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8
U.S. Monopoly Capitalism: An Irrational System?

INTRODUCTION

Is U.S. capitalism an "irrational" system? Despite its having chased all competitors from the economic playing field, and despite its global political domination, could the system be described in such negative terms? Two Marxists, Paul Baran and Paul Sweezy, thought so. In 1966, they offered a famous explanation of their conclusion in a book entitled *Monopoly Capital: An Essay on the American Economic and Social Order.* In the final chapter to this book, called "The Irrational System," Baran and Sweezy argued that the giant firms that dominate our economy were in a permanent war with their employees, customers, and the entire society.

Baran and Sweezy were working to update Marx's work by looking at the huge multinational firms whose dominating power Marx saw on the horizon. Both Adam Smith and Marx had developed their ideas during a time when capitalism was considerably more competitive than it is now. Smith had warned his readers in *The Wealth of Nations* that the "joint stock" companies (corporations) emerging in Britain threatened the atomistic competition he championed. The big firms he warned against were still consolidating power when Marx wrote almost a century later. Thus, it was left to contemporary Marxists to study and theorize about giant firms in their developed states.

None of these Marxists have produced a richer analysis then Baran and Sweezy in *Monopoly Capital.* As they stated their central theme:

> We must recognize that competition, which was the predominant form of market relations in nineteenth-century Britain, has ceased to occupy that position, not only in Britain but everywhere else in the capitalist world. Today the

> typical economic unit in the capitalist world is not the small firm producing a negligible fraction of a homogeneous output for an anonymous market but a large-scale enterprise producing a significant share of the output of an industry, or even several industries, and able to control its prices, the volume of its production, and the types and amounts of its investments. The typical economic unit, in other words, has the attributes that were once thought to be possessed only by monopolies. (Baran and Sweezy 1966, 6)

Baran and Sweezy saw that although many industries go through a competitive phase, most become stable oligopolies—markets dominated by a few sellers. The result is that, as Marx predicted, for the last century most industries have been dominated by a few huge multinational firms. Each has substantial market power and vast economies of scale that allow it to make products at relatively low per-unit costs. To compete with a giant firm, as the owners of all small firms know, promises a predictable fate: in general, small fish will be gobbled up by the big ones, or will fail to swim at all in the low-cost world the big firms create. The gargantuan size of these big fish is demonstrated aptly in Figure 1.

When new competitors try to enter an industry, they face significant barriers. Consider, for instance, the formidable costs that would face anyone who wanted to produce automobiles for a profit. How much do you think it would cost to build a modern automobile plant that would compete with existing giants? Depending on the size, the cost could be in the hundreds of millions of dollars. It simply is not feasible for almost any person or small firm to put up this kind of money. Indeed, Marx saw the increasing complexity and cost of machinery as the principal reason that owners of small firms would ultimately be "hurled into the proletariat."

Age, size, and reputation confer other advantages on established firms that become barriers to new ones. Customers of an existing firm are familiar with its product, and often have significant brand name loyalty, which makes it difficult for new competitors to vie for business. And established firms may have long-term contracts with large buyers. How much do you think it would cost our new automobile magnate to establish brand name identity, loyalty, and the sales necessary just to pay for the factory? Currently, automobile firms spend in the *billions* of dollars *every year* to persuade you and me that buying their product will lead to adventures, make us cool, and even improve our love lives.

Another source of these firms' power is their ties with government. Whenever new competition from foreigners appears on the scene, firms do whatever they can to reduce that competition. When U.S. automakers faced competition from Japanese car producers in the 1980s, the U.S. firms did what the big firms always do in a pinch: they went crying to the government for help. Rather than build the smaller, better cars being imported, the firms coerced the government into putting a big import fee on Japanese cars. This move protected the price position of the auto giants, and cost Americans who bought any car during most of the 1980s about $1,000 extra.

Finally, large firms work together to eliminate competition. For instance, in markets where a handful of firms dominate, they avoid price competition by engaging in such forms of tacit collusion as price leadership, where one industry leader sets prices and the other firms follow suit.

Figure 1. Mega-Corporations that Dominate the World Economy: Some Revealing Data

- Fifty-one of the world's top 100 economies are corporations (the other 49 are countries).
- The combined sales of the world's top 200 corporations are greater than the combined economies of 182 countries, accounting for well over 25% of global GDP.
- Royal Dutch Shell's revenues are greater than Venezuela's GDP. Using this measurement, Wal-Mart is bigger than Indonesia; General Motors is roughly the same size as Ireland, New Zealand and Hungary combined.
- But the top 200 corporations have been net job destroyers in recent years. While they account for 27.5% of world output, they employ less than 1% of the world's people. Their massive size and productivity does not necessarily mean they are good at creating jobs.
- Ninety-nine of the 100 largest transnational corporations are from the industrialized countries.

Source: Corporate Watch, www.corpwatch.org, 2002

Because of all these formidable barriers to the entry of competitors, the giant, dominating firms behave as if they were a single firm. In fact, they act like monopolies, and that is why Baran and Sweezy used the term "monopoly capitalism" to apply to modern capitalist economies like the U.S. economy.

In addition to describing the behavior of corporations, Baran and Sweezy wrote about the expansion of government since Marx's time. They pointed to increases in military spending and the development of a social welfare state in the 1930s and 1960s. During these two decades, in response to the worst excesses of capitalism and to quell worker unrest, U.S. politicians created a number of social programs. The social security program, minimum wage and unemployment compensation laws, the Wagner Act giving workers the right to form unions, tax laws helping the middle and working classes to buy homes—all of these are prominent examples of social welfare programs that did not exist in Marx's time. (Interestingly, in *The Communist Manifesto* in 1848, Marx and Engels advocated a similar array of social welfare programs for workers along with some more dramatic steps.)

Baran and Sweezy also analyzed the actions of governments after the Great Depression to insure that businesses remained profitable: the goal was to avoid an investment slump that might cause another depression. For example, recently, Joseph Stiglitz, an economic advisor to Bill Clinton, World Bank economist, and Nobel Prize winner, has written about suspect government measures to boost aluminum prices. These were driven by Paul O'Neill, who, before becoming U.S. Treasury Secretary, was the CEO of Alcoa, the largest aluminum producer in the world. According to Stiglitz:

> Seven years [before he became Treasury Secretary], [O'Neill] had asked for [and got] government help in stopping market forces from operating because they were leading to a worldwide decline in aluminum prices. The aluminum industry concluded that the best way to restore "stability" to the market (meaning high prices and corporate profits) was an international cartel. This cartel put the ordinary workings of competitive markets aside: each member country was assigned a fixed output. (Stiglitz 2002)

This example has all elements of the monopoly capital drama: big government, big business, an international cartel, all brought together by an industrial-mogul-turned-government-official. But while these examples are recent, they reflect an old alliance between government and capitalists. As we

noted earlier in this book, Marx and Engels described government as executive committee of the bourgeoisie" in the *Communist Manifesto.*

In general, Baran and Sweezy criticized monopoly capitalism because thought that the huge firms that dominate it collude, merge and stifle i vation, generating rising profits in the process. But these rising profits ca always find outlets, leading to waste and even economic crises. And fin monopoly capitalism, like other forms of capitalism, invariably exploits l in its pursuit of profit.

For Baran and Sweezy, the giant multinationals that now run the w formed the center of an analysis of capitalism, so that is where we begin. I do these firms exert their power, and what are the consequences?

THE BEHAVIOR OF GIANT FIRMS IN MONOPOLY CAPITALISM

Baran and Sweezy argued that U.S. society is fundamentally organize maximize the profits of a few vast corporations. To them, this meant our society is structured to "maintain scarcity in the midst of poter plenty" (Baran and Sweezy 1966, 337). For example, in the United Sta one of the wealthiest countries in the world, millions live in abysmal po ty despite the vast wealth that exists for the few. In underdeveloped co tries, hundreds of millions of people suffer from disease and starvat even though there is enough food in the world for everyone and eno medicine to cure much existing disease. Baran and Sweezy, and most o political economists, see this inequality as an *inevitable* outcome monopoly capital.

Baran and Sweezy argued that inequality was an essential result of c talists' business strategies. Capitalists aimed to lower their production c but instead of passing the savings on to workers or consumers, they kept savings for themselves as increased profits. Considering capitalism's capa for production, innovation, and cost-cutting, Baran and Sweezy wrote:

> On the face of it this would seem to be an argument for monopoly capitalism's being considered a rational and progressive system. And if its cost-reducing proclivities could somehow be disentangled from monopoly pricing and a way could be found to utilize the fruits of increasing productivity for the benefit of society as a whole, the argument would indeed be a powerful one. But of course this is just what cannot be done. 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. (Baran and Sweezy 1966, 71)

Baran and Sweezy are talking about the long run tendency of the economy because in recessions, for example, profit margins fall, as do those of firms that can't compete in good or bad times. But the tendency of profit margins to increase over longer periods of time is a crucial characteristic of monopoly capital. While Marx believed that the more competitive form of capitalism that existed in his time would generate a declining rate of profit, Baran and Sweezy argued that under conditions of monopoly capitalism, the opposite would be true.

As an example of their point, Bill Gates boasted during anti-trust hearings that Microsoft had lowered the price of Windows and should not be prosecuted as a monopolist. What he neglected to mention was that costs had fallen so low that in 1997 Microsoft had the highest profit rate in the economy, with gross profit margins reaching 90 percent (Cassidy 1998a). Not only did Microsoft fail to match cost decreases with price decreases, but the firm even used its monopoly position to extract revenues from computer manufacturers that did not use the Microsoft Windows operating system. Microsoft charged computer manufacturers a per-processor fee on machines that installed other operating systems. They were able to do this because the computer manufacturers wanted to be able to sell Windows to the majority of their customers who "wanted" it; Microsoft took advantage of this need, and coerced them into paying for a copy of Windows for every processor they sold, whether Windows was installed on the machine or not! Similarly, The Gap, like most clothing manufacturers today, has taken to using sweatshop laborers in the Third World to make its clothes. Despite the lower wages The Gap now pays, the prices of its clothes have remained high. So firms like Microsoft and The Gap do indeed reduce costs, but they rarely pass on cost savings to consumers.

Why do firms go to such lengths to maximize profits? For one thing, profits are necessary for the "*accumulation of capital*" —the cycle of making profits to reinvest in capital goods in order to make more profits in the future. Accumulation is crucial for firms if they are to dominate markets and find new areas for investment. Capitalists also need profits because they generate the dividends and higher stock prices coveted by stockholders. And

CEOs and upper management are only too happy to pursue profits and growth (capital accumulation) on behalf of stockholders because most CEOs receive a huge percentage of their pay in the form of stock options. Indeed, the incentive of CEOs to inflate stock prices for their own benefit was behind the Enron, WorldCom, and many other corporate scandals in 2001 and 2002.

Like any gambler, a CEO or investor likes nothing more than a sure thing. Thus a primary goal of multinational corporations is to rig markets in their favor. They collude to avoid price competition, buy out or merge with competitors, and they move into new markets, but only once it is clear that the markets are profitable. We will explore the implications of these strategies below.

Tacit Collusion and Price Leadership

In any mature industry with monopoly power, there is virtually no price competition. Big corporations are reluctant to lower prices because that could spark a price war that would cost all the firms in the market. When prices increase, they tend to be matched because this can result in greater profits for the industry as a whole. If a company increases prices because it thinks it is in the interest of the whole industry, it will then wait to see if others follow suit. If they don't the leading firm will rescind the price change. As Baran and Sweezy described this kind of behavior, "it becomes relatively easy for the group as a whole to feel its way toward the price which maximizes the industry's profit" (Baran and Sweezy 1966, 61). In this manner—avoiding price cuts but matching most price increases—an industry can arrive at the price that a monopolist would charge, and that is why oligopolies end up pricing like monopolies. Baran and Sweezy noted that this behavior also "introduces a significant upward bias into the general price level", and they (correctly) predicted continuous inflation during the era of monopoly capitalism (Baran and Sweezy 1966, 62-3). For example, for the three decades prior to the oil price shocks of the 1970s, General Motors was the price leader in the auto industry, setting prices on models that were then matched by Ford and Chrysler. During this period it was not uncommon for automobile price increases to be three times the overall inflation level.

Often, we do see price competition when firms are fending off a foreign competitor or in less mature industries when firms are jockeying for market share. But most industries dominated by big firms settle into a stable, oligopolistic structure with little price competition. William Shepherd, who has

been charting the operations of U.S. oligopolies for decades, recently published a study confirming that today, "cooperation in price setting is extensive" (Shepherd 1997, 262). To give one recent example (among the many hundreds of instances we know of), from 1954 to 1994, the leading Ivy League colleges conspired to fix the scholarships offered to students who applied to several schools. Admissions officers met to decide exactly what amount to offer each student, thereby preventing students from seeking tuition discounts and preventing colleges from offering more generous scholarships to lure top students away from competing schools.

Buyouts and mergers

Even better than colluding with competitors is buying them out or absorbing them to lessen competition. Four of the last five decades have featured merger waves of increasing magnitude. As Table 1 shows, the last few years of the 1990s saw a wave of massive mergers as firms attempted to (a) lessen competition (a horizontal merger), (b) explore profitable new areas by buying into them (especially businesses with some overlap where there may be "synergies"), or (c) gain greater control over their costs of production by absorbing a supplier (a vertical merger). Mergers that lessen competition, like the one that formed Exxon-Mobil, could be prevented by the government under anti-trust laws, but successive U.S. presidents since 1980—Reagan, the two Bushes, and Clinton—have instructed the anti-trust division of the Justice Department to approve virtually all the mergers that firms have applied to undertake. This policy, which accepts jockeying between a few global giants as sufficient for a "competitive" economy, has allowed corporate behemoths to gain even greater market power. It is clear evidence of the complicity of government in the rise of massive corporations.

Ironically, William Shepherd notes that mergers often reduce efficiency: most mergers are actually "empire-building" strategies where a firm's main goal is simply to gain greater control over markets. As telecommunications, petrochemical and financial firms expand their empires, and Table 1 indicates that they are doing that, one might wonder how the individual consumer will fare in these markets. As our choices diminish, do you think we will be provided with better products at lower prices?

Big Firms and Innovation

A common belief about multinational corporations is that they are innovative, constantly designing new and better products for our consumption. Oligopolies are typically depicted in this way because they alone are supposed to have the funds to put into research and development. Others argue that firms in competitive markets will not undertake the cost of innovating because they know that their results will be stolen by competitors. While oligopolies can be sources of innovation, more often they stifle it. Veblen, of course, noted this tendency to stifle innovation in the nineteenth century, and called it a form of "industrial sabotage." Today, corporations manipulate patent and copyright laws to prevent the entry of new competitors, and they repackage items as "new and improved" when the product is essentially the same. Furthermore, instead of inventing new products, corporations often simply buy out path-breaking firms. As Baran and Sweezy observe:

> When a new industry or field of operations is being opened up, the big corporation tends to hold back deliberately and to allow individual entrepreneurs or small businesses to do the vital pioneering work. Many fail and

Table 1

24 Largest U.S. Mergers and Acquisitions, 1998-2000

Buyer	Seller	Year	Transaction Value ($Billions)
Pfizer Inc.	Warner-Lambert Co.	1999	116.1
America-On-Line	Time Warner	2000	106.0
Exxon	Mobil	1998	86.5
Travelers Group	Citicorp	1998	72.6
SBC Communications	Ameritech	1998	72.4
AT&T	Tele-Communications	1998	69.9
Vodafone Group PLC	Airtouch Comm.	1999	62.8
NationsBank	BankAmerica	1998	61.6
Bell Atlantic (Verizon)	GTE	1998	60.0
AT&T	MediaOne Group	1999	55.8
British Petroleum	Amoco	1998	55.0
Viacom	CBS	1999	50.2
Deutsche Telekom	VoiceStream Wireless	2000	41.6
Daimler Benz	Chrysler	1998	40.5
JDS Uniphase	SDL Inc.	2000	38.1
Chase Manhattan	J. P. Morgan	2000	36.5
Chevron	Texaco	2000	35.7
Qwest Communications	U.S. West Inc.	1999	34.7
Norwest	Wells Fargo	1998	34.4
Citigroup	Associates First Cap.	2000	30.8
Banc One	First Chicago	1998	29.6
BP Amoco PLC	ARCO	1999	26.6
Monsanto	Pharmacia & Upjohn	1999	25.8
Lucent Technologies	Ascend Comm.	1999	24.1

Source: Richard Du Boff and Edward Herman, "Mergers, Concentration, and the Erosion of Democracy," Monthly Review vol. 53, no. 1, May 2001, p. 15.

> drop out of the picture, but those which succeed trace out the most promising lines of development for the future. It is at this stage that the big corporations move to the center of the stage. ... The record of the giants is one of moving in, buying out and absorbing smaller creators. (Baran and Sweezy 1966, 49)

Meanwhile, the inventors are only too happy to be cashed out: "Indeed, to be bought out and absorbed is often the ultimate ambition of the small business" (Baran and Sweezy 1966, 74). The Internet boom at the end of the 1990s was the perfect illustration of this, as established firms looking to muscle in on the wave of the future snapped up new startups. In fact, as Shepherd documents, most innovations actually come from individuals or small firms, while corporate research labs account for only about one-third of major innovations. The only reason that we associate big companies with new products is that the big corporations buy up innovations and market them.

Monopoly capital's control of markets and relentless cost cutting can produce an increasing rate of profit—or, to use a term from Baran and Sweezy which we will explain shortly, a growing "surplus." While on the surface, this would seem to be a good thing for firms, Baran and Sweezy argued that it was a source of endemic instability in capitalism.

Rising Surpluses, Crises and Waste

In *Monopoly Capital*, Baran and Sweezy developed the concept of "surplus," which was related to, but not the same as, Marx's idea of surplus value. Baran and Sweezy defined the surplus as the difference between what society produces—its Gross Domestic Product—and the costs of producing it:

SURPLUS = GDP – PRODUCTION COSTS

Let's explore the implications of this formula. First, most costs of production are a reflection of the labor costs incurred—either wages or the cost of building machines and making inputs. Second, the "surplus" is a macroeconomic approximation of Marx's concept of surplus value, the part of the total value of output that does not go to workers but becomes profits or is paid to the government.[1]

Baran and Sweezy argue that under monopoly capitalism firms work tirelessly to lower production costs. In addition, as they grow, they control larger and larger segments of markets, and they can use this market power to increase prices. With downward pressure on costs and upward pressure on prices, Baran and Sweezy held that *there is an inherent tendency for the surplus to rise*. Hence a key economic issue becomes how the economy is able, or not able, to absorb this growing surplus.

These ideas recall the work of John Maynard Keynes, who discussed the circular flow of income among producers, workers, and consumers. In the Keynesian system, firms take in money and pay most of it out in wages and salaries. They pay some to banks that have loaned them money, some to the government in taxes, and they keep some as profits. When the money goes to workers, the workers spend most of it on consumer goods, pay some of it in taxes, and save what's left. In Baran and Sweezy's formulation of the surplus, they are looking at this circular flow of income from a slightly different perspective. In the formula above, Baran and Sweezy mean by production costs only those that are truly necessary, not all costs of production. As an example, in the auto industry this would include the wages and salaries paid to production workers, and the wages and salaries paid to those at other firms who supplied materials and machines to the autoworkers. If we subtract these necessary costs from total output, GDP, we get what's left, and what Baran and Sweezy call the "surplus." With that money, firms pay the owners profits, the banks interest, the government taxes, and they also spend enormous sums on such things as advertising, supervisors whose only job is to help drive down costs, officers of the firm, and so on. Thus, the surplus can be divided as follows:

SURPLUS = PROFITS + INTEREST + TAXES + ADVERTISING+ MANAGEMENT COSTS

Profits and interest payments are usually used to finance investment (I), and taxes are used to finance government spending (G). And Baran and Sweezy see spending on advertising and excess management as waste. So the formula for surplus can also be written as follows:

SURPLUS = I + G + CORPORATE WASTE

We can assume that most of what goes to workers in the form of production costs gets back into the system as consumption spending, but that is not necessarily true in the case of the surplus. Since significant parts of the surplus, particularly that paid to the owners as profits and to the government in taxes, will not automatically get back to the firms in the way of spending, it is a potential source of instability for the entire economy. This is not different, conceptually, from the total "leakages" in the Keynesian system: the surplus leaks out of the circular flow of income, and it must be returned in one form

or another. If the entire surplus is not returned, then some income generated from production is not spent, and some goods go unpurchased. The result is stagnation and recession as businesses cut production and lay off workers.[2]

More concretely, why must profits be reinvested? Why wouldn't corporate executives want to hold onto their profits? Fundamentally, firms must use the profits they keep as retained earnings to invest in new capital and grow; otherwise their stock value will fall because they will have a lower rate of return on capital. This means that their stockholders will be displeased, and their competitors will muscle in on their markets. Thus, all profits must find an outlet every year. Or, in other words, the accumulation of capital is an imperative for survival in capitalism: *businesses must grow or die.*

Similarly, profits that firms don't keep, but pay to banks and investors, must also find an outlet. All financial investment firms that earn money one year will want to earn more money next year by buying more stocks, bonds, or other such instruments. Or if the money goes to a bank which pays interest, the bank must find someone to loan that money to at an even higher rate of interest. Banks therefore need good investment opportunities. The imperative for the financial sector to reinvest is clear when one considers that the wealthy save much of their income: most of the surplus they receive from salaries, stocks, and bonds finds its way back into financial markets seeking a high rate of return. Thus, the generation of profits creates additional demands for future profits, the growth of financial speculation generates more speculation, and economic growth creates the demand for more economic growth.

The problem is that *there are only so many good investment opportunities in an economy*. Firms naturally seek out the surest, most profitable investment options and expand into these areas. But if firms run out of good opportunities, the expansion of investment itself becomes a problem. As Baran and Sweezy put it, "Sooner or later, excess capacity grows so large that it discourages further investment" (Baran and Sweezy 1966, 82). When this happens, as we know from Keynes, the dearth of investment and the excess of leakages over injections can cause a downturn. The only way to avoid a recession is to ensure that spending in other sectors goes up.

Are there enough alternative outlets for investment and spending? Baran and Sweezy didn't think so. Once existing investment outlets in an economy have been exhausted, capitalists must find new outlets, such as new techniques of production, new products, and new markets. However, new technology and products will not always be outlets for investment, because giant corporations frequently slow their introduction when it is more profitable to

do so. For example, shoes can now be manufactured, and fast food meals cooked and dispensed, entirely by machine. However, corporations still choose to use exploited labor to make these products because it is more profitable to do so. Companies have no incentive to invest in new technology given the current low level of wages.

Similarly, companies are often reluctant to introduce new products into markets that are already profitable. For example, IBM was reluctant to sell networked personal computers as long as its mainframe business was profitable. Microsoft ignored the Internet browser market until Netscape demonstrated the importance of the market for browser software. These examples tend to confirm Baran and Sweezy's conclusion that "new products and new processes ... tend to be introduced in a controlled fashion" (Baran and Sweezy 1966, 99). This means that monopoly capitalism is "simultaneously characterized by a rapid rate of technical progress and by the retention in use of a large amount of technologically obsolete equipment" (Baran and Sweezy 1966, 96). This is one example of the irrational nature of the U.S. economic system: corporations are desperately searching for opportunities to invest their profits, and in new technology they have perfect vehicle for profitable investment. But often, companies opt instead to hold onto their profits even while there are new technological advances and new products that could be explored.

Similarly, Baran and Sweezy noted that foreign investment cannot be counted on to absorb surplus in the long term (Baran and Sweezy 1966, 106). If foreign investment is profitable, and collectively it is, then it does not solve the surplus absorption problem because even greater profits from previous investments are coming back at the same time that new investments are being made. International flows of money in and out of the United States since they wrote their book confirm their argument. The profits from previous investments have been greater than new foreign investments for most years since 1966.

The end of the 1990s boom provided an example of what happens when profitable investment outlets dry up. During the mid-1990s, many firms and individuals invested in Internet startups and telecommunications technologies that were profitable or showed promise. These included startups like Netscape, and wireless telephone technology. By the late 1990s, the "sure things" had been exhausted, yet firms and investors continued to pump money into these sectors. Investors fell over each other to get a piece of companies that had never even sold a product, much less made a profit, because they had money to invest and no better place to put it. What was the end result of pumping all this money into the technology sector? In 2000, the sec-

tor crashed, slowing the rest of the economy. By 2002, stock prices had fallen to 1997 levels, and dozens of Internet startups and telecommunications companies were bankrupt.

Thus, the rising surplus generated by monopoly capitalism must find an outlet, but the investment opportunities are often insufficient. The ongoing problem of insufficient profitable investment outlets for the ever-increasing surplus means that *corporations must find other ways to dispose of the surplus*. One key way to dispose of the surplus is the sales effort: corporations pull out all the stops to sell more products, and simultaneously spend the expanding surplus.

The Sales Effort

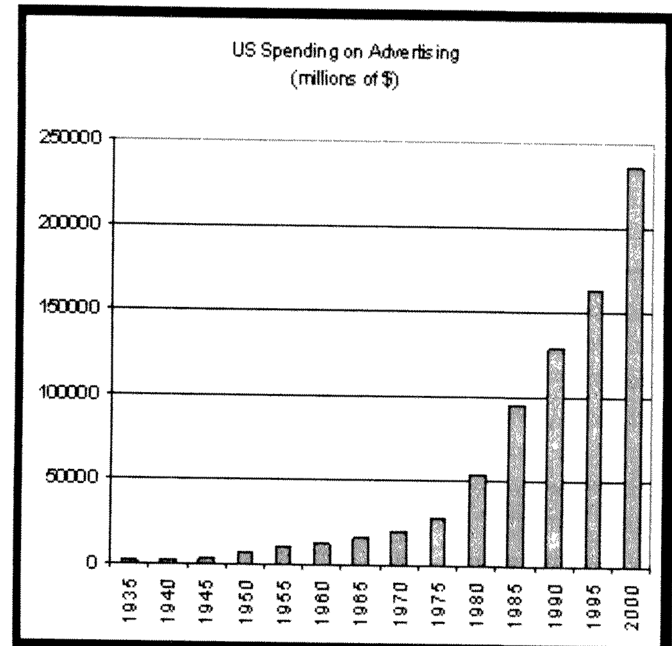
Whether or not corporations find outlets for all their profits, the total investment in capital goods, and thus in capacity, constantly expands. Except in cases of deep recession, U.S. firms' overall capacity to produce output has expanded throughout our history. That means that in good times, and even in many bad times, firms continue to add capacity to their production systems. However, a problem looms: as capacity increases, firms must find additional buyers for their products. Consumers buy about two-thirds of all output in U.S. capitalism, and so corporations' survival rests largely on the maintenance and growth of consumer spending.

For the sales effort to work, consumers must have enough income to buy their two-thirds share of the output. But consumers' "purchasing power" is always restricted by the efforts of corporate owners to cut workers' wages and salaries, and get more of the pie for themselves. Most political economists see the current sluggishness of the U.S. economy as a consequence of the redistribution of income since the middle 1990s, when money shifted from most people in the United States to those in the top 10%. The bottom 90% of the population spends a greater percentage of its income than the top 10%, so redistributing income from the bottom to the top reduces total consumer spending.

Particularly when workers' budgets are restricted, corporations know that consumers must be persuaded ever more emphatically to buy additional new products. Accordingly, corporations must devote increasing funds to the sales effort. No part of the theory of monopoly capital has proven so absolutely on target than the prediction that this sales effort would be ever more deleterious to society at large.

The sales effort has assumed a huge role in monopoly capitalism to provide outlets for the expanding surplus. Advertising's share of GDP has increased by 86 percent since 1945. In the year 2000, U.S. firms spent well over $200 billion hawking products to consumers here and abroad, filling consumers' attics and basements to capacity (See Figure 2).

Figure 2



One result of this explosion in advertising has been a drop in consumers' personal savings. The U.S. savings rate, which since 1940 has averaged 9 percent, reached a post-Depression low of 2.3 percent in 2001. The connection between the sales effort in the United States and low savings is direct: as F. M. Scherer documents, in the United States the savings rate is lower, and advertising spending as a percentage of GDP is higher, than in any other industrialized nation (Scherer 1990).

As Baran and Sweezy observed, the sales effort has evolved over time. "Price competition," they argued, "has largely receded as a means of attracting the public's custom, and has yielded to new ways of sales promotion: advertising, variation of the products' appearance and packaging, planned obsolescence, model changes, credit schemes, and the like" (Baran and Sweezy 1966, 115). All of us are familiar with the marketing of fraudulent newness for repackaged items, goods that are designed to wear out quickly and need

replacing, and ads connecting emotional attachments such as sex, love, family and adventure with products that cannot possibly deliver these things. We are discouraged from buying products for their utility value, from driving cars for their entire useful lives of 10 to 15 years, and from spending our money on things other than the latest consumer goods.

Baran and Sweezy added that the sales effort depends on the manipulative practice of branding. Because consumers know little about most of the products they buy, they are susceptible to labels, trademarks, and brand names which offer a sense of security in the product, whether real or imagined. Baran and Sweezy wrote that studies "show conclusively that individuals are influenced by advertising without being aware of that influence," and that "advertising induces the consumer to pay prices markedly higher than those charged for physically identical products which are not backed by suitable advertising techniques" (Baran and Sweezy 1966, 121). In other words, the sales effort in the 1960s, and more so now, is inherently dishonest and manipulative.

Advertising is an integral part of capitalism: it stimulates aggregate demand by creating new desires, it stimulates production, and it employs non-productive workers in ad agencies and the media. In all these ways, it offsets rising surpluses. Yet while the sales effort props up the system, Baran and Sweezy saw it as "a massive waste of resources, a continual drain on the consumer's income, and a systematic destruction of his freedom of choice between genuine alternatives" (Baran and Sweezy 1966, 122).

As Baran and Sweezy noted after Galbraith, the sales effort is also at war with everything else, which creates a social imbalance. It convinces us to ignore the slums and poverty, crumbling infrastructure and schools, and poisoned air and water. All of our public goods are sacrificed on the altar of products like SUVs—principal culprits in the advance of global warming. Is this truly a rational, optimal outcome that markets are generating—that optimal outcome that mainstream economists extol? Think about your own purchases of consumer goods, and consider some of the following data:

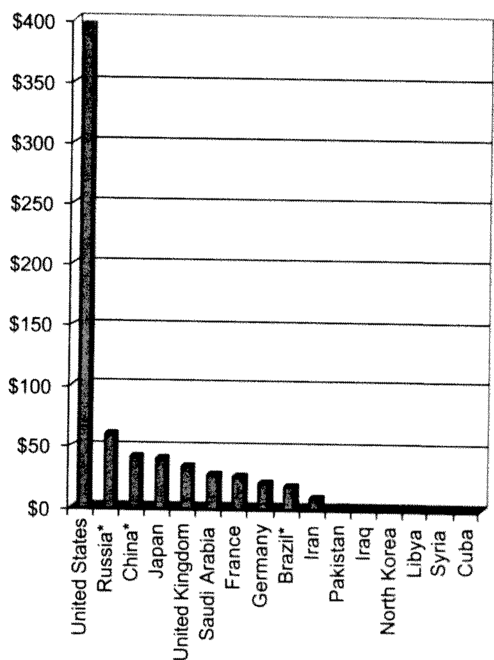
- On average, Americans now spend more than a year of their lives watching commercials.
- By age 20, the typical American will have seen 1 million commercials.
- On average, for every additional hour of television watched in the United States, consumer spending increases by $200.
- Parents average 6 hours per week shopping, but only 40 minutes per week playing with their children. While some shopping is clearly necessary, shopping for recreation now occupies a more prominent role in families than spending quality time with children.

So, do you think Baran and Sweezy themselves were rational when in 1966 they characterized the sales effort, and its results, as "wasteful" and "irrational"?

Government Absorption of Surplus

If investment falters and consumers don't buy enough to satisfy corporations, there is still one last great user of the surplus: the government. As monopoly capitalism has evolved, the government sector of every developed country, including the United States, has expanded, absorbing more and more of the surplus. U.S. government spending as a percentage of GDP increased steadily

Figure 3



Source: Center for Defense Information
*2000

from 10 percent in 1929 to 32 percent in 1995, before decreasing slightly to about 30 percent of GDP in 2001. *Laissez-faire* advocates who argue for lower taxes and less government spending miss a fundamental economic fact: if government spending and taxes were reduced, the private sector would have more money to spend, but it would also have more savings. When savings increase, firms must increase investment to prevent a recession. But as we discussed, there are problems with assuming that investment will automatically increase as the economy grows.

Much of the expansion of government spending in the United States has been in the area of military spending, which benefits corporations directly through defense contracts. Figure 3 starkly presents the extent to which the U.S. spending on defense exceeds that of other countries.

Even given the events of September 11, 2001 (from which our massive expenditures on defense did not protect us), it is not unreasonable to wonder how much of this spending is truly necessary, and how much is politically demanded by what President Dwight Eisenhower called the "military industrial complex." He was referring to the powerful influence that defense contractors like General Electric, General Motors, and AT&T have on government decisions to buy armaments. For decades, politicians have approved spending on weapons that the military has not asked for and does not want, just to stay in the good graces of defense contractors. For example, according to Senator John McCain, Congress added $7 billion in unrequested spending to the fiscal 2001 Defense Appropriations bill. Thus, some types of government spending, like most of the sales effort, are examples of the "waste" of the surplus. While these funds could refurbish schools—most of which are substandard in urban areas—they are wasted on weapons that even the military does not want.

On top of defense contracts, our government funnels money to corporations in the form of corporate welfare—subsidies and tax breaks amounting to over $150 billion per year. In a recent analysis, Anwar Shaikh and Ahmet Tonak demonstrate that these enormous givebacks to corporations leave very little to fund programs for lower and middle-income people:

> By and large, it is the taxes of the working population that essentially pay for ... state expenditures on health, education, Social Security, unemployment, public assistance, housing, and a host of other social programs. (Shaikh and Tonak 2000, 254)

Though government officials often suggest that poor "welfare queens" are stealing from taxpayers, the truth is that the amount of money transferred from the rich to the poor is negligible, amounting to about one half of one percent of total employee compensation. Baran and Sweezy note that "[u]ntil the New Deal period of the 1930s, there was not even any pretense that promoting the welfare of the lower classes was a responsibility of government" (Baran and Sweezy 1966, 159). The pretense now exists, but the United States is hardly bankrupting itself with its welfare program. In fact spending on welfare in 2002 was less in real terms than it has been in over two decades. Increasingly, the biggest recipients of welfare spending are corporations, which make sure the government they largely control takes good care of their "needs."

In general, large multinational corporations and their owners support greater military outlays, greater spending on highways, corporate welfare, and other measures that lead to higher profits, but they oppose efforts to increase taxes to meet social needs. Baran and Sweezy argue that these spending priorities are at odds with the goal of creating a just society. They note:

> While massive government spending for education and welfare tends to undermine [the oligarchy's] privileged position, the opposite is true of military spending. ... [M]ilitarization fosters all the reactionary and irrational forces in society, and inhibits or kills everything progressive and humane. Blind respect is engendered for authority; attitudes of docility and conformity are taught and enforced; dissent is treated as unpatriotic or even treasonable. (Baran and Sweezy 1966, 209)

Hence, while the government is a key absorber of surplus, the way the U.S. government absorbs surplus is typically most favorable to the giant firms, frequently wasteful, and contradictory to social needs.

We are left with an economy facing regular problems of too much surplus and inadequate levels of consumption and investment—for capitalists, that is, although not for human needs. The sales effort and government spending can absorb some of the surplus, although in the United States, these are particularly wasteful forms of spending. And even these efforts often fall short. The problem of surplus absorption under monopoly capital is so severe that in the last 150 years, only epoch-making innovations such as the railroads, automobiles, and information technology (computers), along with the sales effort and militarization, have been able to stave off the depressive effects of monop-

oly capitalism. Even with these innovations, the economy still regularly falls into recessions as demand fails to sustain the system.

Despite all of these problems with monopoly capitalism—the wasteful squandering of the surplus, the control and manipulation of markets at the expense of consumers—the system might still be justifiable if it produced other benefits. In particular, it might be defensible if it created opportunities for creative work that most Marxists see as essential to a decent life. So before we make a final judgment about this economic system we have, we must ask: What is the nature of wage work in the world of monopoly capital?

LABOR AND MONOPOLY CAPITAL

Baran and Sweezy argued that Marx's theory of alienation aptly described workers' experiences in monopoly capitalism. In their book, they wrote that workers are:

> being specialized and sorted, imprisoned in the narrow cells prepared for them by the division of labor, their faculties stunted and their minds diminished. And a threat to their security and peace of mind which already loomed large in Marx's day has grown in direct proportion to the spreading incidence and accelerated speed of technological change under monopoly capitalism. (Baran and Sweezy 1966, 343)

Baran and Sweezy went on to show in some detail how Marx's arguments about alienation remained applicable to U.S. capitalism. Not long after their book was published, Harry Braverman, one of their associates at Monthly Review Press, wrote *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century*. In 1996, David Gordon updated the story in another influential book, *Fat and Mean: The Corporate Squeeze of Working Americans and the Myth of Managerial "Downsizing."* We will focus briefly on these two books, which give a good picture of the lot of labor in monopoly capitalism. Many of these writers' conclusions about labor in our times were described with uncanny prescience by Marx in 1844 in his essay on Estranged Labor.

As is typical of capitalism, the problems begin with the accumulation process. The drive to accumulate more capital forces firms to invest in ever more productive techniques. One way to increase productivity and profits is to replace a highly skilled, expensive laborer with a machine operated by an unskilled laborer—a process known as *mechanization and deskilling*. When this happens, productivity rises, but workers are often left with mind-numbing jobs and low wages, or no job at all. Another way to increase productivity is by minutely controlling workers' time and motion so that they waste as little time as possible and perform every task in the most efficient manner. This is known simply as "speeding up the process." Again, the result is good for capitalists but bad for workers. Workers lose freedom, and their jobs involve less creativity; and these changes frequently lead to worse mental and physical health, as we explained in the chapter on social class. Braverman documents how this process has unfolded for 250 years, and makes this comment:

> [Deskilling means] the incessant breakdown of labor processes into simplified operations taught to workers as tasks. This leads to the conversion of the greatest possible mass of labor into work of the most elementary form, labor from which all conceptual elements have been removed and along with them most of the skill, knowledge, and understanding of production processes. ... [T]he more machinery that has been developed as an aid to labor, the more labor becomes a servant of machinery. (Braverman 1974, 319)

One of the profound ironies of capitalism is that machinery, which is particularly good at performing repetitive tasks, has not replaced monotonous labor. Instead, machines become the regulators of human work, forcing people to work faster and more efficiently at monotonous tasks. As we pointed out earlier, technology now exists that could allow shoes to be made entirely by machine. This would allow workers to do more creative work in design, programming, and overseeing the operations of machinery. Yet most shoes are made by low-wage workers huddling over old machines for long hours every day in unhealthy conditions. The design of production to enhance profit, rather than human creativity, means that most workers are consigned to a work life which denies them the opportunity to use their finest skills.

Braverman spent a good many pages describing mechanization and deskilling in the half century before he wrote his book. His examples included the following:

- Independent, self-supervising clerks and bookkeepers were converted into specialized workers who could not control or do the whole job.
- Skilled office workers, though once fairly independent, eventually became tied to a computer in a cubicle under the direct watch of a manager.
- Secretaries, doing multiple tasks in support of a manager or a few key

employees, were replaced by (a) specialized workers in administrative support doing one or two tasks all day long (e.g., typing, copying, mailing, lay out, etc.), or (b) outsourced workers, hired through firms that specialize in generically-structured secretarial tasks. (Notably, outsourced workers often work on a contingent basis, and therefore without any job security.)

- Skilled butchers were replaced by huge, semi-automated meat processing centers.
- Skilled carpenters were largely supplanted by factories that make machine-made components, and reduce the craft to nailing and screwing these parts together.

With the advent of powerful small computers, there seems to be no limit to the process of replacing skilled jobs with computer-guided machines and less skilled workers. Unfortunately, as workers have discovered over the last several decades, there is a qualitative difference between a skilled job and less-skilled job involving a computer or machine. A skilled carpentry job involves creativity and craftsmanship, where the worker controls much of the labor process and, because of her skill, is valued by the employer. A worker stapling the same edge of the same type of cabinet using a computer-guided machine has no control over the pace of work, and the work involves no creativity or imagination. And this worker is less likely to be valued and treated well because she can be easily replaced.

In Braverman's view, the drive for greater productivity in monopoly capitalism demands a complete disregard for human beings, the environment, and macroeconomic health. As he put it:

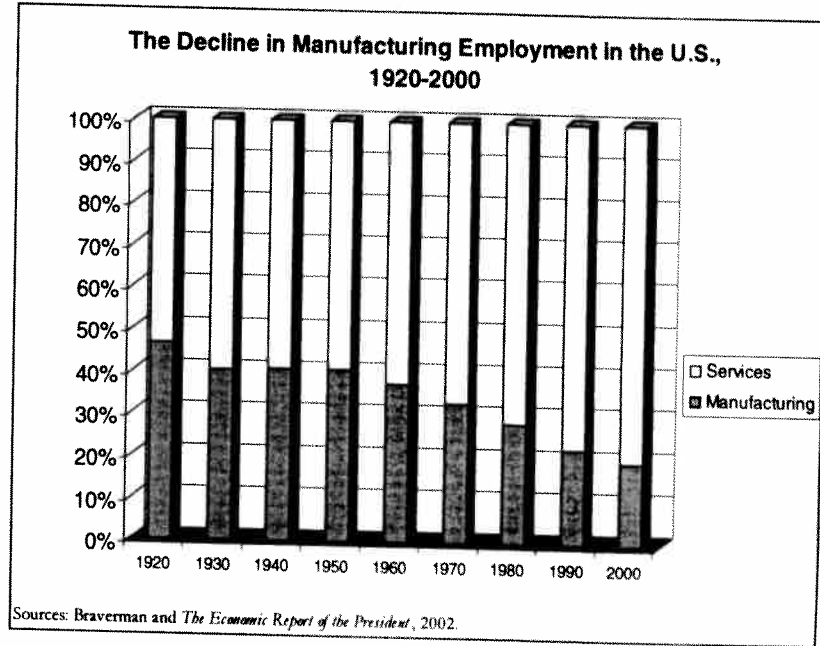
> [T]he increasing productivity of labor is neither sought nor utilized by capitalism from the point of view of the satisfaction of human needs. Rather, powered by the needs of the capital accumulation process, it becomes a frenzied drive which approaches the level of a generalized social insanity. Never is any level of productivity regarded as sufficient. In the automobile industry, a constantly diminishing number of workers produces, decade by decade, a growing number of increasingly degraded products which, as they are placed upon the streets and highways, poison and disrupt the entire social atmosphere—while at the same time the cities where motor vehicles are produced become centers of degraded labor on the one hand and permanent unemployment on the other. It is a measure of the manner in which

> capitalist standards have diverged from human standards that this situation is seen as representing a high degree of "economic efficiency." (Braverman 1974, 141)

Automobile firms are content to produce unsafe products subject to rollovers and other correctable design flaws. They do so in greater and greater quantities while using less and less labor, usually without considering the human and environmental damage they cause. They apparently give no thought, either, to the fact that as they lay off workers and cut wages, they undermine aggregate demand. Finally, U.S. automobile firms are perfectly comfortable moving operations overseas to take advantage of lower production costs, despite the economic devastation they leave behind. Cities such as Flint and Detroit, which depended on automobile jobs, have been economically destroyed by the flight of auto manufacturers.

The destruction of U.S. auto jobs is part of a century-long decline in manufacturing jobs, as machines have replaced workers. Figure 4 indicates that since 1920 the percentage of workers in manufacturing industries (including mining and construction) has declined substantially, and workers have been

Figure 4



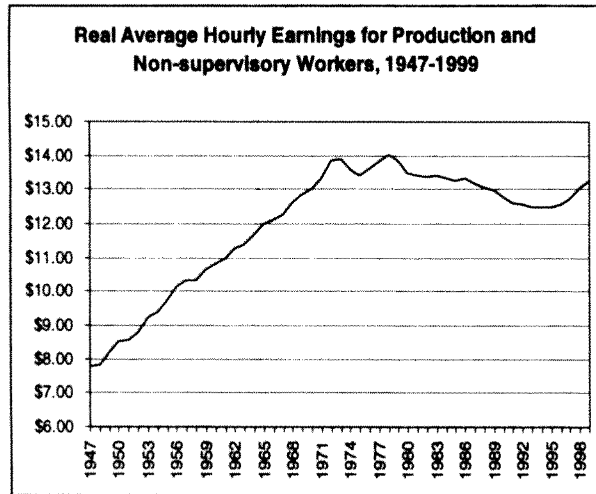
Sources: Braverman and *The Economic Report of the President*, 2002.

forced into the service sector. Because U.S. unions have not traditionally organized the service sector, wages there tend to be lower; thus, wages stagnate as manufacturing jobs are eliminated and laborers are thrust into the service sector. This in turn encourages service-sector employers to use old-fashioned, labor-intensive methods.

The shift to a service economy has helped produce a devastating fall in pay and benefits for U.S. workers. As Figure 5 shows, real wages for non-supervisory workers in the United States were lower in 1999 than they were in 1971.

Figure 5

Country	Real Compensation Growth (per year) 1979-1998
United Kingdom	1.72%
Germany	1.20%
France	1.00%
Italy	0.97%
Japan	0.93%
Canada	0.64%
United States	0.13%



Source: Economic Policy Institute (www.epinet.org), 2002

And the total compensation of these workers has lagged behind that of workers in other developed countries, including our major trading partners, for the past two decades.

In addition to the relentless downward pressure on wages and the loss of worker control, independence, and creativity, the U.S. labor market has other characteristics that make it bad for workers. In his book *Fat and Mean*, David Gordon demonstrated that U.S. firms are also over-managed and more bureaucratic than firms in other developed countries. According to Gordon, in the early 1970s, U.S. corporations adopted a "stick" strategy to control workers. They broke unions and drove down wages to increase profits. They moved manufacturing operations overseas, outsourced their production to low-cost manufacturers (also often overseas), sped up work, and cut wages in their U.S. operations. In order to keep laborers working hard under these conditions, employers added numerous supervisors to monitor employees. This is, according to Gordon, the "dirty little secret" of the U.S. economy. In 1994, 17.3 million supervisors earned $1.3 trillion in compensation, or 20 percent of national income. How is it possible that we have so many people who boss other people around? As Gordon noted in a 1996 article:

> The basic principle is simple. If a labor-management system relies on hierarchical principles for managing and supervising its front-line employees on the shop and office floors, then it needs more than just the front-line supervisors who directly oversee these workers. Who keeps the supervisors honest? What guarantees that those supervisors won't be in cahoots with their charges? In such a hierarchy, you need supervisors to supervise the supervisors ... and supervisors above them ... and managers to watch the higher-level supervisors ... and higher-level managers to watch the lower-level managers. (Gordon 1996b, 27)

Clearly, the only way to keep employees working hard under antagonistic, alienating conditions is to hire an army of supervisors to watch them carefully. Of course, as with so many of these aspects of capitalism, Marx was the first to observe that the factory was more analogous to the military, with several layers of hard-fisted sergeants keeping the troops in line.

Today, U.S. companies have more than three times as many supervisors per production worker as Germany and Japan, and five times as many as Sweden. This difference is explained by the more cooperative model of employment in these countries. Germany, Japan and Sweden employ the "carrot" method to increase productivity: workers are given job security, wage

incentives, strong union representation, and a role in making important decisions. Such cooperative environments don't require many bosses because workers are less likely to hate and resent their jobs. Of course, even the "carrot" method of motivating workers is a far cry from the kind of cooperative workplaces that most political economists advocate, where employees would have much more control over all aspects of work. But in the U.S., workers are goaded into working hard via the employment of the "stick": low wages, which might erode productivity, are countered by constant monitoring and the threat of unemployment.

Unfortunately for the United States, cooperative workplaces tend to be much more productive. As Gordon noted in the same article:

> [T]hose economies with more cooperative systems of labor relations also have more rapid productivity growth rates. And with more rapid productivity growth, there is room for financing more productive investments, for affording more rapid wage growth, and for maintaining a competitive edge in the global economy. (Gordon 1996b, 33)

Once again, the U.S. system is efficient at generating profits, but it lags behind other developed countries in terms of other goals, such as productivity and creating a humane workplace.

CONCLUSION

Were Baran and Sweezy reasonable to end their book with a chapter called "The Irrational System"—a sustained, mostly negative critique of U.S. capitalism? Their central claims were as follows:

- The U.S. economy is dominated by huge multinational corporations which do everything in their power to stifle competition;
- Stifling competition involves rigging markets through collusion, mergers, and buying protection from the government;
- The drive to accumulate capital is inherent in the system, as past profits require investment opportunities to generate the highest possible return;
- But the very expansion caused by investment and capital accumulation contains within it the seeds of regular recessions as investment opportunities dry up and aggregate demand proves insufficient;

- The U.S. government willingly participates in the system, shoring up firms with billions of dollars in corporate welfare and defense contracts;
- Multinational corporations are sometimes innovative, but they also stifle innovation when it is more profitable to do so;
- Firms work to expand markets as much as possible, wasting hundreds of billions of dollars annually on dishonest attempts to manipulate consumers;
- U.S. corporations relentlessly lower costs via mechanization and attacks on labor, but the cost savings are not generally passed on to consumers;
- The relentless drive to lower costs results in mechanization, deskilling, alienation, and low wages for U.S. workers, culminating in the employment of the "stick" strategy to coerce alienated workers into working hard.

So, what do you think? Are these arguments believable? And, if they are, do they illuminate an economic system that is fundamentally irrational? It's an interesting question early in the 21st century, a time when Americans are relentlessly told by the media, the sales effort, and their own government, exactly what the economic mainstream has always maintained: that capitalism, though it has a flaw or two, is the best of all possible systems, a remarkable testament to rational thought and hard work. Maybe so, maybe not.

Perhaps, finally, we should ask another question. Has reading this, and the other chapters, made you wonder if there might be a better way to shape and develop the economy? One that is less unequal—politically and in every other way? One that doesn't systematically destroy its habitat? One that is, well, a bit more rational than our own? We know that after reading material in a book like this one, such questions are as inevitable as the loud honk just after the traffic light turns green. That is why we conclude this book with a description of Sweden's modern welfare state—what they call "social democracy." For decades, the Swedes have been constructing a humane, efficient alternative to our kind of cowboy capitalism where the biggest crooks get the biggest paychecks. We will now see what the Swedes have wrought.

SUGGESTIONS FOR FURTHER READING

Baiman, Ron, Heather Boushey, and Dawn Saunders, editors, *Political Economy and Contemporary Capitalism: Radical Perspectives on Economic Theory and Policy*. Armonk, NY: M. E. Sharpe, 2000.