

SPECIAL 120-PAGE ISSUE ON The Critique of Economics

99¢

MONTHLY REVIEW

VOL. 64
NO. 3

JULY-AUGUST
2012

AN INDEPENDENT SOCIALIST MAGAZINE

‘Some Theoretical Implications’

A Missing Chapter of Baran & Sweezy’s *Monopoly Capital*

EDITED & WITH AN INTRODUCTION BY JOHN BELLAMY FOSTER



Last Letters: *Correspondence on ‘Some Theoretical Implications’*

PAUL A. BARAN & PAUL M. SWEEZY

SAMIR AMIN ON Surplus in Monopoly Capitalism & Imperialist Rent

NINA SHAPIRO ON Keynes, Steindl, and the Critique of Austerity Economics

JOHN SMITH ON The GDP Illusion: Value Added vs. Value Capture

HOWARD J. SHERMAN ON Two Pauls

Monthly Review online <http://monthlyreview.org>

MR <http://mrzine.monthlyreview.org>

US\$12 / CAN\$12 / €9 / £8



A Missing Chapter of Monopoly Capital

By John Bellamy Foster

July 1, 2012

Monopoly Capital: An Essay on the American Economic and Social Order by Paul A. Baran and Paul M. Sweezy, published in 1966, is one of the foundational works in the development of Marxian political economy in the United States and indeed the world, and is today recognized as a classic, having generated more than four-and-a-half decades of research and debate. The completion of the book, however, was deeply affected by Baran's death, on March 26, 1964, two years before the final manuscript was prepared. Although all of the chapters were drafted in at least rough form and had been discussed a number of times the authors had not mutually worked out to their complete satisfaction certain crucial problems. Consequently, two chapters were left out of the final work. As Sweezy wrote in the preface to the book:

Though Baran never saw the final form of the manuscript which went to the typist and the printer, I must emphasize that this in no way diminishes the joint character of the book. The ideas and the structure we worked out in a continuous interchange beginning long before the first outline was set down on paper. Whatever was drafted by one of us was criticized at length by the other, and in most cases redrafted and recriticized more than once. Everything now in the book had been through this process before Baran's death. Apart from putting the entire manuscript in finished form, the only thing I have done has been to leave out what would have been two additional chapters. This material was in rough draft at the time of his death, but in each case one or the other of us had raised important questions which still remained to be discussed and resolved. Since neither chapter was essential to the theme of the essay as a whole, the best solution seemed to be to omit them altogether. I reached this conclusion the more easily since even without these chapters the book turned out to be longer than I had expected or we had originally intended.

Sweezy did not refer in the preface to *Monopoly Capital* to the titles and contents of those two missing "additional chapters" in "rough draft" form, nor did he, to my knowledge, refer to them explicitly in any subsequent writings or on any occasion after that. What then were the missing chapters?

Fifty years ago this month, in the July–August 1962 issue of *Monthly Review*, Baran and Sweezy published early versions of two of the chapters of the book. An introduction to that issue provided a draft table of contents of the book as a whole:

1. Introduction
2. The Giant Corporation
3. The Tendency of Surplus to Rise
4. The Problem of Surplus Absorption: Consumption and Investment
5. The Problem of Surplus Absorption: The Sales Effort
6. The Problem of Surplus Absorption: Government Spending
7. The Problem of Surplus Absorption: Militarism and Imperialism
8. On the Recent History of Monopoly Capitalism
9. Some Implications for Economic Theory
10. On the Quality of Monopoly Capitalist Society – I
11. On the Quality of Monopoly Capitalist Society – II
12. The Irrational System

Comparison with the final contents of the book indicates that the chapter labeled “Some Implications for Economic Theory” was not included in the published version, and there was only one instead of two chapters entitled “On the Quality of Monopoly Capitalist Society.” There was also an additional chapter in the published book, not in the 1962 provisional table of contents, entitled, “Monopoly Capitalism and Race Relations.”

What happened to these two missing chapters—“Some Implications for Economic Theory” and presumably “On the Quality of Monopoly Capitalist Society – II” – remained for many years a mystery. In the early 1980s when I was working on my doctoral dissertation, later published as *The Theory of Monopoly Capitalism: An Elaboration of Marxian Political Economy*, and was editing, with Henryk Szlajfer, *The Faltering Economy: The Problem of Accumulation Under Monopoly Capitalism*, the topic of the missing chapters arose.² Sweezy was reticent and circumspect on the subject, neither referring to the actual titles of the missing chapters nor to their specific contents, and I did not press him on this. But I have good reason to believe that his attitude was similar to that of Marx and Engels with respect to *The German Ideology*; that these chapters were left to the “gnawing criticism of the mice.”³ I was left with the impression that he no longer knew where these rough draft chapters were in his papers, and indeed that they could be missing altogether. Over the next two decades he raised a number of times with me the question of

whether there should be a new edition of *Monopoly Capital* (deciding each time to leave the book in its original form). But the issue of the missing chapters was never a part of these discussions, and it never occurred to me to raise the question. The central issue by then had switched to the role of finance, and whether a new edition of the book might address what he regarded as a serious shortcoming in that respect.

About the time of Sweezy's death in 2004, the Baran papers, previously loaned by Sweezy to Russell Jacoby, who had long been considering writing a biography of Baran, came to me in my capacity as co-editor of *Monthly Review*. Meanwhile, Sweezy's collection of manuscripts, notes, and correspondence was deposited in the Modern Books and Manuscripts Collection of the Houghton Library at Harvard University. I looked through Baran's papers for the chapter on "Some Implications for Economic Theory" – which was the missing chapter that chiefly interested me at the time – but found no sign of it, and once again put the matter to rest.

But in July 2011 Sweezy's daughter, Martha Sweezy, and I were discussing a question related to his papers. I asked her offhand if she had any knowledge of this missing chapter. Martha immediately wrote to the Houghton Library at Harvard, where she obtained the help of Heather G. Cole, an assistant curator of modern books and manuscripts, who has been handling the collection that includes the Sweezy papers. At first all that was found were scattered references to the missing chapter on theory under various titles (such as "Some Ramifications"). But then to our great surprise Cole located both of the missing chapters each in a separate envelope. One envelope was labeled "Theoretical Implications" in Sweezy's handwriting. She made the contents of the two envelopes of the missing chapters available to us in August 2011, including Sweezy's important March 2, 1964, letter on suggested changes to the "Theoretical Implications" chapter. With the clues that these manuscripts provided I was able to locate an earlier draft of the "On the Quality of Monopoly Capitalist Society – II" chapter (with handwritten edits) in Baran's papers. I was also able to discern the meaning and significance of some of the correspondence between Baran and Sweezy in the weeks prior to Baran's death, which had hitherto been somewhat of a puzzle, since the letters had dealt with questions related to the missing chapter on theory.

Both chapters left out of the book were chapters that Baran was principally responsible for drafting. The chapter, "On the Quality of Monopoly Capitalist Society – II," which would, in the final plan of the book (prior to Baran's

death) have been chapter 12, appeared to be in more or less complete, intact form, although Baran indicated in a February 25, 1964, letter to Sweezy that he planned to work on it that April. Both a “final” version and an earlier hand-edited version exist. This chapter, which deals with culture, communications, and mental health, will be published in *Monthly Review* next year.

What was to have been chapter 10, “Some Theoretical Implications,” was in a more confused state. There existed a full draft of the chapter (then entitled “A Conceptual Interlude”) with handwritten edits made by Sweezy on his first reading in early December 1962, coupled with a few edits from his second reading completed by the beginning of March 1964. There was also a much shorter, incomplete typescript, incorporating some of these edits as well as new material.

On December 5, 1962, Sweezy sent Baran by special delivery the “On the Quality of Monopoly Capitalist Society – II” chapter with his handwritten edits on the manuscript. In an accompanying letter he provided some detailed comments on that chapter together with specific comments on his first reading of the “Theoretical Implications” chapter. He did not, however, send back the latter draft chapter with his edits at that time, intending to go over it again, which he completed only at the beginning of March 1964, the month Baran died.

The fifteen month delay between Sweezy’s initial comments on the “Theoretical Implications” chapter in December 1962 and his complete set of comments in March 1964 had to do with two considerations: (1) they were both occupied with other chapters at the time, and (2) it was agreed that this particular chapter, since it dealt with the deeper conceptual structure of the book, and had been written before most of the other chapters (most notably chapter 5 to which it was closely connected), would have to be reworked more extensively than most and that this would need to be left to the end. As Sweezy wrote on December 5, 1962, with respect to the “Theoretical Implications” chapter:

As you will gather, I think there is a lot of work to be done on this one, and the question arises as to procedure. Do you want to leave it until you finish up QoS (2) [“Quality of Monopoly Capitalist Society – II”] and IS [“The Irrational System”] and then return to this (and 5) [“The Absorption of Surplus: The Sales Effort”]? Or do you think it would expedite matters if I work on it after I get done with 4 [“The Absorption of Surplus: Capitalists’ Consumption and Investment”], 6 [“The Absorption of Surplus: Civilian Government”], 7 [“The Absorption of Surplus: Militarism and Imperialism”],

and 8 ["On the History of Monopoly Capitalism"]? It is 'your' chapter, so to speak, so you have to make the decision.

Baran replied immediately in a letter on December 7:

I had a gnawing suspicion that Chapters 5 and 9 are in need of thorough redoing, both in the light of the material that has been written since as well as in view of various thoughts that have come up since they were done. But like an ostrich sticking its head into sand and believing that it cannot be seen, I pushed those thoughts aside and never looked at the stuff in the hope (fear) to return to it after everything else is done. I would still prefer to finish QoS II and to draft IS before turning back to the earlier material ["The Sales Effort" and "Theoretical Implications"]. This obviously does not mean at all that you could not or should not do with it anything you want as soon as you get around to it. Since time is of the essence, it would certainly be excellent if you got to these chapters before I do; I will concentrate now on the job in hand and then work intensively on the preceding chapters while you go over the remainder of QoS II and IS.

On February 25, 1964, Baran was finishing up revisions to "The Sales Effort" chapter and asked Sweezy for his comments on what was then referred to as the "Conceptual Implications" chapter so that he could finish the work on that. On March 2 Sweezy in Larchmont, New York, sent Baran, in Palo Alto, California a special delivery package containing the manuscript of that chapter with the corrections and comments from two separate readings of it and a lengthy letter about theoretical issues related to the chapter. Baran replied on March 2, and again on March 3, Sweezy wrote back on March 4, Baran responded on March 5 (also enclosing his final revisions of Chapter 5 on "The Sales Effort"), followed by Sweezy's final letter to Baran on March 7. On March 9, Baran started a letter, written as he said "for the purpose of *Selbstverständigung* [self-understanding]." This letter was a page-and-a-half long, typed, single-spaced, but was left unfinished, stopping mid-sentence. It was found on Baran's desk at the time of his death.

On March 22, Baran wrote to Beatrice and Harry Magdoff: "As to my plans for the coming academic year. Right now I am revising earlier chapters of the Monocap book. *On the whole* the Ms. is finished, but there is still an awful lot of fixing to do, and I am now occupied with my own scribbling, not yet with what my partner has done. I have set myself as an irrevocable deadline to have the whole mess out of my hands, my mind and my life by the end of this summer. If all goes well, I should be done with it by the end of July." Four days later Baran, still recovering from a bout of the flu, went with some

reluctance, considering his health, to dine at the house of Leo Lowenthal, an old friend from Baran's days at the Frankfurt Institute for Social Research in pre-Hitler Germany. He was having a brandy while looking at the just published book, *One Dimensional Man*, written by another close friend and Frankfurt School colleague, Herbert Marcuse, and was struck by a massive heart attack. He died that night in the hospital.

Sweezy was to have arrived a few days later at the end of March to discuss their unfinished book, and particularly the "Some Theoretical Implications" chapter. Presumably they would have talked some of the remaining issues out. In the end, he put together the book, destined to be a classic, while deemphasizing the fact that the book was in certain important respects unfinished from the standpoint of the authors' original intentions.

In addition to the forty-two page hand-edited typescript of the missing theoretical chapter (entitled "A Conceptual Interlude") the extant manuscripts include a nineteen-page typescript consisting of section 1 and part of section 2 (entitled "Some Theoretical Implications") in which Sweezy's handwritten edits to the earlier forty-two-page version had been entered, with new content added near the end. It seems clear that Baran prepared this shorter, more finished typescript—a substantially rewritten version of the early parts of the chapter—in the little more than two weeks before his death following their correspondence on the chapter that ended on March 9. The new version dealt with all of the issues addressed in Sweezy's March 2 letter (up to the point where the manuscript ended), while closely paralleling Baran's own thinking and language, including numerous specific points that he had expressed in their final correspondence. There is no extant record on what Sweezy thought of this partial, revised manuscript. We can presume, however, that it expressed their combined views.

Since Baran died before he could revise the later parts of the chapter (part of section 2 and sections 3 and 4)—and prior to what would surely have been intensive discussions of it at the end of March when Sweezy was scheduled to arrive in Palo Alto—their final exchanges on it take on great importance. We are therefore publishing what we are calling the "Last Letters" here as well to supplement "Some Theoretical Implications."

It is this set of materials—the two extant versions plus the comments, edits, and letters—that together form the basis for this version of the chapter. The nineteen-page, more polished manuscript ("Some Theoretical Implications") is used for the beginning, after which the earlier hand-edited version ("A Conceptual Interlude") is used. All of Sweezy's definite edits and corrections

have been entered (with only two significant exceptions, which are noted). Where unresolved issues remained for the two authors this is indicated in the editor's notes to "Some Theoretical Implications" and the "Last Letters" or in this introduction. The "Last Letters" provide deeper theoretical insights into the chapter, and particularly its final section 4, and therefore can be considered an integral part of the whole.

The Argument

Monopoly Capital begins with a criticism of social science—both bourgeois and Marxian. In the case of bourgeois social science Baran and Sweezy pointed to the paradox "of more and better trained social scientists failing ever more glaringly to explain social reality." Narrow specialization and a proclivity for avoiding the big truths means that "bourgeois social science has abdicated all responsibility."⁷ It had long since departed from Hegel's dictum that "the truth is the whole" and no longer attempted to understand the social order in its entirety.⁸

In contrast, "the stagnation of Marxian social science, its lagging vitality and fruitfulness," had different causes, and could be traced to a significant extent to the fact that "the Marxian analysis of capitalism still rests in the final analysis on the assumption of a competitive economy." It was the failure of Marxian theory—despite the brilliant start made by such theorists as Hilferding and Lenin—to explore the theoretical implications of the transition from competitive to monopoly capitalism, i.e., the growth of an economy dominated by giant corporations, which was then the key factor in the decreasing relevance of the Marxian critique.

However, rather than pursuing the issue of the theoretical shortcomings of social science, Baran and Sweezy went on in their book to provide an analysis of monopoly capital's laws of motion, including their famous descriptions of the tendency of the surplus to rise, and of the various ways the problem of surplus absorption manifested itself with respect to capitalist consumption and investment, the sales effort, civilian government spending, and militarism and imperialism. Their conclusion was that the "normal state" of monopoly capitalism was stagnation, i.e., a condition of slow growth, rising unemployment, and excess capacity—countered in part by expanding waste and irrationality. A chapter "On the History of Monopoly Capitalism" showed the relation of these tendencies to developments earlier in the twentieth century.

It was following all of this that the chapter on “Some Theoretical Implications” was to have appeared, returning to the issue of the stagnation of social science, both bourgeois and Marxian, with the focus particularly on economic analysis. The chapter was also meant to hammer home the irrationality of the system of monopoly capital, thus setting up the remaining chapters, which would deal with the wider sociological implications, culminating in the description of “The Irrational System” at the end. Most importantly, the chapter was to have provided the core theoretical basis of the concept of economic surplus, relating it to the value of labor power and real wages, i.e., to the Marxian theory of exploitation.

“Some Theoretical Implications” commenced with a critique of bourgeois economics for its escape from reality. This was attributed not simply to subjective factors but to the growth of monopoly capitalism itself. Marx had attributed the shift to apologetics in bourgeois economics beginning in the 1830s to the bourgeois conquest of the state and the increasing polarization between the capitalist class and the working class. Baran and Sweezy, however, argued that Marx was looking at the precursors of what was to prove to be a larger development. The real shift towards apologetics associated with the rise of marginalist economics, they claimed, could be seen as emerging beginning in the 1870s. This was related to the transition of the capitalist system from a relatively progressive competitive stage to a retrograde monopoly stage. The contradiction between the growing potential to meet human needs through the development of the forces of production and the actual stagnation in the relations of production of the monopoly capitalist system engendered an impasse that was ever more irrational and destructive. As Baran had written in *The Political Economy of Growth*, “And yet such is the dialectic of the historical process that *within the framework of monopoly capitalism* the most abominable, the most destructive features of the capitalist order become the very foundations of its continuing existence — just as slavery was the *conditio sine qua non* of its emergence.”

Hence in the monopoly stage the “commitment” of the economics discipline “to defend a retrograde system,” Baran and Sweezy argued in “Some Theoretical Implications,” became “an insuperable obstacle to rational thought.” This meant that all systematic consideration of the emergence of monopoly capital even as to its existence, let alone its causal consequences, was necessarily placed out of bounds for liberal economics. If, as Marx said, the “nectar of progress” was drunk from the “skulls of the slain,” these skulls had, arguably, mounted even faster under monopoly capitalism than in the period of capitalism’s “greatest rapacity.”

Bourgeois thought in general, they explained, had historically relied on the notion of the autonomous individual. Drawing on C.B. Macpherson's recently published *Political Theory of Possessive Individualism*, Baran (in his final revisions to the chapter) pointed to how this outlook arose in the early bourgeois revolution in the work of figures like Hobbes, Locke, Hume, and Voltaire. The notion of the autonomous individual driven by acquisitive appetites was crucial in the attempt to justify a society that purported to develop in service of the needs and wants of the individual. Such a justification naturally demanded that the economy and society not be seen as governing the individual, determining the consumer's "revealed preferences," since in that case it would constitute a circular argument, undermining its apologetic purpose. Yet, circularity of this sort was impossible to avoid in a system of apologetics that had entirely severed its last remaining links to realism—propounding the notion of consumer sovereignty under conditions of monopoly capitalism where corporations artificially generated wants.

In fact, so absurd did the concept of the autonomous individual as the basis of the structure of the modern economy become under monopoly capitalism, Baran and Sweezy argued, that bourgeois economics was forced to go even further down the road to make-believe and substitute the notion of the "rational" individual, whose actual existence is regarded *ex hypothesi* as irrelevant. Evermore far-fetched and extreme notions of "rationalization" as the basis for economic models were the result. In the work of Lionel Robbins at the London School of Economics (a close associate of Hayek and a forerunner of neoliberalism) and George Stigler (of the Chicago School) all historical specificity of economics was cast out and it was reformulated as a permanent, transhistorical set of relations based on abstract rationality.

In this approach, Baran and Sweezy insisted, the individual was simply a monad of "rational behavior," representing an "absolute standard of perfection independent of time and space." In this way they anticipated nearly half a century ago the extreme shift of orthodox economics towards what was to be called "rational expectations" or what John Cassidy has aptly dubbed "rational irrationality." No longer trying to maintain even a remote relation to reality in the age of monopoly capital, bourgeois economics chose rationalized irrationalism, the philosophy of the self-regulating market, backed up by evermore arcane economic models. Having declared reality irrelevant, orthodox economists not ineffectively carried out their role of defending a system that, on anything remotely like realistic assumptions, was clearly and irredeemably flawed.

A case in point is Stigler's contention that "The professional study of economics makes one politically conservative"—a proposition that, as one mainstream economist has recently indicated, "could be translated as saying that acquiring the intellectual values of a professional economist (valuing rigorous theory based on precise assumptions about rational individuals who compete with each other)" leads to "conclusions that are favourable to free markets." The verdict here, however, is contained in the unrealistic assumptions themselves—a circular reasoning that deliberately excludes all meaningful questions of class, power, inequality, monopoly, the state, historical change, uncertainty, etc. It was the virtue of Baran and Sweezy's critique to show almost five decades ago that this was the absurd result toward which economic orthodoxy was headed, as a result of its own apologetic logic in an age of increasing irrationality.

The result was the impending collapse of any meaningful holistic perspective within orthodox economics, even as its knowledge of some of the more technical aspects of the economic process continued to expand. Such prevailing notions as consumer sovereignty, the rationality of production, a smooth-operating price mechanism, the functionality of profits, the centrality of investment, the possibility for meaningful social reform, etc., all crumbled, along with the belief in competition itself, with the advent of the monopoly capitalist order.

If bourgeois thought had abdicated its responsibility to address the reality of capitalism the same could not be said of Marxian political economy. For Baran and Sweezy "it constituted the only basis from which it is possible to visualize the overall function of the 'corporate system.'" But Marxian economic theory desperately needed to be updated in order to address the changes in accumulation wrought by monopoly capitalism. This involved introducing the concept of economic surplus, or simply surplus (i.e., "the difference between total social output and the socially necessary costs of producing it"), as a category supplementing Marx's surplus value. In this perspective, the surplus category was a convenient device to raise issues not easily analyzed in terms of the surplus value, which remained nonetheless the base concept.

Having declared their intention to address this problem explicitly, Baran and Sweezy provided an extraordinary "thumbnail sketch" of the most important aspects of Marx's surplus value concept, including, most crucially, the value of labor power. For Marx, writing in the era of competitive capitalism, the value of labor power, corresponding to the basic basket of commodities

socially necessary to reproduce labor power (not just biologically but socially and productively), was *at any given time* an irreducible minimum, below which labor power and its availability in the quantity and quality needed would be impaired.

Like Marx, Baran and Sweezy contended that the value of labor power was composed of both biological and social-historical elements. The existence of an irreducible minimum did not mean that labor could not be paid, as Marx himself had argued, for considerable periods of time at rates below (or above) the value of labor power. But wage payments below this level had detrimental effects both on labor and on the reproduction of capital, and could not be sustained for long periods of time for most workers without reducing the supply of labor power.

Marx's argument was developed specifically in relation to the freely competitive capitalism of his time. In contrast, under monopoly capitalism, Baran and Sweezy argued, "the value of labor power ceases to be an irreducible magnitude; it becomes rather a flexible quantity susceptible to significant variations. Monopolistic profits can be earned under such circumstances not merely by the monopolists redistributing the aggregate surplus value in their favor, but by increasing what is appropriated by the capitalist class beyond the surplus value aggregate by means of a price policy that reduces the real wages of labor." This becomes possible because under monopoly capital, wages for considerable periods of time (and presumably in the monopoly sector) are able to rise above the value of labor power. In essence, workers (or some *relatively* privileged sectors within countries, or continents) are able for a period of time at least to capture a portion of surplus in their wages. With wages above the value of labor power workers are vulnerable in a new way to deductions from their real wages.

In order to explicate this Baran and Sweezy relied on a little known but important category from Marx's analysis known as "profits by deduction."¹⁵ Marx never provided a full explanation of his wage theory, which was to have been developed in his planned book *Wage Labor*.¹⁶ Nevertheless, Marx and Engels referred on numerous occasions to deductions from wages as a significant promoter of surplus value under capitalism. In the main this was treated as a situation where wages were reduced for considerable periods of time below the value of labor power with enormous damage to sections of the working population.

Perhaps the most explicit use of the concept in this sense was in Engels's preface to the second edition of *The Housing Question*, where he explained that

kitchen gardening and small-scale agriculture had allowed German workers to be paid exceptionally low wages generating extreme profit, in effect, a “deduction from normal [i.e., required for the social reproduction of the workers without small property] wages.” For Engels it was “the dead weight of such prices for labour, kept traditionally far below the value of labour power,” which depressed “also the wages of the urban workers, and even of the workers in the big cities, below the value of labour power; and this is all the more the case because poorly-paid domestic industry has taken the place of the old handicrafts in the towns as well, and here too depresses the general level of wages.”¹⁷ This was a condition that Marxian economists today commonly call “superexploitation.” Not only could wages rise above the value of labor power for some workers, for many workers belonging to what Marx called the “precarious” category, they frequently fell below.¹⁸ Even in the conditions of freely competitive capitalism, then, where wages fluctuated in a causally transparent manner, Marx sometimes referred to profits by deduction.

However, there was also another context in which Marx employed this category: in relation to monopoly price. Marx, as Sweezy had noted as early as 1942 in *The Theory of Capitalist Development*, had used the concept of profits by deduction to explain that a monopoly price might “depress wages below the value of labor-power, of course only to the extent that wages would be higher than the physical minimum of subsistence. In this case the monopoly price would be paid by [both] a deduction from the real wages of the workers (that is, from the quantity of use-values received by the laborer for the same quantity of labor) and from the profit of the other capitalists.”

Marx of course had in mind an economy that was still characterized in general by free competition so that monopoly pricing was treated as a local disturbance. But the concept of profits by deduction, which Marx had applied in this context, provided Baran and Sweezy with the clue with which to address the more complex wage struggles under monopoly capitalism, wherein wages were able to rise above the value of labor power for a time in a system characterized above all by problems of surplus absorption. Profits by deduction from real wages here meant that monopoly capital was able to attain additional surplus not only by shifting it from the more competitive sector but also by deducting it from wages themselves. In a letter to Sweezy on May 2, 1960, Baran had used the terms “reduction per alienation” and “profit by alienation” as equivalent expressions for profits by deduction under conditions of monopoly capital.

As Baran and Sweezy clearly recognized, this amounted to saying that under monopoly capital a part of surplus was incorporated in real wages, which were therefore raised above the value of labor power, particularly in the monopolistic sector.²¹ Thus as Sweezy put it in his March 2, 1964, letter to Baran, “profits by deduction” under monopoly capitalism means deductions “from a *price* of labor power which is well *above* its value.” That is, workers, partly through the actions of trade unions in the monopolistic sector of the economy, were able to raise wages above the level simply necessary to guarantee the supply of labor under the conditions then and now prevailing, in the centers of capitalism. Yet, this was hardly a straightforward progressive development because it took the form chiefly of the incorporation of unproductive labor and waste (i.e., specifically capitalist use values aimed at absorbing surplus) into the production of wage goods, in ways that diminished whatever qualitative gains workers experienced.²² If real wages were raised above the value of labor power under monopoly capital, then it was largely on the terms of the corporations rather than the workers.

This theory of wages grew out of Baran and Sweezy’s analysis of the interpenetration of the sales effort and production developed in Chapter 5 of *Monopoly Capital*. (See also the bread loaf example provided in section 4 of “Some Theoretical Implications.”) The economic surplus of society constituted its potential accumulation fund, part of which was now concealed (in a way that the surplus value calculus was ill-equipped to explain) in the wage goods of the workers themselves. Baran and Sweezy referred to this in their letters of March 3–7, 1964 (see below in this issue), as The Interpenetration Effect, reflecting the fact that it was no longer possible to distinguish the production costs of a commodity from its sales costs.

These developments and their implications for wages, as Sweezy observed in his March 2, 1964, notes on the chapter, helped explain the development of European social democracy (or what is today, misleadingly, referred to as “Fordism”). One of Baran’s chief concerns, in fact, was demarcating the manifold ways in which monopoly capital both increased wages above what would be considered the value of labor power (producing a sense that a strata of workers were now “middle class”) and at the same time promoted numerous deductions from wages—some by means of taxation. All of this reinforced a regime of economic waste and monopoly profits. Under monopoly capitalism wages and surplus were not determined simply at the level of production but within circulation too, greatly complicating the analysis.

In their final correspondence, Sweezy expressed his general agreement with this explanation but sought to place greater emphasis at the outset on how monopoly prices served to capture gains from increased productivity, in the dynamic context of rising real wages. As he stated in a note on the manuscript: "The point is that real wages of productive workers rise much more slowly than their productivity, with monopoly permitting the swelling surplus to be siphoned off in various forms." In presenting the argument on monopoly pricing and wages nearly two decades later in *Four Lectures on Marxism*, Sweezy wrote:

In addition to a redistribution of surplus value from more competitive to less competitive sectors, there could take place an increase in total surplus value at the expense of real wages (implying a rise in the rate of surplus value), if workers are unable to protect themselves against monopoly prices for wage goods. To this it might be objected that monopoly prices cannot raise the rate of surplus value except through depressing wages below the value of labor power, and this would be essentially an unstable and temporary effect. This objection, however, fails to see monopolization as a process that must be viewed historically and as an ongoing part of the accumulation process. While at any particular time the value of labor power can be treated as a given, over a period of time it tends to rise (because of increasing costs of producing labor power and workers' struggles to improve their standard of living). In this context, growing monopolization must be seen not as depressing wages below the value of labor power but as slowing down the rise in the value of labor power. To this extent, it favors capital against labor by raising the rate of surplus value above what it would otherwise have been.

There is no doubt that in his discussions with Baran slated for the end of March 1964, Sweezy would have emphasized the suppression of the potential growth of real wages (and the value of labor power) in relation to productivity, and how this was connected to monopoly profits and rising surplus. In contrast, Baran was focusing on the next stage in their argument: how the entry of unproductive expenditures into wage goods, understood as a deduction from real wages that had risen above the value of labor power, effected a net addition to surplus. Baran was the first major economist on the left to raise the issue of a coming inflation crisis and no doubt was thinking in terms of a much more intense struggle over income shares in which deductions from real wages would translate into new forms of class warfare. How exactly the two friends, who were agreed on the theory but were struggling with respect to its presentation, would have worked out these issues in the end will never be known.

A scrutiny of the manuscript of “Some Theoretical Implications,” and of the intense correspondence between the two authors in March 1964, makes it clear that although they were of the same mind on all essentials, and indeed all issues of substance, there were two aspects of the analysis that Baran and Sweezy had not had a chance to work out fully together at the time of the former’s death. Baran’s explanation of the retrograde character of the system dating back to the beginning of the monopoly capitalist era (and its effects on economic theory) was introduced into the final revised manuscript. This was a novel explanation (though based on Marx) of capitalism’s shift from a progressive to a regressive system, emphasizing the growing contradiction between the *potential* of society to meet genuine human needs and the *actual* limitations posed by existing property relations—together with the increasing destructiveness of the system. Although Sweezy could hardly have been expected to disagree, the two authors had not yet settled on the precise manner in which this argument was to be presented.

The other, more important issue, as we have seen, was the explanation of the relation of the economic surplus concept to surplus value. The fact that workers had seemingly captured a portion of surplus—but on terms promoted by monopoly capital, whereby unproductive expenditures were incorporated into production itself—was integral to Baran and Sweezy’s entire argument with respect to “The Irrational System.” However, they were still struggling on how to best to explain this at the time of Baran’s death. Sweezy, as he said in the preface to the published book, clearly had some “important questions” remaining about the draft of the chapter. He concluded that he could not have resolved these without “diminishing the joint character of the work.” He could neither publish it as it was nor in good conscience change or substantially add to what had been written. As a result, he no doubt decided to leave this important work to the “gnawing criticism of the mice,” with all the more certainty given the reference to *Selbstverständigung* by Baran in his final words on the subject in the unfinished letter on his desk.

Once that decision was made there was for Sweezy no going back. Baran’s death under such conditions, when they were on the verge of completing what was to be the crowning argument of what they referred to as their “opus,” was undoubtedly such a painful experience that Sweezy was understandably reluctant in later years to return to the subject of the missing chapters. Moreover, as the published version of *Monopoly Capital* took on a life of its own a resurrection of the missing chapters became in many ways more, not less, difficult. For us today, however, these considerations no

longer hold with the result that we do not hesitate to make this chapter of Baran and Sweezy's classic work available for the first time.

Present-Day Significance

What is the relevance of this missing chapter of *Monopoly Capital* today, fifty years after it was first drafted? The most obvious answer is that it clears up some questions with respect to the work itself. One persistent criticism of *Monopoly Capital*, presented by such traditionalist Marxian economists as Paul Mattick and Ernest Mandel, has been that Baran and Sweezy in developing the concept of economic surplus rejected Marxian value theory. This was strongly denied by Sweezy on more than one occasion, and various scholars have shown the allegation to be wrong through the systematic analysis of Baran and Sweezy's work.²⁷ In this chapter, however, we see precisely, in their own words, how they built on Marx's theory of surplus value, with the intention not of abandoning it, but of supplementing that analysis in ways that addressed the specific problems of our age. The idea that Baran and Sweezy, individually or together, abandoned the labor theory of value can therefore be put to rest.²⁸

It should be added, moreover, that the question of the law of value raises issues from a historical materialist perspective that necessarily go beyond the understanding circumscribed by a transhistorical (and thus non-Marxian) labor theory of value.²⁹ The labor theory of value did not originate with Marx but from bourgeois political economy. Nor is it directly applicable to history before or after capitalism. Although it (and specifically surplus value) represents the key to capitalism's laws of motion, it does not, for that very reason, have the status within Marxian theory of a category in its perfection independent of time and space.³⁰ For Marx, as he made clear on numerous occasions, the law of value simply constituted the *modus operandi* of capitalist society. It therefore summed up the contradictions and depredations of capitalism, including the contradictions between use value and exchange value, and between wealth and value. The historical specificity and limits of the labor-value theory were thus crucial to Baran and Sweezy's perspective – precisely because the issue was the transition to a society governed by socialist rationality.³¹

"Some Theoretical Implications" also throws light on another criticism of *Monopoly Capital*, raised by such figures as James O'Connor, Michel Aglietta, M.C. Howard, and J.E. King, that it included no theory of wages,

leaving the concept of surplus undeveloped.³² Indeed, Robert Heilbroner mistakenly faulted the authors of *Monopoly Capital* for “their failure to include any wage or middle-class salary payments as part of surplus.” A close examination of their work (even without the chapter printed here) shows that the most important point of departure in their analysis of surplus was precisely the inclusion of such payments.³³ Based on the present chapter we now know that Baran and Sweezy directly addressed this question, and that it was the precise issue with which they were engaged at the time of Baran’s death.³⁴ Although a detailed wage theory was lacking in the published version of *Monopoly Capital*, the logic of the analysis made it clear what form this theory would need to take – and is now confirmed in the following work.

Indeed, in a paper delivered to the Socialist Scholars Conference on September 9–11, 1966, entitled “Exchange and Production Relations in Baran and Sweezy’s *Monopoly Capital*,” O’Connor sought to “outline the theory of wages...implicit in *Monopoly Capital*,” and so brilliantly accomplished this that he uncovered much of Baran and Sweezy’s own argument in the present missing chapter of *Monopoly Capital*, including the notion that wages incorporated an element of surplus and their reference to Piero Sraffa in this connection.³⁵ O’Connor wrote: “It is not merely that *more* people live off the surplus under monopoly capitalism; more important, the incomes of nearly everyone contains a surplus component. Certainly anyone who buys an automobile or any other consumer durable is paying for the selling costs embodied in the commodity, and thus his income must include an element of surplus.” Writing in the margins of his copy of O’Connor’s unpublished paper Sweezy commented at this point, “On re-reading this four years later (August 1970) I am inclined to think it is right and important.”³⁶

Others also reconstructed the essence of Baran and Sweezy’s wage theory.³⁷ The concept of surplus itself made the basic wage relation evident, allowing various theorists to apply the concept statistically and to demonstrate a tendency for surplus to rise. Along with this was the recognition that some of this surplus was embedded in wage goods themselves (and that a considerable part of the surplus consisted of Department III expenditures – neither wage goods nor investment goods but pure surplus absorption – e.g., military spending).³⁸ Thus Edward N. Wolff noted in relation to Baran and Sweezy’s theory that “the portion of workers’ earnings spent on unproductive [expenditures] should be included in the surplus, since it constitutes a remittance to the capitalist class.”³⁹ It is wrong, then to say that Baran and Sweezy had “no theory of wages at all” underlying their analysis in *Monopoly Capital*. Rather the theory was left largely implicit

in the published book, while the explicit analysis of this existed in the form of an unpublished chapter.⁴⁰

It should be noted that Baran and Sweezy are not alone among Marxist theorists in advancing the key proposition that real wages can be for extended periods of time above the value of labor power (or the equilibrium wage). Arghiri Emmanuel independently advanced this same view, calling this the phenomenon of the “superwage.” According to Emmanuel, such a “long-standing superwage” could not arise under conditions of freely competitive capitalism but required an element of monopoly. Whether the superwage eventually led to a transformation of the value of labor power – that is, the basket of use values that defined the value of labor power (the “irreducible minimum” in any given period) – depended on a whole host of historical factors related to the class struggle.

In Baran and Sweezy’s case, however, the issue of the “superwage,” to use Emmanuel’s term, was connected to the central logic of monopoly capitalist society itself. Rather than the result simply of trade union action, it made it possible for a part of the surplus to be embodied within the wages and to be remitted to capital. Essentially monopoly capital could expand its unproductive expenditures, necessary for the absorption of the surplus, without the associated costs falling on corporations themselves. Instead such unproductive expenditures could be passed on through monopolistic pricing taking the form of deduction from wages – or, as Baran otherwise expressed it, “reduction per alienation.” For example, advertising, and marketing expenses more generally, became part of the cost of wage goods and were paid out of wages while not contributing anything to the qualitative use values that constituted the essential value of labor power. Thus recent estimates suggest that in the case of leading brands of dishwashing soap and toothpaste sold in the United States and entering into the wage-commodity baskets of workers, advertising alone accounts for 11–12 percent of the final retail cost, while in the case of a GM pickup advertising accounts for 4 percent of price. If the full cost of the sales effort as a whole, including model changes, product obsolescence, sales promotion, packaging, etc., were included, the share of waste built into the wage goods basket would be much higher still. Similarly, some “benefits” that are arguably to be included in wages are largely composed of the marketing costs and monopoly prices (“intellectual property”) of the obscenely profitable pharmaceutical companies.

By opening Marxian political economy up to new questions, related to the monopoly stage of capitalism, Baran and Sweezy therefore offered a revolutionary new perspective.

Why revolutionary? It should be remembered that Baran's introduction of the economic surplus concept in *The Political Economy Growth* was key to the development of revolutionary dependency theory in the periphery of the world capitalist economy in the 1950s and '60s. Baran and Sweezy's analysis in *Monopoly Capital* was revolutionary in the quite different sense of exposing the irrational and deeply exploitative character of accumulation at the center of the world economy (as well as the effects of this on the periphery), and the potential for a more radical approach to social change throughout the world. Although from the standpoint of both bourgeois and Marxian economics at the time they were writing the issues that they raised were often dismissed as secondary and inconvenient, interfering with the "elegance" of economic analysis based on notions of pure capitalism, today they have become absolutely essential to the comprehension of our ever more destructive world. The question of profits by deduction (or reduction per alienation) and its relation to monopoly power has been globalized today through the global labor arbitrage organized around the systematic exploitation of cheap labor in the global South at levels below the value of labor power, i.e., the costs of reproduction of the workers.⁴³ As Samir Amin has stated, this takes the form of a "monopoly rent" or "imperialist rent" imposed on the populations of the periphery through the agency of multinational capital.⁴⁴ Surplus meanwhile is incorporated in the real wages of the workers in the center of the world economy (as well as some relatively privileged workers in the global South). But this mainly compels workers to purchase the products of unproductive labor embodied in their wage goods (e.g., the plastic around the loaf of bread), the costs of which are mainly associated with the penetration of the sales effort into the production process. At the same time profits from deduction pay for the lion's share of the giant war machine of monopoly capitalism, the chief purpose of which is repression of populations in the periphery.⁴⁵

The surplus concept, and the growing irrationality of production itself, moreover, enables us to understand the deeper sources of the ecological exterminism associated with monopoly capitalism—as well as the potential for a social order that transcends this. Thus, the revolutionary ecological basis of Marxian political economy today rests on the ability to comprehend that Marx's general formula for capital $M-C-M'$ had now been transformed into

M-CK-M', where the commodity, C, is now increasingly a specifically capitalist use value, CK, embodying waste for the purposes of accumulation.

What Baran and Sweezy's analysis in "Some Theoretical Implications" thus highlights is the historically retrograde character of the system in which we live, in which the very real potential for solving the world's most pressing human and environmental problems is continually aborted by the actuality of monopoly capital—at the cost not only of the fulfillment of genuine human needs, but, more fundamentally, the very survival of humanity itself. It is in precisely this sense that István Mészáros has warned us of the "destructive uncontrollability" of the present system of capital, and hence the challenge and burden of our own historical time: to build a socialism for the twenty-first century.

Notes

1. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), ix.
2. John Bellamy Foster, *The Theory of Monopoly Capitalism* (New York: Monthly Review Press, 1986); John Bellamy Foster and Henryk Szlajfer, eds., *The Faltering Economy* (New York: Monthly Review Press, 1984).
3. The reference is to Karl Marx, "Preface," in *A Contribution to a Critique of Political Economy* (Moscow: Progress Publishers, 1970), 22.
4. This is the precise expression that Marx used in explaining why he and Engels had left *The German Ideology* to "the gnawing criticism of the mice": Wir überließen das Manuskript der nagenden Kritik der Mäuse um so williger, als wir unsern Hauptzweck erreicht hatten—Selbstverständigung ["We abandoned the manuscript to the gnawing criticism of the mice all the more willingly since we had achieved our main purpose—self-clarification."]. See <http://mlwerke.de>.
5. Paul M. Sweezy, "Paul A. Baran: A Personal Memoir," in Sweezy and Leo Huberman, eds., *Paul A. Baran: A Collective Portrait* (New York: Monthly Review Press, 1965), 48.
6. This is verified by the fact that the few isolated, one-word corrections on this final manuscript appear to be in Baran's handwriting, not Sweezy's.
7. Baran and Sweezy, *Monopoly Capital*, 2.
8. G.W.F. Hegel, *The Phenomenology of Spirit* (New York: Oxford University Press, 1977), 11. Quoted as in Baran and Sweezy, *Monopoly Capital*, xiv.
9. Baran and Sweezy, *Monopoly Capital*, 4.

10. Paul A. Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1957, 1962), xv.
11. John Cassidy, "Rational Irrationality," *New Yorker*, October 5, 2009, <http://newyorker.com>.
12. George Stigler, "The Politics of Political Economists," *The Quarterly Journal of Economics* 73, no. 4 (1959): 522-24; Roger E. Backhouse, *The Puzzle of Modern Economics* (Cambridge: Cambridge University Press, 2010), 184.
13. Baran and Sweezy, *Monopoly Capital*, 112.
14. See the discussion on Marx's wage theory in Ernest Mandel, *The Formation of the Economic Thought of Karl Marx* (New York: Monthly Review Press, 1971), 140-53.
15. Although referring at times to the deduction from wages as a means in which profit was enhanced, under conditions of the reduction of labor power below its value or through monopoly pricing, Marx was scornful of those in his day who saw this as a general explanation for surplus value. See his critique of Destutt de Tracy. Karl Marx, *Capital*, vol. 2 (Chicago: Charles H. Kerr, 1925), 560-70.
16. See Michael Lebowitz, *Beyond Capital: Marx's Political Economy of the Working Class* (New York: St. Martin's Press, 1992).
17. Frederick Engels, *The Housing Question* (Moscow: Progress Publishers, 1979), 14-15. See also Engels to August Bebel, December 11, 1884, in Marx and Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1975), 359.
18. Karl Marx, *Capital*, vol. I (Chicago: Charles H. Kerr, 1906), 502-25, and 703-10; and *Capital*, vol. 3 (Chicago: Charles H. Kerr, 1909), 103-4, and 289-93.
19. Marx, *Capital*, vol. 3, 1003-4. Paul M. Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1942), 272-73. In the quote here, Marx was abstracting, as he often did in his critique of political economy, from those cases where the price of labor power fell below its value, adhering strictly to the assumption of equal exchange. Yet, he also dropped this assumption at various points in his argument, in addressing the historical realities of capitalism.
20. Paul A. Baran and Paul M. Sweezy, "Two Letters on Monopoly Capital Theory," *Monthly Review* 62, no. 7 (December 2010): 43-46. In this letter Baran stated that "milking v [variable capital or wage] recipients is 'profit by alienation' and constitutes a net addendum to surplus value."
21. In "Some Theoretical Implications" Baran and Sweezy referred to Piero Sraffa's argument that wages could "include a share of the surplus product." See *Production of Commodities by Means of Commodities* (Cambridge: Cambridge University Press, 1960), 9. The purposes to which they put this, however, were quite different from Sraffa.
22. In classical Marxian theory, unproductive labor means labor that does not generate surplus value but which is paid for out of surplus value already created. Baran gave an extended meaning to this (from the standpoint of a rational socialist society) defining it as "all labor resulting in the output of goods and services the demand for which is attributable to the specific conditions and

- relationships of the capitalist system, and which would be absent in a rationally ordered society." Baran, *The Political Economy of Growth*, 32. The two definitions overlapped but were not entirely the same. Although the first definition was consistent with the surplus value category, the latter raised the larger set of questions associated with economic surplus in Baran and Sweezy's terms.
23. It is significant that Baran's final edits to this chapter were sent off to Sweezy on March 5, 1964, during this last round of correspondence.
 24. See John Bellamy Foster, "The Fetish of Fordism," *Monthly Review* 39, no. 10 (March 1988): 14-33.
 25. Paul M. Sweezy, *Four Lectures on Marxism* (New York: Monthly Review Press, 1981), 68-69. Sweezy continued to emphasize the expansion of unproductive "costs of circulation" made possible by the regime of monopoly pricing. See *Ibid.*, 69-70.
 26. See Paul M. Sweezy, "Baran and the Danger of Inflation," *Monthly Review* 26, no. 7 (December 1974): 11-14. When James O'Connor wrote "whatever the particular combination of tax and inflation finance, the effect is to reduce the rate of increase of real wages" he was writing in a Baran-like mode. James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), 43.
 27. Paul Mattick, *Anti-Bolshevik Communism* (London: Merlin Press, 1978), 191-92; Ernest Mandel, "The Labour Theory of Value and Monopoly Capitalism," *International Socialist Review* 29, no. 4 (July-August 1967): 34; Sweezy, "Monopoly Capital and the Theory of Value," Foster and Szlajfer, eds., 25-26. For an extended treatment of this debate see Foster, *Theory of Monopoly Capitalism*, 24-50.
 28. Although Baran and Sweezy saw the surplus concept as a useful analogue to surplus value it was seen as no more than that. Thus Sweezy in a letter to Baran on August 1, 1962 stressed the need to emphasize that "our conception of the surplus is in no conflict at all with Marx's surplus value." The basic conceptions on how to deal with the problems associated with the transformation of socially necessary costs and of "unproductive workers as eaters of surplus value," he noted, had already been described by Marx and that surplus concept was simply introduced to allow for the more expanded consideration of these phenomena under monopoly capitalism. "We want to appear as *developers* of Marxian theory, not *revisers*."
 29. That the law of value did not apply directly to socialism (and was severely compromised under monopoly capitalism) was a thesis propounded by Baran's early economics teacher in the Soviet Union, Evgeny Preobrazhensky, in his famous *New Economics* (New York: Oxford University Press, 1965), 21, 147-60. Sweezy indicated his own agreement with Preobrazhensky's position - insisting on the need for a radical rejection under socialism of the law of value and an approach to production based on social use and environmental conditions - in "Toward a Program of Studies of the Transition to Socialism," *Monthly Review* 23, no. 9 (February 1972): 1-13. Samir Amin has put forward the

- proposition that the law of value is subordinate to historical materialism. Samir Amin, *The Law of Value and Historical Materialism* (New York: Monthly Review Press, 1978), 3.
30. John Bellamy Foster, *Marx's Ecology* (New York: Monthly Review Press, 2000), 167–68. See also K. William Kapp, *Environmental Policies and Development Planning in Contemporary China and Other Essays* (The Hague: Mouton, 1974), 36–39.
 31. The question of historical specificity is relevant here in another sense. On May 2, 1960 Baran wrote to Sweezy: “For what I have been thinking about is that under competition [i.e. competitive capitalism] economic surplus is essentially identical with surplus value.” The difference between the two that emerged with monopoly capitalism, he explained, had to do with the disruption in “socially necessary” costs and the great expansion of unproductive expenditures, entering the wage-consumption basket of the workers themselves. The surplus category then becomes a convenient analogue to surplus value, addressing the many ways in which surplus is disguised and concealed under monopoly capitalism. Baran and Sweezy, “Two Letters on Monopoly Capital,” 43.
 32. James O’Connor, “Monopoly Capital,” *New Left Review* 40 (November–December, 1966): 46–47; M.C. Howard and J.E. King, *A History of Marxian Economics*, vol. 2 (Princeton: Princeton University Press, 1992), 122; Michel Aglietta, *A Theory of Capitalist Regulation*, (London: New Left Books, 1976), 31–32. Additionally, Harry Magdoff wrote in his review of the book that the issue of “socially necessary costs...requires further analysis.” See “Monopoly Capital,” *Economic Development and Cultural Change* 16, no. 1 (October 1967): 145–50.
 33. Robert Heilbroner, *Between Capitalism and Socialism* (New York: Vintage, 1970), 243.
 34. It should be mentioned that the question of wage theory occupied them early on. On February 12, 1958, Baran wrote to Sweezy: “Now a good theory of wages would be obviously mightily helpful.... [Sydney] Coontz notwithstanding, I cannot see my way clear to doing something useful with the cost-of-production-of-labor-power concept. It really begs the issue.... I fully agree with you that to explain the thing exclusively in terms of power struggle between capital is most unsatisfactory.” In the end, Baran worked his way toward a new theory based on Marx incorporating both of these elements.
 35. James O’Connor, “Exchange and Production Relations in Baran and Sweezy’s *Monopoly Capital*,” Socialist Scholar’s Conference, September 9–11, 1964 (*Monopoly Capital* review file, Monthly Review Foundation). In his review of *Monopoly Capital* in *The Nation*, O’Connor noted that the “total output is best thought of as the volume of ‘socially necessary’ consumption of productive labor—a concept with no exact empirical counterpart” in existing statistical categories. “Marxist Heavyweight Division,” *The Nation*, June 20, 1966, 749–50.

36. In response to another of O'Connor's contentions, that the distinction between productive and unproductive labor was no longer very meaningful since "unproductive as well as productive labor can create surplus," Sweezy wrote in the margin: "I wouldn't say unproductive labor can 'create' surplus."
37. See Ron Stanfield, *The Economic Surplus and Neo-Marxism* (Lexington, MA: Lexington Books, 1973), 7-8, 86; "A Revision of the Economic Surplus Concept," in Foster and Szlajfer, eds., 253.
38. In addition to Joseph D. Phillips' appendix on the economic surplus in *Monopoly Capital* itself see Michael Dawson and John Bellamy Foster, "The Tendency of the Surplus to Rise," in John B. Davis, ed., *The Economic Surplus in the Advanced Economies* (Brookfield, VT: Edward Elgar, 1992), 42-70; Edward N. Wolff, "Unproductive Labor and the Rate of Surplus Value in the United States, 1947-1967," *Research in Political Economy* 1 (1977): 87-115. Phillips and Dawson and Foster both acknowledged the categories of waste in the business process and the penetration of the sales effort into the production process without, however, actually including them, apart from advertising, in their estimates of the surplus, for which there was no reliable statistical basis. In both cases, however, the inclusion of advertising suggested the existence of a portion of total surplus that amounted to deductions from wages. The most elegant explanation of Department III is provided by Michal Kalecki in "The Marxian Reproduction Schemes and Modern Economics," in Foster and Szlajfer, eds., 151-66. See also Foster, "Marxian Economics and the State" in Foster and Szlajfer, eds., 325-49; Peter Custers, *Questioning Globalized Militarism* (London: Merlin Press, 2006), 51-63, 157-59, 206-18. The simplest model of Department III sees it as paid for completely out of surplus revenue (capitalists' consumption). However, once the existence of real wages above the value of labor power is recognized it is possible for some Department III expenditures, such as military spending, to be funded to a considerable degree out of the "surplus" component in wages (i.e., profits by deduction). This seems to have been Baran's view. See *The Political Economy of Growth*, 125-26.
39. Wolff, "Unproductive Labor," 88. See also Andreas Papandreou, *Paternalistic Capitalism* (Minneapolis: University of Minnesota Press, 1972), 61; and Kurt W. Rothschild, *Employment, Wages, and Income Distribution* (London: Routledge, 1993), 218.
40. Howard and King, 122.
41. Arghiri Emmanuel, *Unequal Exchange: A Study of the Imperialism of Trade* (New York: Monthly Review Press, 1972), 110-20, 127-28.
42. Robert W. McChesney, John Bellamy Foster, Inger L. Stole, and Hannah Holleman, "The Sales Effort and Monopoly Capital," *Monthly Review* 60, no. 11 (April 2009): 6. See also Douglas Dowd, *The Waste of Nations* (Boulder: Westview Press, 1989); Michael Dawson, *The Consumer Trap* (Urbana: University of Illinois Press, 2003).

43. John Bellamy Foster, Robert W. McChesney, and R. Jamil Jonna, "The Global Reserve Army of Labor and the New Imperialism," *Monthly Review* 63, no. 6 (November 2011): 1–31.
44. Samir Amin, "Audacity, More Audacity," *Pambazuka News*, December 1, 2011, <http://pambazuka.org>, and *The Law of Worldwide Value* (New York: Monthly Review Press, 2010).
45. One should not conclude from this that Baran and Sweezy attributed the surplus wages in the center primarily to the superexploitation of the periphery. Nor of course did they deny that there was some relation.
46. See John Bellamy Foster, "The Ecology of Marxian Political Economy," *Monthly Review* 63, no. 4 (September 2011): 12.
47. István Mészáros, *The Challenge and Burden of Historical Time* (New York: Monthly Review Press, 2008).

Source:

Monthly Review, 2012, Volume 64, Issue 03 (July-August)
monthlyreview.org/2012/07/01/a-missing-chapter-of-monopoly-capital