Capitalism: has the leopard changed its spots?

written by Michael Roberts
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"Let me be clear: capitalism without competition isn't capitalism. It's exploitation.", U.S. President Biden tweeted when signing an executive order to expand competition across the economy and crack down on monopolistic practices, describing a misguided 40-year *"experiment"* in letting U.S. corporations consolidate with little regulation that he said has hurt ordinary Americans. *"The heart of American capitalism is a simple idea: open and fair competition,"* Biden said in a speech before signing the measure. He called himself a *"proud capitalist"* but said that he wants to *"ensure our economy isn't about people working for capitalism, it's about capitalism working for people."*

Biden's remarks supported the idea that: 1) capitalism is not a mode of production that is exploitive, as long as there is 'free competition' in trade, credit and the production of commodities (and presumably in wage labor too); and 2) it is monopoly and monopoly practices that are the cause of what could be called 'exploitation' because only then is there 'unfair competition' and blockages to the equitable process of production and distribution through 'competitive' markets, that is proper capitalism.

Here Biden echoes not only the view of the modern mainstream neo-classical economics but also the views of the early classical economists, like Adam Smith and David Ricardo. Smith reckoned that what was wrong with the society and economy of the late 18th century was monopoly and the lack of free competition and trade. He railed against monopoly control (including feudal state monopolies) in trade and agriculture. Ricardo also saw the problem in monopoly control of land ownership and agricultural production and trade by landlords. If that was broken, then industrial enterprise in competitive markets would lead to rising productivity and prosperity for all. As Biden said, then "capitalism would work for the people".

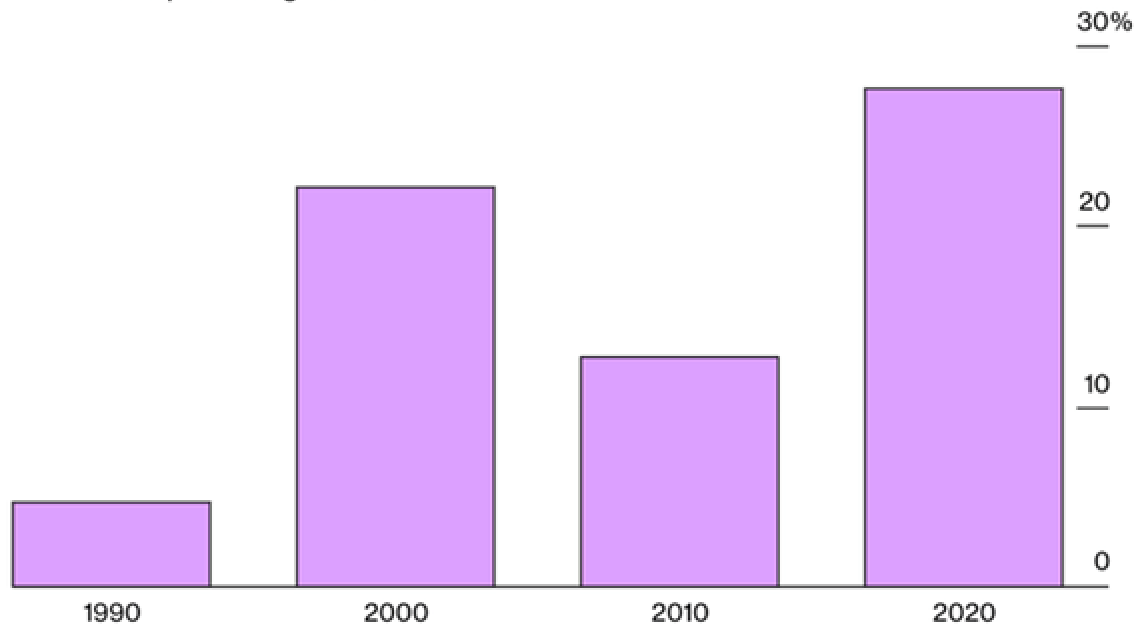
But it is not just the apologists for capitalism that accept this analysis. Many modern-day Marxists and post-Keynesians focus on what they call 'monopoly capitalism', 'monopoly finance capital', or 'state monopoly capitalism' as the enemy of the people's prosperity, not capitalism as such.

Take the view of Michael Hudson. He considers himself a classical' economist like Smith and Ricardo (and Marx is also a classical economist, he says). Hudson argues that capitalism started as a progressive force in developing the productive forces because it was industrial capitalism. But since the 1980s, 'financial capitalism' had superseded industrial capitalism. This was really a return to 'feudalism' where the surplus in an economy was extracted by 'monopoly' landlords (rent) and financiers (interest and capital gains), not created by the exploitation of labor power (profits).

Grace Blakeley, British leftist economist and author, in her recent presentations, reckons that modern capitalism has morphed into 'state monopoly capitalism'. She highlights similar points made by Biden in his case for 'competition': *"by May 2020, the combined market capitalization of the four largest U.S. tech companies reached one fifth of the entire S&P 500. Four companies – Microsoft, Apple, Amazon and Facebook – now account for 20 per cent of the combined value of the 500 largest U.S. corporations – an unparalleled level of market concentration. Forty years ago,*

these corporate entities were either just beyond being plucky start-ups or did not even exist. Monopolistic tendencies are not limited to the tech sector. In 1975, the largest 100 U.S. companies accounted for nearly half of the earnings of all publicly listed companies; by 2015, their share reached 84 per cent."

Similarly, a Brookings Institution study found that the top 50 companies globally by value added $4.5 trillion of stock market capitalization in 2020, taking their combined worth to about 28% of global gross domestic product. Three decades ago, the equivalent figure was less than 5%.

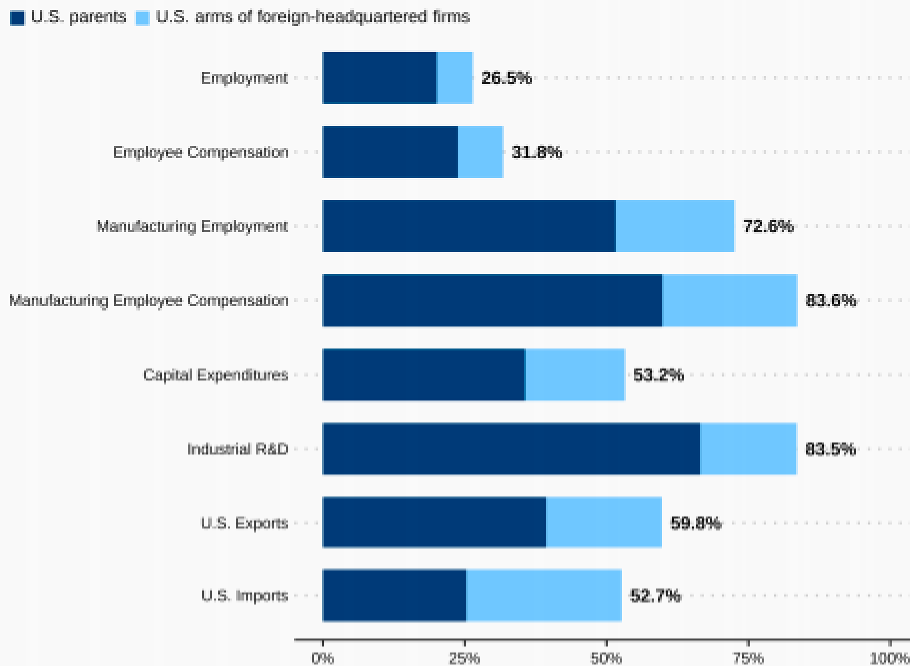


But is this state monopoly 'feudal' financial capitalism now the enemy of labor while freely competitive industrial capitalism is an ally? Is there no exploitation of labor under competitive capitalism, as Biden argues? The whole point of Marx and

Engels' critique of capitalism was that it was a system of exploitation of labor power to extract surplus value in production, whether there were monopolies or not. Indeed, Marx's Capital has a subtitle, 'A critique of political economy', precisely to attack the idea that, once monopolies were curbed or removed, that 'competitive capitalism' does not exploit labor and instead workers get a fair day's pay for a fair day's work and capitalists are thus rewarded for their competitive 'animal spirits' with profits.

It is certainly true that the concentration and centralization of capital in the major economies has intensified in recent decades. The rise of the mega social media and tech companies in the last two decades confirms Marx's view over 150 years ago that capitalist accumulation leads to increased concentration and centralization of capital, as corporate operations increase in scale and large firms eat up the small. And it is clear that in recent decades, this process has been encouraged and helped by state injections of easy credit and the de-regulation of corporate activities and governance.

The Brookings Institution found that multinationals are major contributors to the U.S. economy. U.S.-headquartered MNCs accounted for 20.1 percent of all U.S. private sector employment in 2017 and foreign-headquartered firms accounted for another 6.4 percent. Multinationals play a particularly large role in manufacturing: more than 70% of all U.S. manufacturing employment is in MNCs. Multinational firms accounted for more than half of all non-residential capital expenditures in 2017 and more than 80 percent of all industrial R&D done in the U.S.. And multinationals account for more than half of U.S. exports and imports of goods and services.



As Hadas Thier in her book, A People's Guide to Capitalism, points out: *"The state plays its part, too, in shielding monopolistic companies deemed "too big to fail" from the ravages of a competitive "free" market. After the 2008 economic crisis, megabanks in the United States, each holding billions of dollars' worth of assets, were rescued with an enormous taxpayer-funded bailout. As Petrino DiLeo explained: "The Treasury Department and Federal Reserve Bank have doled out an incredible $16 trillion in assistance to financial institutions and corporations in the U.S. and around the world . . . Through the various mechanisms, Citigroup borrowed $2.5 trillion, Morgan Stanley took $2 trillion, Merrill Lynch received $1.9 trillion, and Bank of America got $1.3 trillion."* (p134).

Thier continues *"centralization supplements the work of accumulation by enabling*

industrial capitalists to extend the scale of their operations. Whether this latter result is the consequence of accumulation or centralization, whether centralization is accomplished by the violent method of annexation—where certain capitals become such preponderant centers of attraction for others that they shatter the individual cohesion of the latter and then draw the separate fragments to themselves—or whether the fusion of a number of capitals already formed or in process of formation takes place by the smoother process of organizing joint-stock companies—the economic effect remains the same."

"The battle of competition is fought by the cheapening of commodities . . . and this depends in turn on the scale of production. Therefore, the larger capitals beat the smaller. It will further be remembered that, with the development of the capitalist mode of production, there is an increase in the minimum amount of individual capital necessary to carry on a business under its normal conditions. . . [Competition] ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, and partly vanish completely."

But do these long-term developments in capitalist accumulation mean that 'competitive capitalism' has now been replaced by 'state monopoly capitalism'? So the latter now operates not through the competitive struggle for profits out of the exploitation of labor, as in the law of value, and instead operates through the power to mark up prices over costs at will, backed by the state.

This is the basis of the 'monopoly capital school' originally developed by Paul Sweezy and Paul Baran in the late 1960s. This monopoly capital theory argued that large companies had abolished price competition and instead given rise to excess productive capacity and stagnation. Crises were no longer caused by falling profitability (if they ever were) as a result of a struggle between capitals for a share of the profit exploited from labor, but now were caused by the expansion of capacity without sufficient 'effective demand'.

In their book, Monopoly Capital, Baran and Sweezy put it this way: *"we cannot be content with patching up and amending the competitive model which underlies his [Marx's] economic theory. 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 investments. The typical economic unit, in other words, has the attributes which were once thought to be possessed only by monopolies. It is therefore impermissible to ignore monopoly in constructing our model of the economy and to go on treating competition as the general case.* (Baran & Sweezy 1968, 5–6)

Baran and Sweezy conclude: *"The whole motivation of cost reduction is to increase profits, and the monopolistic structure of markets enables the corporations to appropriate the lion's share of the fruits of increasing productivity directly in the form of higher profits. This means that under monopoly capitalism, declining costs imply continuously widening profit margins. And continuously widening profit margins in turn imply aggregate profits which rise not only absolutely but as a share of national product. If we provisionally equate aggregate profits with society's economic surplus, we can formulate as a law of monopoly capitalism that the surplus tends to rise both absolutely and relatively as the system develops."* (Baran & Sweezy 1968, 71–72)

By substituting the law of rising surplus for the law of falling profit, we are therefore not rejecting or revising a time-honored theorem of political economy: we are simply taking account of the undoubted fact that the structure of the capitalist economy has undergone a fundamental change (my emphasis) since that theorem was formulated.

What is most essential about the structural change from competitive to monopoly capitalism finds its theoretical expression in this substitution. (Baran & Sweezy 1968, 72)

But does the increased centralization and concentration of capital mean that there has been 'a fundamental change' in the nature of capitalism from a competitive battle for profit share to one of monopoly power; and from value production and distribution of profit to a monopoly mark-up over costs?

Anwar Shaikh thinks not. *"If you believe that the system is founded on monopoly — which has become a sacred nostrum of Marxian economics — then it's all about the power of the state and the power of capital against labor."* But *"From my point of view, nothing — not even the capitalists themselves — has that sort of power, because the rules imposed on labor and capital stem from the creation of profit and the competition of capitals, which Marx specifically links to each other. A state can intervene to redistribute income and oppose both capital and labor. Pushed by the struggles of workers, it can also intervene to construct a welfare system. But these interventions are still fundamentally constrained by their impact on the profitability of firms."*

Shaikh argues that the monopoly capital school base their view of 'fundamental change' on a false reality that back in the mid-19th century when Marx wrote Capital, that capitalism worked in 'perfect competitive markets' which now longer exist and have been replaced by monopolies backed by the state. But this was never the case. As Shaikh puts it: *"the capitalist economy should not be viewed as a "perfect" market economy with accompanying "imperfections", but as individual capitals in competition to gain profit and market share. Monopoly should not be counterposed to competition, as neoclassical, orthodox, and even some Marxist economists do. Real competition is a struggle to lower costs per unit of output in order to gain more profit and market share. In the real world, there are capitals with varying degrees of*

monopoly power competing and continually changing as monopoly power is lost with new entrants to the market and new technology that cuts costs. Real competition is an unending struggle for monopoly power (dominant market share) that never succeeds in total or forever: "each individual capital operates under this imperative…this is real competition, antagonistic by nature and turbulent in operation. It is as different from so-called perfect competition as war is from ballet". So capitalism may have changed its spots; but is still the same leopard.

As Thier points out *"capitalism still maintains its dynamism through the constant jostling for market positioning by large and small companies. In some cases, a newer business, not so deeply entrenched in outmoded methods, could come out ahead. Thus a dozen years ago Bill Ford (of that "family-owned business," Ford Motor Company) could say of the new auto company, Tesla, that it had little chance of staying alive. As the Financial Times explained, Ford assumed that "the complexity of the global supply chain and international regulation requirements made it all but impossible to launch an important new carmaker from scratch."*

A decade later, the "Big Three" American automakers are mired in over-supplied markets and old technologies. It is yet to be determined what kind of long-term success Tesla will fare, but no doubt, the established auto industry is nervous. Other "disruptive" companies exist in every field, from Uber and Airbnb, to internet-based homecare agencies and furniture stores that challenge the dominance of conventional brick and mortar enterprises. If this were not the case, we would see the economy increasingly dominated by fewer and fewer companies, until one day we found ourselves with a single McGoogleAzon Corporation that ran everything from our dishwashers to our morning commutes. Instead, competition continues, but within a context of ever-greater economic players, which make the shifts, rivalries, and bankruptcies all the more volatile."

Lenin was supposed to be one of the great supporters of the view that capitalism had

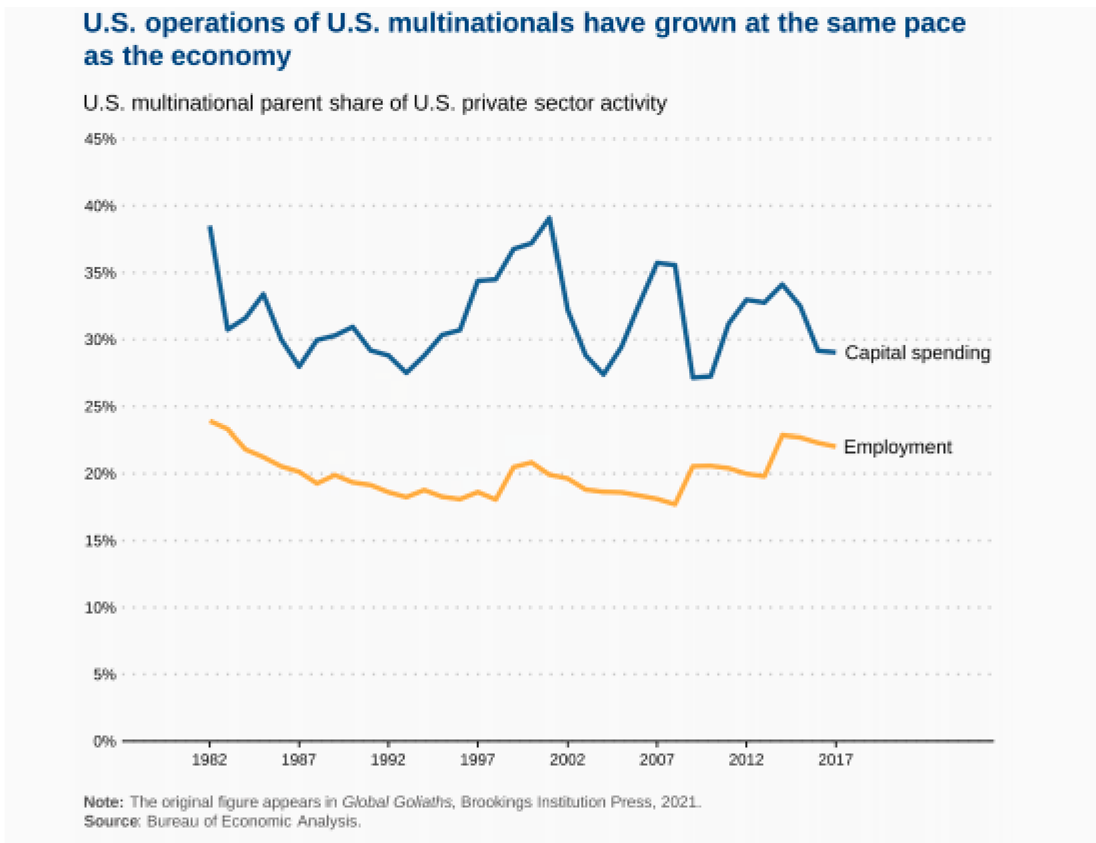
become ‘state monopoly capitalism’, regularly quoted by the leaders of Stalinist Russia as the 20th century model for capitalism. But Lenin actually had a more accurate view: *“At the same time monopoly, which has grown out of free competition, does not abolish the latter, but exists over it and alongside of it, and thereby gives rise to a number of very acute, intense antagonisms, friction and conflicts.”*

And when we look at the empirical evidence, the surface appearance of ‘monopoly power’ looks less convincing. Mainstream economists, Jan De Loecker and Jan Eeckhout argue that the markup of price over marginal cost charged by public U.S. firms has been rising steadily since 1960 and in particular after 1980. The paper suggests that that the decline of both the labor and capital shares, as well as the decline in low-skilled wages and other economic trends, have been aided by a significant increase in markups and market power – in other words the rise of monopoly capital in the form of ‘super-star’ companies like Apple, Amazon, Google etc that now dominate sales, profits and production and where the utilisation of labor is low compared to other companies and industries. These monopolies won’t invest because they don’t need to compete, and so productivity growth slows.

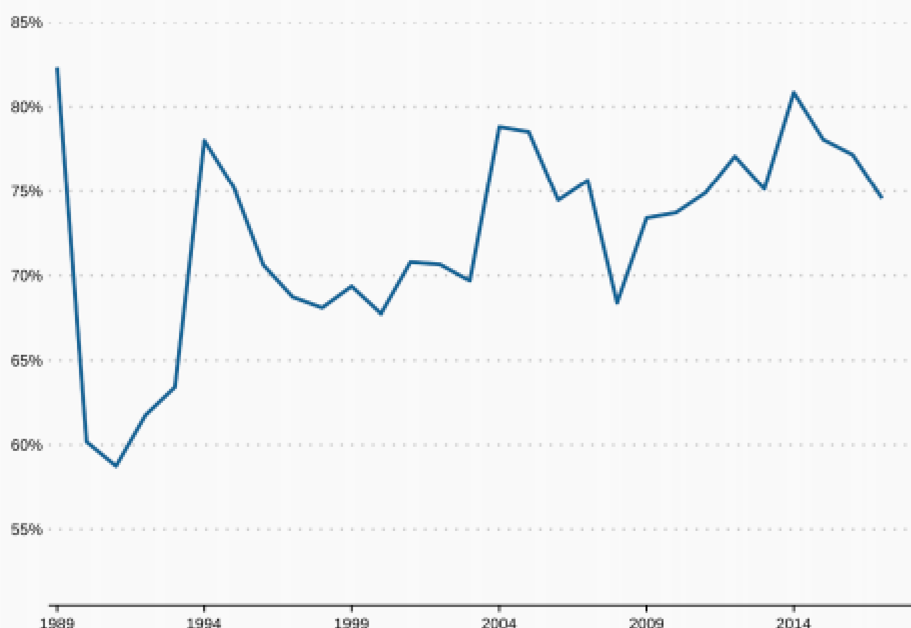
However, there are two things against this ‘market power’ argument, at least as the sole or main explanation of the rise in profits share and profit per unit of production. First, as De Loecker and Eeckhout find, economy-wide, it is mainly smaller firms that have the higher markups – hardly an indicator of monopoly power. And as Shaikh points out, rising mark-ups may not be due to monopoly power but simply due to higher profits from cost savings by large companies. Indeed, when the factor of concentration is isolated in the data, “*in the vast body of literature generated by the investigation of such claims, difference between accounting rates of return are too small to justify claims of monopoly power*”. (Shaikh).

Moreover, although U.S. multi-nationals have gained greater market share in the

last 40 years, that has not meant a reduction in their share of capital spending – contrary to the 'stagnationist' conclusions of the monopoly school. U.S. multinational parent companies employed 24 percent of the U.S. private sector workforce in 1982 and 22 percent in 2017. Their share of investment stayed at about 30-35% throughout.



And they still do the bulk of R&D spending.



Anyway, there are very few real monopolies. What concentration and centralisation of capital has generated are oligopolies, not monopolies, in different sectors of the capitalist economy – and that makes a big difference. Indeed, monopolies have often turned into oligopolies. In 1911, Standard Oil was broken up into 34 companies by the U.S. Congress. In the 1984, AT&T was the main 'monopoly' telecoms provider and was broken up into seven regional companies.

By its very nature, capitalism, based on 'many capitals' in competition, cannot tolerate any 'eternal' monopoly, a 'permanent' surplus profit deducted from the sum total of profits which is divided among the capitalist class as a whole. The endless battle to increase profit and the share of the market means monopolies are continually under threat from new rivals, new technologies and international

competitors. Profits are not the result of the degree of monopoly or rent seeking, as neo-classical and Keynesian/Kalecki theories argue, but the result of the exploitation of labor. Marx's law of profitability is still central to a capitalist economy.

Just before the COVID-19 pandemic hit the world economy, the major capitalist economies were already heading into a new recession, the first since the Great Recession of the 2008-9. The profitability of capital was near all-time lows; up to 20% of U.S. and European companies were making only enough profit to cover the interest on their debt, with none to spare for new investment. Real GDP growth rates had dropped to their lowest rates since 2009 and business investment was stagnating. A global recession was coming; and it had little to do with the 'market power' of the FAANGs sucking up all the profits; much more to do with the inability of capital to exploit labor enough to stop profitability across all sectors from falling..

The history of capitalism is one where the concentration and centralization of capital increases, but competition continues to bring about the movement of surplus value between capitals (within a national economy and globally). The substitution of new products for old ones will in the long run reduce or eliminate monopoly advantage. The monopolistic world of GE and the motor manufacturers in the post-war period did not last once new technology bred new sectors for capital accumulation. The oil giants are also now under threat from new technology. The world of Apple will not last forever.

Source: Michael Roberts