascribed (as Cowling does) to merger activity. However, the general trend from the mid-sixties until the early eighties for the rate of profit has been downwards[14]. At first glance, these trends appear to contradict the monopoly capital theory but Cowling argues that there is no contradiction[15]. It is useful to write an identity for the rate of profit as follows:

$$P/K = (P/S) \cdot (S/Y) \cdot (Y/Y^*) \cdot (Y^*/K) \tag{5}$$

where P is profits, S is surplus (as above), Y output, Y^* capacity output and K the capital stock. The rate of profit is then seen as determined by four factors, namely the ratio of profits to surplus, the surplus–net output ratio, capacity utilization and the output–capital ratio. It is the surplus–output ratio which is seen as determined by the degree of monopoly, for which the degree of concentration may be a poor proxy.

The ratio of profit to surplus depends in Cowling's analysis on the relative power of shareholders and managers. He argues that the power of managers has grown, so that the first key ratio will have declined. Cowling draws on measures of capacity utilization to argue that there has been a general downward trend (with cyclical variations) in capacity utilization. This is part of the worsening (relative) economic position of the UK, but is added to by the actions of the firms themselves through mergers.

11. Monopoly capitalism and multinationals

The international dimension of the operations of large firms has often featured in theorizing on monopoly capital. In the early stages of monopoly capitalism (as analysed by Hilferding and Lenin) the world could be divided into the advanced industrialized countries (notably UK, USA, Germany and France) undertaking the bulk of industrial production, and the non-industrialized countries which supplied much of the raw materials and served as export markets for the advanced industrialized countries. The rivalry between firms (and hence between countries) was for the control of supply of materials and of the export rights. In the more recent stages of monopoly capitalism, the supply of raw materials has become of less significance and industrialization has spread to more countries. But it is the multinational basis of production which is significant here. A multinational enterprise, by definition, owns and controls production facilities in more than one country. The spread of multinational production can involve production in both developed and developing countries, which involve, *inter alia*, quite different wage levels. Cowling and Sugden (1987b) argue in effect that the multinational enterprise is able to weaken the power of workers and thereby lower wages and/or raise the intensity of labour. This argument extends that put forward by Cowling

(1982) that foreign and domestic firms may not be in competition with one another. These arguments indicate that the rise of multinationals may lead to a rise in the degree of monopoly, rather than a decline as is often argued. Profits share tends to rise as a consequence, exacerbating the stagnationist tendencies.

The significance of multinational (as opposed to uninational) operation arises from the changed relationship between labour, capital and the state. The ability of trade unions to organize across countries to match the cross-country organization of multinationals is very limited. Governments are likely to be in competition with one another to attract footloose investment and lack the ability (or willingness) to co-operate on an inter-governmental level to match the power of multinationals.

The monopoly capital theorists reject two frequent arguments concerned with multinational firms. The first is that the spread of multinational operations raises economic efficiency and welfare, and the second is that their spread raises competition.

The Coasian view of the firm (Coase, 1937), that a firm is a means of co-ordinating production without using market exchange, suggests that a firm will continue to expand while the (marginal) costs of internal transactions are less than the corresponding costs of market transactions. The growth of multinationals is seen as an application of that general approach, with economic efficiency enhanced by this process. This general view has been widely challenged, and in the context of multinational enterprises explicitly by Cowling and Sugden (1987a). In effect, the growth of a multinational firm extends the span of control exercised from a single decision-making centre. The growth of a multinational firm provides that firm with greater economic power, particularly increased power *vis-à-vis* governments and workers. Thus the expansion of firms is seen more in terms of extending power than in terms of raising efficiency. In this view, the expansion of multinational operations has no straightforward implication for economic efficiency, but rather such an expansion brings many changes in its wake which would require careful assessment. Further, it is likely that there would be both winners and losers, making the final over-all assessment particularly difficult to make.

The argument that multinationals are signs of competition could be seen as twofold. First, multinationals operate on a worldwide basis and are able to gather information from across the world. With that information, techniques for processing information and the back-up of other worldwide institutions such as banks, multinationals are able to invest in profitable opportunities from around the (capitalist) world. Thus the mobility of capital is enhanced, thereby strengthening the forces leading to an equalization of the rate of profit.

Second, a multinational firm investing for the first time in a country means an additional firm (unless entry is affected through acquisition), and perhaps more vigorous competition. In essence the same argument would apply as regional markets gave way to national markets. The cross-entry between regional or national markets will largely be undertaken by the stronger firms. The region where even the stronger firms are relatively weak will tend to lose out as stronger

firms from other regions move in and put pressure on the region's firms. In these circumstances, it is difficult, if not impossible, to say whether competition has increased or decreased. Indeed, it requires a precise definition to be given to the term competition, and some means of measuring the intensity of competition.

12. Criticisms of monopoly capital theories

The general Marxian origins of monopoly capital theories have led to most of the critiques of those theories coming from a Marxist direction, which are the critiques discussed in this section. Although, as far as we are aware, there is no published sustained critique of monopoly capital theories written from a neo-classical perspective, it is clear that the two approaches of neo-classical economics and monopoly capital proceed in quite different directions.[16] It may be useful to summarize the ways in which an acceptance of monopoly capital theories would impact on Marxian economics, for it involves much more than the substitution of oligopoly for competition as the appropriate industrial structure.

The first impact relates to the question of the appropriate 'prices' to be used. Marxian analysis frequently uses (labour) values defined as the direct and indirect amount of labour used in its production. The neo-Ricardian approach uses the prices of production where each price is based on costs of production (including profits) under long-run equilibrium conditions, including an equalized rate of profit across sectors. In both cases, these 'prices' are long-run system-level equilibrium prices. In theories of monopoly capital, the prices used (set as a mark-up over costs) are the market prices which are established by the firms. Such a price is an equilibrium one so far as the firm is concerned (it has no immediate wish to change that price) but that relates only to the short run and to the firm.

The second, related, impact concerns the equalization of the rate of profit. Under Marxian competition there is a tendency towards equalization of the rate of profit as capital moves from low profit areas into high profit areas. But a necessary (if sometimes implicit) assumption for the theories of monopoly capital is the existence of substantial barriers of entry which restricts the mobility of capital. In practice, the difference between the competition view and the monopoly capital view may not be as sharp as portrayed here. It is well recognized by the competition view that the equalization of the rate of profit is only a tendency which involves a movement of physical capital from one industry to another by depreciation in one industry and the creation of new capital equipment in another. This tendency may take years to work itself out, by which time many other factors will have changed. Conversely, the monopoly capital view allows that entry can occur, through, for example, mistakes by the established firms. Thus in one case it is recognized that profit rates may change only slowly while in the other case the profit rates may change somewhat over time.

A further consideration is the question of the forces determining the average rate of profit towards which actual rates of profit are tending. It would be consistent with the monopoly capitalism approach for there to be some tendency towards equalization of the rate of profit (which may never be achieved) with the

average rate of profit influenced by the interaction of the degree of monopoly and of capital intensity (cf. equation (5) above).

The third impact relates to the determination of real wages. Marx saw real wages tending towards a subsistence level, though there is considerable discussion over whether that should be interpreted as absolute subsistence fixed by physical survival requirements or relative subsistence level dictated by prevailing social conventions. In either case, real wages are set by the reproduction costs of labour. Monopoly capital theories suggest that real wages are set by the degree of monopoly (which depends on market power of producers and the activities of trade unions).

Semmler (1981, 1983) criticizes theories of monopoly capital along three broad fronts. He argues first that theories of monopoly capital limit the power of capital to that which arises from market power. Instead, he 'would prefer the notion of corporate power (or the power of large firms) rather than the notion of monopoly power which is solely defined by market power.' Whilst much of our discussion has focused on market power, it should be clear from this paper that monopoly capital theorists see corporate power arising from more than just market power (see also Sherman, 1983).

The second front relates to empirical evidence on the impact of industrial concentration, barriers to entry, and so on, on profitability where Semmler points to the difficulties of measuring the key variables. He concludes that 'most of the recent studies have revealed that there is no *persistence* of the profit rate differential *due only* to *concentration*. *High entry barriers* ... are necessary preconditions for decreasing competiton...' (italics in original). Sherman (1983), writing in defence of monopoly capital theories, points out that 'industrial concentration ratios are only *one* (poor) indication of concentration. Concentration of all kinds is only *one* aspect of monopoly power. Monopoly power is only *one* of the major causes of unequal profit rates.'

It is difficult to give a precise meaning to terms such as intensity of rivalry or competition. In an industry in which the products produced are regarded by the purchasers as very close substitutes, and where price information is easily available and the purchasers are able to switch easily from one supplier to another, then each firm would need to keep its price (and perhaps product specification) in line with those of other firms. Each firm would then feel under considerable pressure (which they may seek to resolve through agreements and/or through merger). But the intensity of rivalry in such circumstances is related to the degree and ease of substitution between the products of the industry rather than the number of firms. A key question would be whether over the past century or so the rise in industrial concentration has been more or less offset by an increase in the substitution possibilities between products.

The third front stems from a contrast drawn between perfect competition and classical notions of competition. Semmler argues that 'the theory of monopoly capitalism uses a notion of competition that seems to be related more to the neoclassical theory of perfect and imperfect competition than to the classical and Marxian theories', where 'the main features of classical political economy are the

concept of a social surplus, the "center of gravity" concept, and the particular notion of "equilibrium"'[17].

Theories of monopoly capitalism do draw upon conventional theories of monopoly and oligopoly, and the latter do involve a strong element of identifying competition with atomistic competition[18]. However, while some authors in the monopoly capital tradition suggest a reduction in competition between firms, others point to a continuation of competition amongst a reduced number of firms.

Auerbach and Skott (1988) and Fine and Murfin (1984a, b) develop some specific criticisms of the Cowling and Waterson (1976) model extensively used in the work of Cowling. Three lines of criticism are highlighted here. First, that particular model, as well as a variety of other models, is a short-run static equilibrium model in which perfect competition and monopoly appear as polar extremes. Further, it can be argued that a static equilibrium approach is of little use for the analysis of an economy which involves change and growth.

Second, the model takes as exogenous some important parameters which should be treated as endogenous. One crucial parameter in this context is the cost functions of the firms. Fine and Murfin (1984b) argue that this 'is extremely restrictive since it eliminates an important source of competition whereby firms could increase individual market shares by investing to decrease marginal costs.'

Third, there are specific criticisms of the formulation of the Cowling and Waterson model. For example, Auerbach and Skott (1988) focus on the problems which models of this type face in dealing with firms' expectations (or conjectures) of their rivals' responses, and how firms react to disappointed expectations.

Clifton (1977) is largely concerned to 'argue that the capitalist model of production has become far *more* competitive through two hundred years of development', and as such could be seen as a critique of the monopoly capital school. In the early stages of capitalism, there are remnants of the previous economic conditions, so that competition did not operate to full effect. 'The clear-cut implication [of a quote from Marx *Capital*, vol. III] is that the adjustment mechanism tending to produce a uniform rate of profit throughout the economy becomes stronger, not weaker, with capitalist development' (Clifton, 1977). Auerbach and Skott (1988) similarly argue that 'the lowering of costs of transports and communication expands the functional sphere of competition', and 'the development and dispersion of the technical prerequisites of business calculation has increasingly permitted the possibility of a more "rational" organization of the firm's activities in the direction of wealth maximization.'

The thrust of Clifton's argument is that large corporations have adopted strategies, particularly for investment, research and development, to search out the highest rate of return. 'It is the range of competitive strategies available to the large firm and the intensity with which they may be applied to the market in the search for competitive advantage that makes the contemporary capitalist economy dominated by such firms far more competitive than ever before.'

However, questions remain with Clifton's approach. First, why do firms compete with each other? The greater sophistication of modern corporations (as

compared with the small firms of the nineteenth century) could lead to a greater awareness of their interdependence, and attempts to co-ordinate their activities. Second, the availability of management techniques, increased information flows, aids to decision-making, etc., should mean that the objectives of a firm can be better achieved. The question still remains as to the objectives of the firms. However, all concerned in this particular debate would agree that the pursuit of profits is the fundamental objective of a firm.

Some of the attacks of theories of monopoly capitalism have been focused on a partial interpretation. For example, theories of monopoly capitalism generally see some, but rather limited, effect of industrial concentration of profitability. Those theories have then been attacked as though they suggested that industrial concentration was the major influence on profitability. Another line of attack has been that despite the general Marxian origins, the theories of monopoly capitalism represent substantial departures from the writings of Marx. However, that line quickly reaches an impasse, for monopoly capital theorists would accept that their approaches do depart from the analysis of Marx at least in respect of competition and monopoly.

13. Conclusions

This paper has adopted the approach of summarizing the work of a number of authors whose work could be said to fall within the monopoly capital tradition, although it is not possible to provide a single definitive account of the theory of monopoly capital. The monopoly capital approach could be seen as providing a general framework of thought rather than a precise theory.

The monopoly capital approach views developed capitalist economies as oligopolistic and as such it has to have some theory of oligopolistic firm behaviour. All schools of economic thought have been notably weak on providing satisfactory theories of oligopolistic behaviour, and the monopoly capital approach is no exception. In effect, the choice presented is between theories which ignore interdependence (e.g. Baumol's theory of sales revenue maximization) or which deny its existence (e.g. perfect competition, contestable markets) or those which struggle to deal with that interdependence. Attempts to do so (which are reflected in the monopoly capital approach) have been unsatisfactory in dealing with consistent interdependence and with general equilibrium features (see Fine and Murfin, 1984a, b). However, the use of a theory of oligopoly which is not fully satisfactory should not be a reason for jettisoning attempts to explore the world of monopoly capitalism.

A particularly important aspect of monopoly capital theories is the integration between micro and macro. These theories could be seen as seeking to ground macroeconomics in a microeconomics of oligopoly (rather than one of perfect competition as in most Keynesian economics). The macroeconomic analysis of monopoly capital theorists has often pointed to excess capacity and stagnation as the usual condition of developed capitalist economies.

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Notes

1. Cowling (1982) similarly argues that 'rivalrous behaviour and collusion coexist and result from a high degree of concentration within a specific market.'
2. For further discussion on competition, see Aaronovitch and Sawyer (1975) chapters 1 and 2, Eatwell (1982), Fine (1983).
3. Harris (1983) argues that 'the concept of monopoly capitalism developed by Baran and Sweezy (and its elements such as economic surplus) is not centrally employed in [Braverman's] study. Thus despite his connection with Baran and Sweezy's work and his use of the title *Labor and Monopoly Capital* [Braverman's] study does not remedy the dominance of exchange considerations in those writers' concept of monopoly capitalism.'
4. Sweezy (1942) argues that Hilferding had 'sometimes openly stat[ed] and always impl[ied] that in the partnership between industrial and banking capital it is the latter which occupies the dominant position. 'Financial capital' is defined at one point as 'capital controlled by the banks and utilized by the industrialists', and the trend of capitalism is pictured as involving the increasing subjection of all aspects of economic life to an even narrower circle of huge banks.

   'There can be little doubt that this view is fundamentally misleading. Hilferding mistakes a transitional phase of capitalist development for a lasting trend. It is true that during the period of the combination movement itself, when corporations and mergers are in the process of formation, the banks are in a strategic position which enables them to extend their sway over the key areas of the productive system. The process of combination, however, cannot continue indefinitely.'
5. See Sawyer (1985) for an intellectual biography of Kalecki which includes detailed discussion of the contributions of Kalecki discussed in the text.
6. But if the assumption of constant average costs (and hence of marginal costs) is valid, then a situation of perfect competition would be untenable since price-equals-marginal-costs would yield an indeterminate outcome and leave the firm with revenue only covering variable costs.
7. Kalecki and Cowling argue that the pressure for money wage increases, the structure of collective bargaining, and the power of workers will be reflected through the degree of monopoly. In other words, collective bargaining factors can influence the degree of monopoly and thereby the mark-up of price over wage and hence the real wage.
8. Marglin is generally thinking in terms of the capitalist economy growing at a rate which is drawing in people from non-capitalist sectors, from other countries, etc. But the point is a general one, i.e. rate of growth of population ('natural' growth rate) is not a constraining factor and the growth of the labour force is 'endogenous'.
9. The full capacity prediction from perfect competition relies on the optimal plant size being very small relative to the size of the industry. If the same assumption is made under monopoly, then the monopolist is faced with constant long-run average costs (expansion through duplication). Under those circumstances, the monopolist would also operate with no excess capacity.
10. From equation (3) in the text, the value of l (labour share) which maximizes capacity utilization can be derived. For relatively low values of l, an increase in l will increase capacity utilization by the direct and indirect stimulation of aggregate demand. But a depressing effect on aggregate demand arises through the impact of retained profits on investment. At high levels of labour share, this depressing effect may offset the

stimulating effects. This notion of the optimal level of labour share (with respect to capacity utilization) is rather similar to the 'optimal rate of profit' discussed by Sylos-Labini (1984), chapter 8.

11. This may be offset by management siphoning off profits for their own uses on, for example, conspicious consumption, see Cowling (1982) pp. 85–8.
12. Baran (1957) devotes a chapter to the discussion of the surplus, and emphasizes the difference between actual surplus and potential surplus. Actual economic surplus is defined as the difference between society's actual output and its actual consumption. Potential economic surplus is then defined as the difference between the output that could be produced (given the natural and technological environment) and 'what might be regarded as essential consumption'. The difference between actual surplus and potential surplus can arise from inefficiencies in the organization of production, its excess consumption (by upper income groups) and from a deficiency of effective demand.
13. The usual interpretation of equation (4) has been in terms of the factors on the right hand side *determining* the left hand side. Fine and Murfin (1984a) explicitly challenge that interpretation and argue that a number of the factors on the right hand side are endogenous.
14. For evidence see Cowling (1982) pp. 153–5; since the early eighties there has been a dramatic reversal in these trends with the share of profits in particular rising sharply.
15. For a critique of Cowling's argument on this see Auerbach and Skott (1988).
16. Fine and Murfin (1984a, b) argue for a strong influence of neo-classical economics in some monopoly capital theories. There is a correspondence between the work of Cowling (1982) (also Cowling and Mueller (1978)) and the view that industries lie along a spectrum from perfect competition to monopoly, with perfect competition seen as some ideal structure. However, there would seem to be little evidence that monopoly capital theorists see perfect competition as either an ideal or attainable. I would argue that the structure–conduct–performance paradigm is not really compatible with neo-classical economics in that it is only in perfect competition that firms are price takers and that income distribution could be said to be based on marginal productivity considerations. Two further superficial similarities between some monopoly capital theories and neo-classical economics is the treatment of the firm as a 'black box' and the use of short-run equilibrium analysis (cf. Cowling, 1982, chapter 2). However, these features should in my view be seen as simplifications, useful for certain parts of the analysis but not to be seen as crucial ingredients.
17. The 'center of gravity' is the idea that there are long-run equilibrium prices around which actual prices will fluctuate in the short-term. However, the 'particular notion of equilibrium' means that whilst those long-run prices may be equilibrium ones, they do not necessarily represent prices which will ever be achieved.
18. This is also evident in estimation of monopoly welfare loss as undertaken by Cowling and Mueller (1978), Sawyer (1980).

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