The Myth of Monopoly Capital

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Introduction

Many see the large corporation as synonymous with monopoly. This association makes large firms carry all the negatives linked to monopoly. This perception has its roots in the sinister actions attributed to the Robber Baronsthat every American learns in history books. Folson argues that this narrative is the work of the "Robber Baron"school of American business historians (Folson, 2010, p. Foreword). Large corporations are one of the favorite punching bags of politicians seeking to court public support (Schumpeter 2003, 100). Since monopolies restrict output and set prices, the economic efficiency characteristic of laissez-faire equilibrium is lost. When number competition no longer regulates prices and output, the result is consumer exploitation. Therefore, large firms are seeing as harmful to society's wellbeing (Metcalfe, 2007, p. 6). However, as Schumpeter and others have shown, this view of equating large corporations with monopoly power is simply a myth.

Capitalism's critics employ the rationale of monopoly to validate their call for more government control of the economy. State planners and their bureaucratic minions believe that the marketplace and Adam Smith's invisible hand are outmoded ideas rooted in classical economics. Given the experiences of planned economies during the last decades of the 20th Century, it is hard to imagine that this belief is resurging once again with a vengeance. The conclusion must be that old habits die-hard, people have short memories, or it is a combination of both.

Those Unenlightened Rubes

The Left is always complaining that when it comes to "progressive ideas" the U.S. is always lagging behind the more "enlightened" Europeans. President Obama succinctly expressed the Left's derision of those people unfortunate enough not to appreciate the progressives' view as rubes that "clinging to their religion, guns, and xenophobia." This euro-envy among the American Left seems to know no bounds.

To the dismay of the Left, the drive towards increasing state planning has yet to gain considerable traction in this country. The U.S. continues to remain a relatively much freer economy with much less government intrusion. However, many are concerned that this environment is coming close to its end. Their concern lies in the fact that many policies of the current administration are increasing government control of the economy and people's lives in general. In 2009, the president went against his base's desire for socialized medicine by scrapping the single-payer option from the healthcare law. However, this decision to go against his base's wish for socialized medicine didn't result from the president's belief in limited government. The scrapping of Obama Care's single-payer option was a necessary practical concession to ease the fears of many members of his own party in Congress. Enough Democrats in Congress were uneasy about supporting the healthcare law due to the public uproar that the single-payer option was causing. (The Public Option Goes

Over, 2009). If more government control of economic matters constitutes the remaking of America that the Left continues to proclaim since the elections of 2008, then the era of capitalism seems to be drawing to a close. Capitalism continues to survive because it continues to endure in the world's largest economy. American soil has been exceedingly fertile for the growth of a very rare but most important crop, the Schumpeterian entrepreneur. This fertile soil for entrepreneurial activity is America's comparative advantage over its competitors. Rockefeller, Edison, Ford, Sloan, Noyce, Jobs, Gates, and Zuckerman are just a small sample of that rare breed of individuals that inject new life into capitalism, and whose innovations constantly revolutionize society. Without a special environment that nurtures and promotes the growth of the Schumpeterian entrepreneur, capitalism would oxidizeand crumble. America's distinguishing characteristic has been its relatively freer markets due to relatively less government control. However, the belief in holding down the power of government has been progressively eroding in this country. If the U.S. follows the European example, it can be a guess that the day is not far when this country would surrender to statism.

Schumpeter and Marx

If this is what lies ahead for capitalism, then the conclusion must be that it was Schumpeter and not Marx that was right about the prospects for capitalism. In *Capitalism, Socialism, and Democracy*, Schumpeter, like Marx before him, ventures to offer a prognosis about the future of capitalism. However, unlike Marx, Schumpeter did not believe that capitalism's demise would result from the cumulative weight of its own deficiencies. Instead, Schumpeter attributes the possibility of capitalism's collapse to its own successes. He argues that capitalism's successes tend to undermine the social institutions that provide it protection. It's own achievements promote the conditions that would lead to its eventual downfall. Despite its amazing accomplishments, capitalism generates in many a hostile attitude towards it and an atmosphere of general condemnation. (Schumpeter, 2003, p. 61). In other words, the gravediggers of the system are not Marx's alienated, revolutionary workers, but the people that have benefited the most from capitalism's own success.

Marx was right when he argued that history repeats itself twice, the first time as tragedy, and the second time as farce. Therefore, recounting this farce can clarify the deception that is taking place. Those that continue to believe in the moral and economic superiority of other systems are involved in this farce. After all, capitalism's critics already forget the tragedy of those millions sacrificed at the altar of state planning during the last century. Churchill clearly understood this absurdity when he said that "Democracy is the worst form of government, except for all those other forms that have been tried from time to time." However, for all the demagoguery launched against the large firm, many in the Left see the large corporation asa managed form of capitalism superior to its chaotic laissez-faire counterpart. In other words, the large corporation represents the triumph of reason over anarchy (Metcalfe, 2007, pp. 9, 14-16). It is here that modern liberalism, i.e., progressivism stakes its reputation. Capitalism needs an ever-powerful state to smooth its edges to prevent the masses from lighting the torches, taking the pitchforks, and storming the castle. The visible hand of the ever-growing state must be at the controls of this powerful locomotive called capitalism in order to prevent it from flying off its rails.

On closer examination, the bundling of monopoly with the giant corporation reveals that this approach simply misses the point about capitalism's true nature. To begin with, capitalism is not static but a very dynamic system. The history of capitalism continues to show the revolutionizing effects caused by the successful innovations that entrepreneurs bring to market. This should not be the case if the large firms that exercise such powerful influence on the American economy were to have the monopoly power attributed to them. The purpose of monopolies, oligopolies, and other strategies such as these is to control competition by

regulating prices and output. However, the large corporation has not been able to tame the forces of competition. Capitalism continues to repeatedly show that strategies aimed at controlling the forces of creative destruction end up in failure. Managed capitalism and the increasing rationalization of production have not been able to eliminate, much less control the “gale of creative destruction” that results from entrepreneurial activity. As argued by Schumpeter, capitalism survives by constantly revolutionizing itself as it destroys the old and brings in the new (Schumpeter 2003, 67, 81-83). The innovations that are constantly revolutionizing our lives act as an elixir that keeps rejuvenating capitalism. These inventions prevent capitalism from growing old and rusty. Moore’s Law is a clear example of creative destruction at its best. In 1965, Gordon Moore predicted that the power of microprocessors would roughly double every two years while falling in cost (Raynor, 2011). Having a dominant market position is no guarantee that a large firm can keep competitors at bay. Examples abound of well-managed corporations being regularly surpassed or even succumbing when disruptive technologies invade their markets (Christensen, 1997, p. Introduction).In other words, monopoly capital is simply a myth. Attributing the mythical power of monopoly to large corporations is a farce.

The Dusty Shelves of Ideas

The fact that the theory of monopoly capital is a myth should not surprise most observers. The different variants of this theory that were popular at one point or other during the last century are now collecting soot in the dusty shelves of forgotten ideas. Although, this is no reason to believe that they are likely remain always forgotten. Those that continue to equate the large corporations with monopoly to go back from time to tome to the dustbin of ideas and dust off these theories to try to give credence to their argument. Discredited old ideas never die since a new label is sometimes all it takes to make them look respectable. For instance, Friedman argued that by the 1960s most economists were Keynesians. After the stagflation of the 1970s, some were proclaiming the dead of Keynesianism. Hayek realized that times were changing with the advent of Thatcherism, Reaganomics and the collapse of the Soviet Union (Wapshott, 2011, pp. 286-287). However, by 2008the shelves where Keynes’ stimulus ideas had been collecting dust were looking spiffy once again. All those politicians trying to deal with the recession were hastily borrowing from Keynes’ once more. Hayek seemed to fall into obscurity once again. As events would have it, by 2010 Keynesianism’s ascendancy was proving short-lived. In the U.S., the accumulation of massive deficits and mounting national debt coupled with the European bailouts, led many to reconsider the wisdom of Keynesian stimulus policies. Hayek’s hiatus was brief indeed (Wapshott, 2011, p. 293).

The reason why the theory of monopoly capital is fading into obscurity is not difficult to identify. A theory proves its mettle in practice. Experience constantly tests its tenets and claims. When a theory is no longer a photocopy of experience, necessity dictates using other explanations, or developing new ones. This is nothing new. Commonsense commands this much. To hold on to a theory that is contradictory to experience is the basis of dogmatism, ideology and tyrannical traditions. To follow Schumpeter’s interpretation, theories are tools whose utility depend on how well they help explain phenomena (Caldwell, 2004, pp. 109-110). It is interesting that Burke (Burke, 1999, p. 492)and Marx (Marx 1983, 155-158)agreed on this point. Whoever said that Marx was his own biggest critic was on to something.

“The Perennial Gale of Creative Destruction”

The accelerated pace that Schumpeter’s “perennial gale of creative destruction” has taken during the last quarter of the twentieth century continues to show the many shortcomings of the theory of monopoly capital.

The technological revolutions that have taken place in the economy over the past three decades are a clear example of this. However, before the drastic changes spearheaded by the microprocessor and a myriad of other successful innovations took effect, the U.S. economy was in an apparent technological funk. Any economist proclaiming the virtues of Schumpeter's creative destruction would have been considered ripe for the asylum. Many had come to believe that the Soviet Union would surpass the U.S. in technological achievements. Notice Nikita Khrushchev's famous shoe banging incident at the UN in 1960. When the technological marvels of communism and a planned economy did not pan out, Japan's managed capitalist economy was all the rave. After all, Japanese companies were beginning to challenge America's economic dominance (The Economist, 2002).

Detroit's Big Three were beginning to experience the onslaught from Japanese vehicle manufacturers. However, what cannot be forgotten is that Japanese auto manufacturers were not immune either to the forces creative destruction. In 2004, Mitsubishi Motors avoided bankruptcy when other members of its keiretsu came to the rescue (The Economist, 2004). Renault acquired the struggling Nissan in 1999 (Andrews, 1999). Ford saved Mazda from collapse in 1979, although the American auto giant reduced its shares in the Mazda to just three percent in 2010 (Kageyma, 2010). Intel saw its leadership position in DRAM (dynamic random access memory) integrated circuits evaporate under intense competition of Japanese semiconductor companies (Christensen, 1997, p. 153). Japanese consumer electronics companies had all but decimated the electronic industry in the U.S. during this period. However, the revival of American tech companies along with competition from South Korean ones have some of the best known Japanese electronic companies fighting for survival (Slater, 2009).

The concept of creative destructiondoes not makes Schumpeter oblivious to the fact of monopoly. Actually, he is critical of the classical economists' assumption of perfect competition (Schumpeter 2003, 78). Anew successful product is likely to bring monopoly profits to its owner (Schumpeter 2003, 105). Schumpeter's criticism is not about the impossibility of monopoly practices. What he argues is that creative destruction makes monopolies, oligopolies, and similar strategies unsustainable in the long-run. In other words, creative destruction continues to exert its considerable influence even when large corporations come to dominate the economy.

The number-theory of competition asserts that competition is proportional to the number of competitors in a particular industry. Therefore, the advent of the large corporation spelled a significant reduction in business competition. Schumpeter's understanding of competition goes beyond the model presented by the number-theory. Competition is not simply restricted to the number of firms involved. There is no doubt that price competitionis an important form of competition. However, Schumpeter wants to emphasize that price competition is simply one of many other factors that businesses employ in the competitive struggle. Competition also includes such important factors as product quality, differentiation, and advertising, a new product or supply source, and scale of production. As he argues, what in the end increases output and brings down prices is these other factors and not simply price competition. As is the case of retail businesses, the competition that counts is not simply the abundance of the same type of stores. Ultimately, "the competition that matters arises from the department store, the chain store, the mail order house and the supermarket"(Schumpeter 2003, 84-85). Sears became a heavyweight in the retail business by introducing important innovations such as catalog sales, store brands, and store credit cards. Today, Sears is fighting for its survival. Christensen argues that Sears's problems stem from the fact that it ignored the competition from discount retailers and home centers. Visa and MasterCard did away with Sear'slead in store credit cards (Christensen, 1997, p. Introduction).

Schumpeterian Development

Schumpeter sees the successful innovations that entrepreneurs bring to market and the resultant revolutions that result from these as the factors contributing to economic development. Schumpeterian development is not that change brought about by economic and non-economic factors in the regular flow of things. Neither is Schumpeterian development the adaption to these changes. Schumpeterian development represents those changes that disrupt and alter the current order(Schumpeter 2002, 62-63).As he aptly describes it, development does not "consist in adding mail coaches to the existing stock of mail coaches, but in their elimination by railroads"(Schumpeter 1949, 210). In other words, creative destruction is endogenous to the system. If capitalism has a law of motion, this is certainly the one(Schumpeter 2003, 83). The Schumpeterian entrepreneur is the igniter of this process. The entrepreneur is responsible for the introduction of new combinations, products, supplies, markets, etc. As he explains, those firms producing stagecoaches were not responsible for the introduction of railroads (Schumpeter 2002, 66). IBM dominated the mainframe market, however DEC and others created the market for minicomputers. With the exception of IBM's stand-alone PC division, none of these companies was responsible for creating the PC market. Those companies that created the PC market did not create the workstation market either. Sun and Silicon Graphics were all new market entrants (Christensen, 1997, p. Introduction).

Creative destruction is capital's disciplining force. Without this discipline, it would be impossible for firms to become more efficient and for capitalism to survive. The entrepreneurs responsible for creative destruction are the reason for the failure of Luddism. Capitalism develops by constantly revolutionizing itself and by consequence everything around it (Schumpeter 1949, 210). Marx expressed the same thought when he argued that "the bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society" (Marx & Engels, 2002, p. 222). However, there is always resistance to innovation. From the mild forms of reverence to antiquity to the fascistic attempts of returning to an idyllic past, resistance to change is ubiquitous. Those whose very existence is threatened by the introduction of a new product are normally the first to object. Consumers resist buying it because the new product breaks with the routine. In other words, change can be extremely intimidating. Initially, only a few embrace the product. Overcoming resistance to change is one of the characteristics of the entrepreneurial function. Resistance to innovations is less in those societies already accustomed to economic change and vice versa(Schumpeter 2003, 132). Overcoming resistance to a new product hinges on the advantages it provides to users. Without the benefits of the latest Apple OS or MS Windows, most people would still be using DOS. These changes are constantly improving the human condition. Creative destruction brings about many disruptions in the short term and sometimes its benefits are not seeing right away. This gap between costs and benefits gives fodder to Luddism.

The Gravediggers

Both Marx and Schumpeter recognized that capitalism is not a stationary system. Their conclusions about its future are the same, although their reasoning is completely different. That is, both concluded that capitalism would not survive. However, their conclusion rests on very different assumptions. Marx believed that the end of capitalism would result from the cumulative effects of all its failures. For his part, Schumpeter believed that it was not its failures but its successes that would spell out the end of capitalism. For Schumpeter, the true gravediggers of capitalism are not the workers turned revolutionaries that Marx thought would bring down the system. Capitalism future is threatened by the culture the system produces(Schumpeter 2003, 61, 143, 161). So far, neither Marx nor Schumpeter was very good at making predictions. Although, Schumpeter

was clearly right in asserting that the true enemies of the system are the children of the bourgeoisie (McCloskey, 2007).

To the dismay of its critics, the capitalist engine continues to show an amazing resilience. It continues to bring down the highest barriers to its development (Marx & Engels, 2002, p. 224). Nonetheless, those that continue to believe in the overall harmful effects of large corporations continue to treat capitalism as a static system. Not surprisingly, the critics of capitalism continue to underestimate the capabilities of entrepreneurial capitalism. Its critics seem unwilling to give up the myth of monopoly. This is no surprise. The supposed evils of the large corporation and the specter of monopoly can bring about the acceptance of bigger government. Theodore Roosevelt and the progressive muckrakers understood this very well. The faith in big government professed by modern liberals, progressives, and the Left in general never ceases to amaze. The Left always worries about the power of large firms while always accepting and encouraging more government power (McCloskey, 2007). This confidence in government as the protector of the people against all sorts of perils is the rhetoric that continues to attract adherents to the Left's cause. The critics of capitalism always claim that only they represent the welfare of the public. Everyone else is simply interested in protecting class interests. For the most part this selfless oratory has been extremely successful.

The Progressive Era and the New Deal have done much to reduce the belief in the virtues of limited government and the threat to liberty that comes from the concentration of power. For the modern liberal, centralized government is a prerequisite for the paternalistic policies that are supposed to promote welfare and equality (Friedman, 2002, p. 5).However, considerable cracks in the critic's armor have been developing over the past three decades.The belief in the wonders of managerial capitalism under the auspices of an all-benevolent state took a severe blow with the downfall of the Soviet Union. The accelerated pace that creative destruction has taken during the past decades has also been disheartening to these critics. The current debt crisis of the welfare state in the U.S. and Europe is not helping its cause either. Keynesian fiscal policies and its concomitant Leviathan are threatening some of these countries with insolvency. As Margaret Tatcher once remarked, "the problem with socialism is that it eventually runs out of other people's money [to spend]."[1]Although, when the future of European social democracies is in question, longwinded professors would continue to proclaim the wonders of the Swedish example (McCloskey, 2007). Those that continue to believe that capitalism's survival requires an ever-growing state need to rethink their strategy. When Schumpeter argued that New Deal policies were partly responsible for the Great Depression, his explanation fell on deaf ears (Patnaik, 1983). However, this explanation has gained considerable support in recent years.

Where Are They Now?

IBM, Xerox, GM,Kodak and AT&T are today figments of their former glory days when they carried considerable weight in their respective industries. Supporters of the theory of monopoly capital held these companies at one point or another as the epitomes of powerful firms lasting through time. Today, rather than contradict these firms actually support Schumpeter's theory of creative destruction (McCloskey, 2007). IBM has been exiting manufacturing to concentrate on services. In 2002,it sold its struggling hard drive business to Hitachi (Foremski, 2002).It disposed of its failing PC business to China's Lenovo in 2004 (London & Mure, 2004). Creative destruction is seeing most clearly in the PC and its related technologies. Moore's Law reigns supreme in these industries and its effect is clearly palpable outside these areas. Its competitors had been eroding IBM sales since the early 1990s. In 1994, Compaq overtook Big Blue as the world's leading

[1] Wikipedia.

producer of PCs. Big Blue never recovered from this setback as it ultimately sold its PC division to China's Lenovo.

Compaq's reign proved short-lived as Dell took the leadin 2001 (Kanellos, 2001). Compaq never recovered and was eventually acquired by HP for $20 billion 2002 (Reuters, 2002). Clearly, HP overpaid for Compaq considering that Lenovo only paid $1.7 billion IBM's PC division (London & Mure, 2004). In 2004, HP successfully took control of the top spot from Dell. Dell's control of the top spot lasted until 2004 when HP surpassed it (Morrison, 2004).HP and Dell traded places until HP finally established itself as the world's leading producer of PCs in 2007. In 2011, HP continues to be the world's leading PC manufacturer with Lenovo and Dell following in second and third place respectively.

Xerox, the company once synonymous with photocopying struggled to survive in the earlier years of the new millennium as it kept losing market share to competitors. Xerox missed the advent of photocopiers for the small-office market. More document and image printing is taken place in low-priced printers and copiers. Xerox's presence in this area of the market is almost nonexistent (Abelson, 2000).

The mighty GM, once the epitome of the American corporation, went into a government-structured bankruptcy in 2009. The company emerged from Chapter 11 as a ward of the state (King & Terlep, 2009). In other words, "the notion that was good for GM was good for America was taken literally" (Wapshott, 2011, p. 281).[2]In early March 2012, GM announced the temporary suspension of production of its much-vaunted Chevy Volt. The Volt has won every car award there is (Fox News, 2012)along with the accolades of every hater of fossil fuels. Nonetheless, its sales figures show that the public is not embracing the current administration's effort to wean Americans of their preference for combustion engines. Since its introduction in February 2011, Chevy has sold less than eight thousand units (Shepardson, 2012). Without a doubt, the main obstacle affecting the Volt's acceptance is its hefty price tag. With a starting price tag around $40,000, almost twice that of a Prius, it is no wonder that the Volt is not attracting customers. For the priceof a Volt, consumers can get a nicely equipped gasoline powered model (Tierney, 2012). The $7,500 federal credit has not been enough to convince consumers to buy the Volt. The only reason that the new GM has not suspended production of the Volt is that this is an election year, and would be a real negative for an administration that wants to promote green energy regardless of cost. Sales of other hybrid cars are not outperforming the market either. Since its introduction in the North American market more than ten years ago, the Toyota Prius has sold about one million units. The Prius has been a great success for Toyota. By comparison, Ford's F-Series has been the best selling vehicle in the U.S. for almost a quarter of a century. Ford has been averaging about fifty thousand units in sales every month (Ford Motor Co., 2012). Toyota stopped production of its Lexus HS 250h hybrid sedan due to poor sales (Woodward, 2012). Just like the Chevy Volt, the main problem affecting sales is probably its high price. The Lexus HS 250h starts at $37,905.

Eastman Kodak struggles with the advent of digital technology finally caught up with the company as it filed for bankruptcy in January 2012. Kodak invented the digital camera but did not commercialize it in an effort to protect its lucrative photographic film business. When Kodak finally introduced its own digital cameras, companies like Canon and Sony were already controlling the market (Burritt, 2011). In an effort to evade the

[2] "G.M.'s vast corporate reach gave rise to the myth that one of its presidents, Charles E. Wilson, said in 1953 that 'what's good for General Motors is good for the country.' Mr. Wilson's actual words to a Senate committee, after he was nominated by President Dwight D. Eisenhower to become defense secretary, were somewhat different. Asked by a senator if he could make a decision adverse to G.M.'s interests, Mr. Wilson replied, 'I cannot conceive of one because for years I thought that what was good for our country was good for General Motors, and vice versa.' 'Our company is too big, it goes with the welfare of the country,' he added" (Bradsher 2001).

fate of its rival Polaroid Corp., Kodak shifted completely to digital technology in 2003 (Bandler, 2003). However, Kodak's best efforts did not stave off Polaroid's fate (De La Merced, 2012).

These are just some of the most well known recent examples of how the forces of creative destruction have gained tremendous speed in the last few decades (Foster & Kaplan, 2001, pp. 608-616). Even so-called natural monopolies have found that changes in technology can bring down the highest Chinese walls. The spread of cellular phones over the last decade is a clear example of how disruptive new technologies can be. Landline telephones are on the way of joining the dodo (Wortham, 2008). The company that exercised a monopoly over telephony through its control of landline telephones was not able to survive once the government stop protecting it from competition in 1984. SBC acquired AT&T in 2005 (Kawamoto, 2005).

The Preeminence of Monopoly

The popularity of Baran and Sweezy's *Monopoly Capital* and Harry Braverman's*Labor and Monopoly Capital*accounted for much of the resurgence of the theory of monopoly capital among leftist ranks. In their work Baran and Sweezy attempt to establish what they see as the main limitation of Marxist economic theory. By implication, this also constitutes the main shortcoming of economic analysis in general. This deficiency is the assumption that under capitalism competition is the general rule while monopoly is the exception. In other words, the authors claim that capitalism has entered a new stage of development where competition is no longer the working principle of a capitalist economy. The authors adhere to a number-theory of competition where competition based on price has been virtually eliminated, although they pay lip service to other forms of competition.

In order to explain why Marx did not devote considerable time to the concept of monopoly, the authors argue that the driving force behind the British economy of this time were small, highly competitive firms incapable of restricting competition or setting prices. Although Marx predicted the emergence of the large corporation, it is not surprising that he assumed that competition is the undeniable characteristic of capitalism. Those that followed Marx's analysis continued to rely on the same assumption that competition is the ruling principle in a capitalist economy. They point to Hilferding's *Finance Capital* as a typical case of this trend. According to Baran and Sweezy, even when Hilferding emphasized the importance of monopoly in his work, his work stopped short of analyzing how monopoly affects the laws of motion of capitalism. Therefore, the authors argue that the purpose of their work is to rescue Marxian economics from the dogma of a competitive economy (Baran & Sweezy, 1966, pp. 3-5).As a result, monopoly capital has to occupy a preeminent position in economic analysis (Sweezy 1972, 38).This requires a study of an economy where monopoly capital has been the dominant factor. They see U.S. as the classic example of an economy dominated by monopoly capital (Baran & Sweezy, 1966, p. 7).Therefore, *Monopoly Capital* represents an upgrade to Marx's *Capital* (Bellamy-Foster, 1986, pp. 11-12).

The argument that capitalism evolves from competition to monopoly immediately raises an important objection recognized by Marx (Marx 1990, 776-779). If the evolution of capitalism is towards increasing monopolization, the logical conclusion of this argument is an economy dominated by a single giant firm. Although, the large corporation represents the centralization and concentration of capital, there is no evidence to suggest that a single firm dominates entire industries. Aware of this fact, the authors have to concede the existence of countertendencies that prevent the emergence of monopoly. Technological and economic countertendencies are always present. Besides these barriers to monopoly, political factors are also present. A firm trying to gain monopoly control over a particular market is going to encounter resistance from those interests that stand to lose from its economic power (Baran & Sweezy, 1966, p. 65). A broad

coalition of opposition groups is likely to emerge because monopoly power isn't simply the exploitation of consumers but also the destruction of many firms. This resistance is likely to crystallize through lobbying pressures on the state to enact anti-monopoly policies. This pressure can lead, as is the case in the U.S., to the enactment of antitrust legislation. Due these countertendencies, the authors have to conclude that monopolies are indeed a rare occurrence (Baran & Sweezy, 1966, pp. 50-51).

Oligopoly Capital

What actually exists in the U.S. is a situation where a small number of firms control the various sectors of the economy. In other words, oligopolies dominate the American economy. What holds Baran and Sweezy's theory of monopoly capital together is the argument that oligopolies are capable of suppressing the forces of competition that continually erode the best efforts of firms to establish monopoly as a business strategy. Marginal utility guides the price and output strategy of these firms. Contrary to the common belief, monopolies cannot simply raise prices based on a whim. Set prices too high and a swarm of new firms would be entering the market no matter how high the barriers to entry happen to be. Prices and output is explained by the equilibrium of marginal revenue and marginal cost. That is, when the increase in revenue from selling an additional unit equals the added cost involved in producing an extra unit (Baran & Sweezy, 1966, p. 57). However, this output and price strategy amounts to nothing if these oligopolies cannot achieve a consensus among themselves. According to the authors, this consensus arrives when the competing oligopolies eventually realize that price competition only leads to lower profits for everyone involved. As a result, a tacit collusion develops to ban price competition through the mechanism of price leadership.

Price Leadership

Price leadership takes place when the most powerful firm in an industry sets the price and the others follow its lead. This explains why under oligopoly prices tend to be stickier on the downward side. Firms desire to avoid a price war that can only bring losses for everyone. As a result, price leadership becomes a stable relation (Baran & Sweezy, 1966, pp. 58-62).To an extend, Baran and Sweezy may be right about the conservative attitude of the managerial class that runs America's largest companies. Managers are not entrepreneurs. Therefore, they may be more risk averse, as they have to answer to company directors and board members for their decisions. As a result, they could be more likely to follow price leadership agreements that to reap all the benefits related to mass production. This arrangement comes to naught when a disruptive innovation enters the market. If the entrepreneur uses price competition against the established firms, then even the most conservative of managers has to conform his company's price to the new market requirements or suffer the consequences. In other words, price rigidity is a short-term phenomenon. Prices have to adapt to the changes created by technological innovations (Schumpeter 2003, 93).

Baran and Sweezy argue that price competition is most likely to result during the emergence of a new industry when all involved are struggling for market position. As the industry matures, the surviving firms come to realize that it is in their best interest to ban price competition. A system of tacit collusion best meets their new conditions. Therefore, price competition is always present during the early stages of a new industry but is remarkably absent during its mature phase. However, this does not mean that under oligopoly competition ends. Advertising, R&D, product differentiation, and customer service are new competitive tools employed by oligopoly firms (Baran & Sweezy, 1966, pp. 64, 69).

Underconsumption

The vibrancy characteristic of oligopoly capital results from its endless effort to cut costs. This leads to the general tendency of profits to rise (Baran & Sweezy, 1966, p. 67). Producer-goods industries spearhead these constant cost reductions as they offer products that help their costumers increase profits by reducing costs. According to the authors, this accounts for the tremendous technological innovation and increases in labor productivity characteristic of monopoly capital. The productivity of labor continually increases as the result of the constant push to reduce costs. Monopoly pricing allows firms to pass down to consumers their "higher labor costs in the form of higher prices" (Baran & Sweezy, 1966, p. 77).Therefore, higher labor costs do not pose a threat to the profit margins of firms under monopoly conditions. As a result, Marx's theory of the falling rate of profit does not apply to an oligopolistic economy (Baran & Sweezy, 1966, pp. 70-72).Given these conditions, the normal state of the American economy is stagnation resulting from underconsumption (Baran & Sweezy, 1966, p. 76).Under oligopoly conditions, plowing back profits into new investments becomes increasingly difficult. Profits are constantly outstripping investment outlets. Increases in consumption cannot contribute to absorbing profits because they grow relatively faster than incomedue to monopoly pricing. On the other hand, it is impossible for capitalists to consume these excess profits. Engaging in Veblen's conspicuous patterns of consumption is of no help either. After all, the wealthy can have so many luxury cars (Baran & Sweezy, 1966, pp. 77-82).

Lack of aggregate demand means a reduction in investment that results in mounting excess capacity. The result is rising unemployment and falling profits. The beginnings of an economic slump are in the works (Baran & Sweezy, 1966, p. 82).Therefore, monopoly capital cannot generate sufficient endogenous sources to absorb all the investment-seeking capital. Consequently, severe economic slumps are constantly assailing the system (Baran & Sweezy, 1966, p. 88).Therefore,in order to deal with problems of chronic overcapacity firms have to operate at levels low enough on the "profitability schedule not to generate more surplus than can be absorbed."As a result, stagnation and persistent underutilization of resources form the true characteristicsof monopoly capital (Baran & Sweezy, 1966, p. 108).However, there are some exogenous sources of investment with the possibility of absorbing large quantities of investment-seeking capital, i.e., technological innovations, and foreign investment (Baran & Sweezy, 1966, p. 89).

Technological Innovations and Foreign Investment

Under competitive capitalism, the introduction of new technologies and products allow entrepreneurs to receive monopoly profits. As others copy them, supply expands and prices fall. Consequently, their monopoly profits evaporate. Those firms that fail to keep up with the innovators see their old technology joining the scrap heap. The destruction of obsolete means of production takes place. As this process is repeated throughout the economy, sizeable amounts of new capital find investment. The faster the rate of technological change, new investment outlets emerge, and the economy experiences a rise in its rate of growth (Baran & Sweezy, 1966, p. 90).

However, monopoly capital can thwart the forces of creative destruction. Monopoly firms have the ability to control the introduction of new technologies. In other words, these firms are not under the compulsion of competitive pressures (Baran & Sweezy, 1966, pp. 93-94).These oligopolistic firms prefer to wait until their obsolete equipment wears out and is ready for replacement before adopting new technologies. This is not an indication that monopoly firms have an interest in suppressing new technologies. What these firms can do is slow the process. Therefore, monopoly capital faces a paradox. Technological innovation takes place while sizeable quantities of obsolete equipment remain. Baran and Sweezy argue that this is exactly what the U.S.

experienced during the Post-WWII period. Therefore, the American economy shows that there is very little evidence of Schumpeter's creative destruction "as the dynamic force of the capitalist economy" (Baran & Sweezy, 1966, p. 99). Technological innovation is not a major contributor in the absorption of significant amounts of investment-seeking capital (Baran & Sweezy, 1966, p. 104).

As is the case with technological innovation, foreign investment does not play a major role in the abortion of investing-seeking capital. Beholden to the Marxist mantra of the period, Baran and Sweezy see foreign investment as predominantly a "method of pumping surplus out of undeveloped areas, not as a channel through which surplus is directed into them" (Baran & Sweezy, 1966, p. 105). Therefore, they conclude that foreign investment exacerbates rather than ameliorates the problem of absorbing investment-seeking capital (Baran & Sweezy, 1966, p. 108).

"Epoch-making Innovations"

Unlike the previous cases, those technologies considered as "epoch-making innovations" have the possibility of absorbing and creating considerable amounts of capital (Baran & Sweezy, 1966, p. 219). However, because their analysis emphasizes the static, stagnating nature of capitalism they see these "epoch-making innovations" as part of the capitalist past, and not as part of the radical nature of capitalism itself. Therefore, they only see in the history of capitalism three such cases, i.e.,the steam engine, the railroad, and the automobile. Electricity is not given the prominence because the authors argue that its main purpose has been to provide illumination. As a result, electricity has not contributed to a radical transformation of the economy in the way the other three had. Therefore, the authors contend that electricity has had a minor role to play in the absorption of investment-seeking capital. This trend is also indicative of future innovations during the era of monopoly capital. Therefore, Schumpeter's "gale of creative destruction has subsided into an occasional mild breeze" that poses no real threat to the large corporations that control the economy (Baran & Sweezy, 1966, pp. 73-74).

In other words, there is a kind of Ricardian law of diminishing returns at work with technological innovations. The history of capitalism has shown that nothing is more erroneous than the stagnationist claim that the innovative engine of capitalism is sputtering towards its last stop. The growth of the Southwest area of the country would have been inconceivable without the invention of air-conditioning. The air-conditioner is just one in a long list of consumer goods that would not have been possible without steady increases in the electrical supply. A country with a deficient electrical grid encounters a significant obstacle to its economic growth.

If the factors mentioned, either by themselves or in combination are incapable of absorbing the increasing investment-seeking capital produced under monopoly capitalism, the question is whether some counteracting forces are at work preventing the system from collapsing under the weight of its own contradictions. Baran and Sweezy point to other major sources of surplus absorption that counteract the system's tendency to remain mired in a persistent state of depression, i.e., the sales effort, government, militarism and imperialism. The purpose of these methods is to stimulate aggregate demand and thwart the stagnation tendency of the system caused by the effects of under consumption and constantly rising profits. Since price reduction is incompatible with monopoly capitalism, these methods are seeing as ways of preventing a glut in accordance with the workings of monopoly capitalism (Baran & Sweezy, 1966, pp. 110-111).

The Sales Effort

The main role of marketing is of primary importance in the era of monopoly capital. The purpose of marketing is to discourage saving and to encourage consumption as much as possible in order to counteract

stagnation. For advertising to become an effective tool of demand stimulus, it must work to convince consumers of the desirability or necessity of having access to the latest product that comes on the market. The most notable marketing strategies are such things as constant fashion changes, the introduction of new products, product differentiation, planned obsolescence, packaging and appearance, credit availability, and the creation of new wants. The automobile industry's yearly style changes, along with the faster turnover rate of its models are clear examples of these marketing strategies (Baran & Sweezy, 1966, pp. 115, 128-129).

The effects of these marketing methods are generally positive when considering chronic depression as the alternative. However, the authors see a great deal of waste of social resources that result from these methods. In particular, they point to style changes and planned obsolescence to assert their case. Built-in obsolescence is socially wasteful as it contributes to higher consumer prices in the form of shorter product life due to inferior product quality and more frequent repair bills. The high frequency of style changes and the accelerated introduction of newer models increases the rate at which people discard perfectly good functional products (Baran & Sweezy, 1966, pp. 129-131).

This criticism of capitalism rests on a comparison between the hypothetical and the actual cost of producing a commodity. Not surprisingly, whenever a hypothetical is compared against the actual, the actual always comes up short. As Burke (Burke, 1999, pp. 417-418) and Marx (Marx, 1983, pp. 143-145) have pointed out, the only way to assess the merits of theory is in practice. Only practice can show the shortcomings of theory and the possibility or futility of amending it. Any talk about building a more rational social order where "wasteful" marketing activities are no longer necessary is empty, unless it can be shown that such a society can make life better without such practices. The experience of the twentieth-century has shown nothing but failure for the attempts at building such a society to replace bourgeois democracy.

The argument that planned obsolescence is an important part of marketing strategies for large corporations only shows the pitfalls of mistaking temporary practices for permanent ones. A company that systematically engages in planned obsolesce is only inviting its own demise. Shrewd entrepreneurs would recognize its weakness and would develop strategies to attack it at its most vulnerable point, i.e., inferior quality with high costs. To this objection, Baran and Sweezywould respond that although this condition was true during the period of competitive capitalism it no longer applies under monopoly capital. Large firms have capacity to control market entry. However, the history of capitalism continues to offer many examples that rebuff this argument.

The craft system produced goods one at a time using high-skilled workers. However, the cost of these crafted goods was prohibitive for most people. The auto industry clearly exemplifies this case. Owning a Ferrari or Lamborghini is clearly the dream of many car enthusiasts. However, the cost of these beauties is exorbitant except for the wealthiest among this group. Thanks to entrepreneurs such as Henry Ford and Alfred Sloan, mass production took hold in the auto industry. Mass production attacks the most obvious deficiency of craft production, i.e., low volume at high costs. Mass production makes effective use of the principle that cost per unit falls when quantity raises. Under mass production, output consists of homogeneous goods in very high volume. Its labor force consists of unskilled and semiskilled workers operating equipment designed for a single function instead of highly skilled ones doing different tasks. For all the tears shed over the loss of craft methods, mass production brought to the mass of people many goods previously beyond their reach. Mass production made it possible for the U.S. to surpass Europe as the world's industrial leader. (Womack, Jones, & Roos, 1990, pp. 11-13).

If the story were to end here, Baran and Sweezy's analysis of capitalism as tending towards stability rather than to continual change would be right on the money. However, as good as mass production was over its

craft predecessor, its deficiencies were glaring for those entrepreneurs eager to find a better way of making things. The Achilles' heel of mass production is that standardization works against variety. Due to the high cost of equipment, disruptions in production become prohibitive. In order to hedge against work stoppages, producers have in storage extra amount of the supplies needed in the production process. Mass producers also came to accept a certain number of product defects as inevitable to the process itself (Womack, Jones, & Roos, 1990, p. 13).

EijiToyada and TaiichiOhno of Toyota pioneered the method of lean production by explicitly employing less resources compared to mass production. They did this while aiming at making better products and increasing variety. Consequently, American mass producers have been desperately trying to adopt lean production techniques much in the same way as European craft manufactures struggled to make the transition to mass production methods (Womack, Jones, & Roos, 1990, pp. 11, 13).The transition to lean production has become a life and death struggle for mass production manufacturers. Evidence of this is present in the plight of Detroit's Big Three as compared to the foreign transplants established in the South (Simon, 2008). Faced with a drop in demand, GM and Chrysler turned to the federal government for a bailout (Herszenhorn & Sanger, 2008).

Government and Military Spending

Government spending contributes to absorb investing-seeking capital on a large scale. This helps create the demand missing from private sources in order to bring the economy closer to full capacity (Baran & Sweezy, 1966, pp. 147-149).However, government spending is not the panacea that many modern liberals believe it can be for most of the problems affecting society under monopoly capitalism. Government spending at the local, state, and federal levels cannot rise beyond what is necessary to promote effective demand. Beyond this point, it begins to threaten the accumulation of capital, especially if government activities lead it to compete with the private sector (Baran & Sweezy, 1966, pp. 162-165).Baran and Sweezy argue that military spending does not present the same resistance than does social spending because it is not a threat to the interests of capital. This type of spending allows arm manufacturers to operate in an almost risk-free environment because the state guarantees profits (Baran & Sweezy, 1966, pp. 207-208).Nonetheless, technology has reduced the ability of military spending to promote effective demand. Weapons manufacturing has become an increasingly capital-intensive business. Moreover, new technologies that result from military R&D contribute to increase unemployment because of their capital-intensive character (Baran & Sweezy, 1966, pp. 214-215).This is another example where Baran and Sweezy's analysis cannot account for capitalism's revolutionary nature as it opens an array of possibilities where none seemed to exist before. The Internet has its origins in the Arpanet developed by the Advanced Research Projects Agency at the Defense Department (Hafner, 2005).It would be hard to argue that the Internet's effects have not been those described by Schumpeter under creative destruction.

The End of a Myth

Decades after the publication of *Monopoly Capital,* capitalism's"gale of creative destruction "has not only continued unabated, but has also gained considerable speed.It is hard to find an industry over the past half a century that has been able to stave off the forces described by Schumpeter, including those considered by the monopoly capital school as exemplars of their theory. Beholden to the idea that the American economy is in the stranglehold of monopoly capital, the monopoly capital school gives capitalism a stationary character that is illusory. A static capitalism resulting from a high degree of concentration where large corporations can

control price and non-price competition is simply a chimera. The failure to account for the transformative aspects of capitalism renders Baran and Sweezy's analysis obsolete.

Schumpeter recognizes that the failure of many economists to acknowledge capitalism's revolutionary character stems from the inductive method used by many to analyze it. What exists at a particular point in time in the history of capitalism becomes the inference for formulating a general proposition about its future. This particular problem bedevils inductive analysis (Schumpeter, 2003, pp. 83-84).In their analysis of capitalism, Baran and Sweezy take a particular point in the history of capitalism, i.e., the U.S. economy during the post WW II period, and the behavior of some oligopolistic industries during this time, and then conclude that what exists is the way things would continue to be. This is a very keen analysis of the American economy during this period, but at the same time, its limitations are glaring. During the Post-WWII period, American companies dominated the world economy as the economies of Europe and Japan were in the process of reconstruction. This allowed American firms to temporarily enjoy monopoly profits. However, American companies misunderstood, just as Baran and Sweezy did, the revolutionary nature of capitalism. Mistaking temporary monopoly profits for permanent ones, they failed to notice the competitive forces gaining considerable strength across the two oceans. By the time the storms of change came in the form of competition from Europe and Japan, American firms were ill prepared to deal with the challenge. As American firms lost their competitive advantage over their foreign rivals, many were squeezed out of the markets they once dominated, or lost significant market share.

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