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Surplus Capital and Realization of Surplus Value

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Monopoly Capitalism: An Essay on the American Economic and Social Order
by Paul A. Baran and Paul M. Sweezy, 1966
Monthly Review Press, 402 pp., $8.75.

Monopoly Capitalism by Paul M. Sweezy and the late Paul A. Baran is an interesting and important book. It represents an attempt to explain the contemporary functioning of the capitalist system in the United States with the Marxist tools of analysis. But it resolutely breaks with the stereotype repetition of the Hilferding-Lenin analysis which is, after all, more than half a century old, and tries to apply the tools in an independent way, to the reality of today.

Monopoly Capitalism is more than that. It is an attempt to explain all the typical aspects of American society today – its foreign policy and the rise of mental illness; the crisis of the educational system and the militant upsurge of the Negro movement – by the socio-economic roots of that society which the authors are convinced they have discovered. Much of that analysis is stimulating and some of it is a courageous advance compared with the positions which Sweezy defended in **The Theory of Capitalist Development** and **The Present as History**.

But interesting as it would be to critically analyze many of these parts of **Monopoly Capitalism**, it would distract attention from what should be the main problem posed by the book: the discussion of the problem of "surplus absorption" and the political perspectives which the authors have drawn from their economic analysis.

In **The Political Economy of Growth**, Paul A. Baran had shown the operative usefulness of the notion of "economic surplus" for understanding the economic problems of the underdeveloped countries. Contrary to the current apologetic assumption about the "vicious circle of poverty" – "underdeveloped countries are poor because they invest too little; and they invest too little because, as a result of their poverty, too small a part of too small an income can be invested" – Baran proved that the *potential* investment fund of these countries (i.e. the part of the national income not consumed by the producers) is actually a larger part of national income than in the industrialized countries. Thereby he counter-posed to a tedious tautology ("the backward countries are backward because they are backward": that's what the "vicious circle of poverty" really says) an analytical and socially critical *explanation*: that there is a substantial potential investment fund in the backward countries, but this cannot be channelled towards speeded-up economic growth because of specific social forces (the native ruling classes and foreign imperialism) with whose interests such a channeling would dash.

The advantage of the Baran thesis is a double one: at one and the same time it explains why there has been no significant economic growth in those semi-colonial and colonial countries which have remained imprisoned in their old social structures and in the capitalist world market, and why those countries which, thanks to a social revolution have broken these fetters, actually have experienced a process of economic growth at sometimes breathtaking speed.

In **Monopoly Capitalism**, Sweezy and Baran now try to apply the same category of “economic surplus” to the most advanced industrialized capitalist society of today: the United States of America. Their thesis could briefly be summarized as follows:

At a certain stage of capital concentration there occurs a decisive change in the way the market operates. Under monopoly capitalism, the dominant corporations are so strong that they can practically suppress price competition and price cutting. But technological innovation continues at the same time, and the dominant corporations continue to respond to strong incentives for cutting production costs. Therefore, there comes into being a widening gap between production costs and selling prices, as a result of which the rate of profit tends to increase sharply. Or, to put it in the authors’ words: the economic surplus tends to grow constantly.

But the monopolists must now dispose of this surplus. And the normal outlets for surplus absorption seem to be blocked. Consumption by the capitalists themselves does not grow at an ever increased pace (the authors use only one indicator to prove this, i.e., the fact that distributed dividends represent a declining portion of total net corporate profits; but the demonstration seems to us quite convincing). Productive investment cannot grow at such a pace either, for this would create an even bigger surplus absorption problem and would rapidly snowball into a tremendous excess capacity. To put it in other words, the corporations don't invest just because they have funds available, they invest only if they can be reasonably sure of selling the products the newly invested capital will produce.

So if normal means of surplus absorption become more and more insufficient and inadequate, new means must be discovered. And the authors quote three main forms of surplus absorption which have risen to phenomenal proportions since the first and especially the second world war, i.e., since monopoly capitalism fully developed its main traits: a stepping up of sales effort, an expansion of the means put at the disposal of civilian government; and an expansion of military expenditures. The general tendency, therefore, is to continuously increase the irrationality of the system. More and more people are busy producing more and more goods which are either useless or wasteful or outright harmful. They can't find any satisfaction in this sort of activity. And more and more people are kept busy trying to convince the majority of citizens that these useless, wasteful or outright harmful things should be bought or paid for by all means. The international implications of such an irrational system are evident: more and more aggressions abroad – among other things to support the growing foreign investments of the large American corporations – eventually leading towards the brink of total irrationality-nuclear world war and self-destruction.

Much of this analysis is not new. Sweezy and Baran draw heavily upon the most intelligent academic analyses of contemporary capitalism, especially Steindl and Kalecki. [1] The theory of the reversal of the tendency towards declining profits after the first world war into an apparent tendency to increasing profit has been developed at length by the American Marxist economist Joseph Gillman. [2] And the same author has also highlighted the tremendous increase in sales costs since the appearance of monopoly capitalism, although he draws from it quite another conclusion than Sweezy and Baran (for Gillman, in brief, unproductive expenses such as sales effort at home and abroad are indispensable for the realization of surplus value, are to be deducted from surplus value to determine "net profit" and thereby, the decline of the rate of net profit continues to be valid). Rosa Luxemburg established more than fifty years ago the importance of military expenditure for surplus value realization. And this reviewer arrived in the beginning of the sixties at a series of conclusions part of which are similar to those which Sweezy and Baran draw today. [3]

I stressed the appearance of two average rates of profit in the economy of monopoly capitalism: the *average rate of surplus profit* enjoyed by the monopolist corporations; the lower average rate with which the rest of the capitalist entrepreneurs had to be content. I drew the conclusion that administered prices and high surplus profit,

had cut loose the corporations from control by investment banks and made them financially autonomous, their main problem becoming one of disposal of surplus capital. I indicated that the main uses for this surplus capital were

1. investment in sales effort and service industries (which have the great advantage of enjoying a lower organic composition of capital, and could thereby counteract the

tendency toward a declining rate of profit resulting from an increasing organic composition of capital,
2. increase in military expenditures and
3. foreign investments. [4]

> Excess capacity and surplus capital without outlets seemed for me as for Sweezy and Baran the main contradictory features of monopoly capitalism.

If one compares this analysis with that of **Monopoly Capitalism** one could get the impression, at first sight, that the only differences are terminological: where I speak about the growth of surplus capital, Sweezy and Baran speak about the growth of "economic surplus."

It would be easy to argue of course that even that difference is not simply terminological, but strikes at the roots of Marxist economic theory. Sweezy and Baran define the category "economic surplus" as "the difference between what a society produces and the cost of producing it" (p.9) in a very loose way. If one uses the definition in a literal sense, one could conclude that the problem which they call "surplus absorption" is just the old problem of "surplus-value realization."

But the authors do not stick consistently to that definition. Surely, depreciation costs – abstractions made of excess allowances which are just hidden profit, i.e. surplus value – are not part of surplus value but reproduction of constant capital. Equally to take sales costs *en bloc* as part of the surplus is to indicate that this notion encompasses something more than surplus value. Evidently, the part of sales costs which is just reproduction of *capital invested in the service sector* is part of social capital. [1*] So one gets the impression that the authors have mixed together surplus capital and surplus product, and that they would need at least to disentangle these two categories before they could prove convincingly that the “surplus” (and the rate of profit) has been constantly increasing since 1929.

These are not just semantic niceties. In a market economy “surplus product” can be disposed of only through exchange; it assumes the physical form of commodities for which there are no customers. “Surplus capital,” on the contrary, is potential purchasing power which, for the moment, finds nothing to buy. One now sees the logical inconsistency of adding surplus product to surplus capital, where indeed an operation of subtraction would be more to the point. [5]

The real problem is a double one: to invest excess capital in such a way as not to further reduce the market for the existing monopolies which already operate at less than their full capacity because of insufficient markets; to assure a constant level of capacity utilization for the existing industries, although the laws of motion of capital tend to depress this level of capacity.

The answer to the first problem has been till now: the military establishment, the service industries and capital export. The answer to the second problem has been essentially, *credit*, i.e., a colossal private and public debt structure, *and constant inflation* (incidentally, the question of transfer payments of the state, of social welfare, and in general of the budget as a source of income to realize part of the surplus value without *immediately* reducing either wages or profits has its place in this chapter).

The question of viability of the economic system in the long run can only be answered if one examines the contradictions arising in both these fields: the absorption of surplus capital and the absorption of surplus product. And here we have the key to the basic weakness of the Sweezy-Baran analysis. By mixing together surplus capital and surplus product in their category of "economic surplus," and thereby being unable to disentangle problems of excess capital absorption and excess commodities disposal, they slur over the main contradictions of the system which undermine it *economically*.

On the one hand, the US corporations could only have a guaranteed growing market for their goods (a guaranteed rate of operation for their growing productive capacity), if one assumes complete control over technological innovation and complete disappearance of price competition. This assumption - which is at least in parts of **Monopoly Capitalism** implicit in the authors' analysis – is unwarranted and in fact contradicted by actual developments.

The monopolist corporations are in fierce competition with foreign rivals for shares of the world market, and these shares can fluctuate rather sharply. They are challenged in their own home market by foreign competitors and by "new industries." Furthermore, periodical declines of the industrial reserve army (during and after the second world war, in the sixties) tend to exert upward pressure on wages which can only be combatted through stepped-up automation, which reconstitutes the reserve army and brings downward pressure to bear upon wages.

For all these reasons, notwithstanding a growing outflow of capital from productive to non-productive purposes (military production being considered non-productive in this context), there is the distinct threat of a declining rate of utilization of productive capacity, of a rate of increase in productivity outstripping the rate of growth of production, and therefore of growing unemployment. The "automation explosion" cannot be contained within the framework of a stagnating but self-content society as Sweezy and Bar an depict it. It poses problems which monopoly capitalism cannot solve within the framework of its economic *modus operandi*. One way out of course would be an increasing number of "conventional" wars. And there is certainly a relation between the escalation of imperialist aggression in Vietnam and the difficulties of the American economy, unable to absorb four million unemployed even after the unheard-of period of five years prosperity.

On the other hand, a *temporary* solution of the overproduction problem has been possible only through the erection of a colossal debt structure and of constant inflation. Eventually this would tend to disorganize any capitalist economy – but it could take a very long time to do so – provided the USA were insulated from the outside world.

But, of course, it is nothing of the kind. Inflation inside the USA – as a necessary prop against recurrent grave crises of overproduction – has worldwide consequences of which the international capitalist class and its economists are very well aware. The contradiction between the dollar as an instrument for anti-recession policies on the US market and the dollar as a means of payment of the world market, is rapidly reaching an explosion point. And the grave international monetary crisis which is in the making will have its consequences on the US economy too.

We cannot therefore accept the conclusion of the authors that there are no internal forces inside the economy of monopoly capitalism which are strong enough to challenge the system. This conclusion again rests on the implicit assumption that monopoly capitalism can somehow guarantee the *mass of the wage and salary earners* – the vast majority of American society – a constant and slowly rising living standard.

Otherwise, the thesis of the authors that the “organized cores [of the American working class] in the basic industries have to a large extent been integrated into the system as consumers and ideologically conditioned members of the society” (p.363), even if it is a fairly accurate description of the situation today, would by no means be a valid proposition for the future. If one assumes that the dual forces of automation and inflation will introduce growing instability into the American economy, there is at least a reasonable assumption that this instability will eventually undermine the stability of the union bureaucracy and the relative quiescence of the workers. Active opposition to monopoly capitalism which is today largely confined to the Negro movement, the antiwar protest of the student youth, and relative militancy of certain lower-paid wage and salary earners, could readily blossom again into a powerful and unbeatable alliance around the industrial working class.

Having lost sight of the main internal contradictions of contemporary monopoly capitalism, Sweezy and Baran look, above all, towards world revolutionary developments as possible avenues for challenging and overthrowing American monopoly capitalism. Taken by itself this is a healthy development, for Marxism is internationalist by its very nature, and we fully agree with Sweezy and Baran that the main task for the progressive forces of American society today is to link up with the forces of world revolution which are challenging the rule of Capital on all continents.

Having discovered world revolution, Sweezy and Baran correctly stress its permanent character, i.e., its tendency to grow into a socialist stage. Here again we can only agree with them. And further, that the growing involvement of the US ruling class in military conflicts with world revolution, will bring about important transformations in the consciousness of parts of the American population seems also obvious. There is a direct link between the revolt in the Negro ghetto and the African revolution. The counter-revolutionary actions of the US monopolists against the Cuban and the Vietnam revolutions are the major causes of the new radicalization among American students and American intellectuals.

But there still remains the inescapable conclusion that all these forces are today minority forces in American society; that even the conscious option in favor of socialism, as a result of the example of the more efficient and more democratic functioning of the countries calling themselves socialist, – some time in the future predicted by Sweezy and Baran, – could only be a minority action as are all purely ideological options in history. This much is certain – *in the absence of powerful socio-economic motives growing from the basic instability of American society*, the hope for a revolutionary overthrow of monopoly capitalism by these forces remains largely utopian.

Worse: if the process of world revolution, with its inevitable ups and downs, continues in the sense of an overall expansion, and if the military involvement of US imperialism against this process likewise grows; and if at the same time the majority of the American people remains passively integrated in a society which guarantees at least its basic welfare, then we come to the terrible conclusion that no objective forces could in the long run prevent nuclear world war, i.e., prevent the American ruling class, When finally in extreme frustration and isolated in its own part of the world, to defend the past part of its empire by all the means at its disposal, including nuclear weapons. Certain no *outside* force could prevent some American Hitler from doing so.

But we can see no basic reason to accept such a pessimistic conclusion, which flows more or less logically from the

Sweezy and Baran analysis. Growing world revolution will also bring with it growing economic difficulties for many parts of the international capitalist system, and inevitably for the US economy too. Increased intertwining of the American and international capitalist economy will eventually transform the crisis of world capitalism into a crisis of American capitalism. The crisis of American capitalism will shake up the passivity of the American working class as it did in the thirties.

Outside the general line of research of the problems of automation and inflation – although intimately related to them – there appears the supplementary problem of the international fragmentation of the cycle of world capitalism. One of the main "stabilizing" factors of world capitalism after World War II has been the absence of a general recession. Since 1945, recessions in the USA (and in a few countries intimately linked with US economy), have coincided with a continuous boom in most of the Western European capitalist countries and in Japan. And in the last three years recessions which occurred successively in four major capitalist countries (France, Italy, Japan and now Britain) coincided with an uninterrupted boom of the US economy. The fragmentary character of these recessions, of course, acted as a powerful factor limiting both their depth and their duration.

But will this fragmentation last? Will not a recession in Western Germany have more severe consequences for the whole international system? Would not the next American recession coincide with a phase of the cycle in Western Europe where most of the forces generating long term growth have already spent themselves, and thereby cause a general recession in the whole international capitalist economy? These questions and many others strike one as relevant, and they should at least be resolved before one accepts the extreme conclusions of **Monopoly Capitalism** that no basic instability of the system will create a powerful social challenge to it from within the United States.

We admit that posing the question is not answering it. More time, more independent and collective research, discussion and debate by all Marxists, on both sides of the Ocean, will certainly be necessary, before a definitive answer will be found to these questions.

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Notes

1. Josef Steindl: **Maturity and Stagnation in American Capitalism**, 1952, Basil Blackwell, Oxford; Michal Kalecki: **Theory of Economic Dynamics**, London 1954.

2. Joseph Gillman: **The Falling Rate of Profit**, London, Dennis Dobson, 1957.

3. Ernest Mandel: **Traité d'Economie Marxiste**, Vol.II, Chapter XIV, pp.190-198, ed. Julliard, Paris 1962. An English edition of the **Traité** will appear in 1967, by Merlin Press in Great Britain, and Monthly Review Press in the USA.

4. Sweezy and Baran deny that foreign investments are an outlet for the "surplus," because, they say, inflow of profit from foreign investments are greater than outflow of private capital in the USA. They forget, however, government expenditure in the form of foreign loans and gifts, in its double role as an outlet for surplus capital in the USA and as additional purchasing power used by the receiving countries to import additional quantities and values of US commodities.

5. That such a subtraction has a very real meaning can be shown by the example of the war economy, under which the surplus product takes the physical form of weapons and the surplus capital is

transformed into government bonds to finance the purchase of these weapons.

Note by ETOL

1*. In **ISR**, Vol.28 No.4, July-August 1967, Mandel includes an *Erratum* pointing out that this passage should read “... is part of social capital”, instead of “... is not part of social capital” as in the published version. This error has been corrected here.