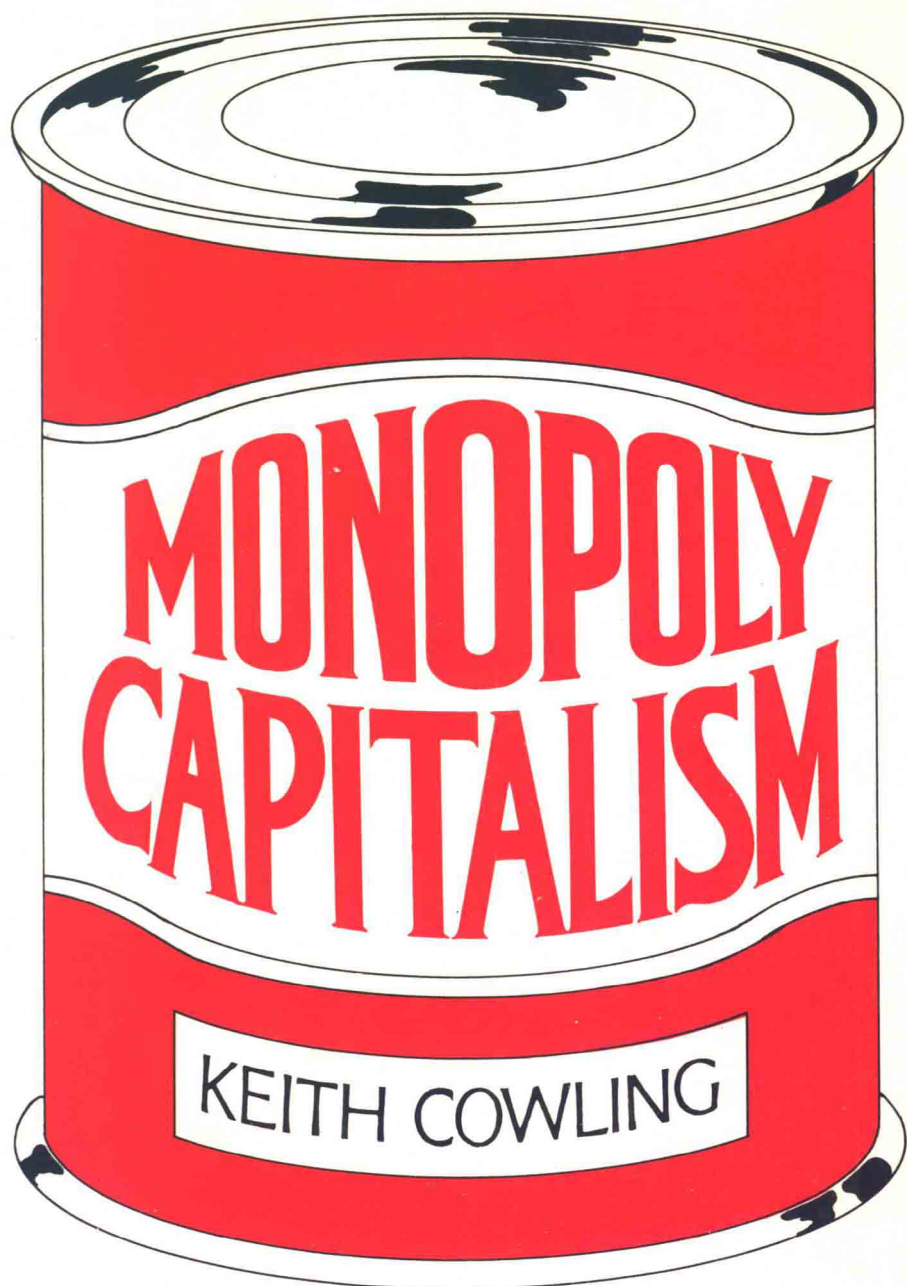


RADICAL ECONOMICS



Monopoly Capitalism

KEITH COWLING

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Radical Economics

General Editor: SAM AARONOVITCH

Debates between economists are not just technical arguments amongst practitioners but often reflect philosophical and ideological positions which are not always made explicit.

Discontent grew with the prevailing economic orthodoxy as the long period of economic expansion in the advanced capitalist economies came to an end in the 1970s; disenchantment was expressed in open discussion about the 'crisis' in economics and in the rise of various kinds of radical economic theory, often using the general title of 'political economy'.

Many economists have looked for a more fruitful point of departure in the ideas of Marx and the classical economists and also in such contemporary economists as Kalecki and Sraffa. Although it is possible to identify a broad radical stream, it does not mean that there are no significant controversies within this radical approach and, indeed, it would be unhealthy if this were not the case.

Can radical economic theory interpret the world better than the current orthodoxy which it challenges? And can it show also how to change it? This is a challenge which this series proposes to take up, adding to work already being done.

Each book will be a useful contribution to its particular field and should become a text around which the study of economics takes place.

Radical Economics

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1

Introduction

This book aims at an analysis of some of the major features of contemporary capitalism. It was inspired by the work of Kalecki (1938, 1939 and 1971a), Steindl (1952) and Baran and Sweezy (1966), but it neither agrees with all that they say nor attempts to cover precisely those issues which they attempted to cover. The book sets out to explore the division of national income between workers and capitalists in a world where monopoly or oligopoly capitalism dominates, both for its intrinsic interest and because of its relevance for the process of accumulation in capitalist society. It will be argued that the major corporations are now organised in, often interlinked, oligopoly groups, in many cases with an international base, and have captured dominant positions which are relatively unassailable. They will remain unassailable partly because these dominant oligopolies will invest in their maintenance in order to secure the benefits of the stream of monopoly profits associated with their position. Competition between and within national oligopoly groups will occasionally break out, but these should be seen as transient elements in the accommodation of different capitals to each other. The norm in such an oligopolistic world will be collusion over output or pricing policies, with collusion itself being the product of potentially rivalrous behaviour – a seemingly paradoxical result which we will seek to substantiate in Chapter 2. Agents have substantial economic power and will use it in a variety of ways which has to be recognised in any discussion of the distribution of national income. With this end in view Kalecki's model of distribution will be completed with the derivation of the relationship between elements of

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market structure and the share of gross capitalist income plus salaries in value-added (Chapter 2). This will allow the precise identification of those processes which lead to changes in the share of profits in national income. Having done this we will then recognise that although the degree of monopoly may change as market structure variables change, this need not imply that the aggregate level of profits will have changed since it will be partly determined by the level of aggregate output (Chapter 3). The variable which allows the adjustment of a changing degree of monopoly to a given level of aggregate profits is the degree of capacity utilisation. Thus, although increases in the degree of monopoly will imply an underlying tendency for the share of profits to rise, the actual level of profits, and therefore the rate of return on capital, will also be determined by the level of effective demand working through the rate of capacity utilisation.

One of the components of effective demand is the consumption of capitalists, but in a world of managerial capitalism consumption of profits comes to be concentrated more and more within the corporation rather than outside it. For this reason, and because under managerial control management will extract a portion of what should be regarded as profits as its own pecuniary and non-pecuniary income, profits as measured in the accounts will tend to understate their true level. Two basic struggles can be identified within this context: one between big capital and small capital, where big capital tends to be represented internally and takes part in these internal consumption activities, and one between high-level and lower-level management (Chapter 4).

Class struggle between workers and capital, and its consequences for distribution and the rate of profit, will be identified in the context of a monopoly world (Chapter 5). It will be argued that workers as a class cannot easily raise their share of national income in such a world. However, to the extent that the processes of class struggle lead to a wage-price spiral then this is likely to lead to political intervention which will result, in the short term, in a reduction of both profit share and the rate of profit through the creation of excess capacity. Questions of class struggle must also lead to questions of international 'competition' (Chapter 6). This was the central

theme of Glyn and Sutcliffe (1972), where they argue that British capital has been squeezed in recent years between the anvil of worker pressure and the hammer of international competition. In contrast we will argue that rising international trade in manufactures in a world of monopoly capital can increase the competition for jobs without increasing competition among capitalists. This can come about where dominant corporations have a substantial degree of control over imports, either via the intra-firm trade of transnational corporations, or via agency or franchise arrangements or distributional control over imports at wholesale or retail levels.

Such ramifications of the development of monopoly capital will be explored by examining the post-war development of the UK economy, making some brief comparisons with the US economy (Chapter 7). It will be argued that although the post-war histories of European and American capital have been qualitatively different they are tending towards convergence. European capital has possessed underlying dynamic forces which the USA has not possessed, but these are now dying out, so the full implications of the creation and development of the monopoly phase of capital, which have become evident in the USA, will now also become clearer within the European context. They will also be increasingly revealed by the fact that these economies are now operating under post-Keynesian rules — just as they were revealed under the pre-Keynesian rules of the inter-war period. This leaves capitalism with a tendency to stagnation, partly because of its monopolistic character, but also because of its reluctance to accept Keynesian policies because of their dynamic implications for the balance of power between capital and labour. The book closes with a brief analysis of an alternative economic and political strategy in the face of the current capitalist crisis.

No attempt has been made to provide an exhaustive treatment of monopoly capitalism. The analysis largely ignores detailed questions of the labour process under monopoly capital, but these get a good airing in Braverman (1974) and Friedman (1977). I have also avoided getting embroiled in the wider social implications of monopoly

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capital raised by Baran and Sweezy (1966). Perhaps more importantly I have largely avoided issues of imperialism, an extension to the analysis which I hope to work on in the near future.

2

Oligopoly and the Share of Profits

This chapter is concerned with the relationship between the degree of monopoly, defined as the mark-up of price on marginal cost, and the distribution of income, setting on one side for the moment issues of realisation, managerialism, worker pressure and international competition. However, since we are interested in demonstrating the extent of capitalist control over the degree of monopoly, and thus over the distribution of income, we will be concerned to isolate those factors which determine the degree of monopoly. We will in fact derive a specific link between different elements of market structure and behaviour — concentration, the degree of collusion and the price elasticity of demand — and the degree of monopoly by assuming profit-maximising behaviour on the part of each member of the oligopoly group. We will then assess the extent to which these elements of market structure are themselves within capitalist control. This will necessitate an examination of the extent to which the degree of monopoly is conditional on potential entry into the market by new rivals. Our analysis will suggest that the price—output decisions of the oligopoly group are essentially independent of potential entry but that the capacity decision may not be.

Having determined the extent to which capitalists are able to control the evolution of the degree of monopoly in specific industries, we will then aggregate over all industries and derive the implications of the aggregate degree of monopoly for the share of profits plus overheads in national income. This derivation will reveal that the level of imports entering

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the domestic monopolised production and distribution system will also affect the distributive shares.

The perspective on income distribution established in this chapter is heavily influenced by the work of Michal Kalecki (1938, 1939 and 1971a). In contrast to the dominant neo-classical view which assumed perfect competition and full employment and derived income shares in terms of the parameters of the production function, Kalecki saw the industries of the advanced capitalistic economies as being essentially monopolistic or oligopolistic and operating normally under conditions of excess capacity. This implied that price would exceed marginal cost, and marginal cost could reasonably be assumed to be constant within the normal range of output. Assuming, then, that marginal cost comprises the cost of wage labour, the ratio of price to marginal cost will define the ratio of profits plus overheads to wage bill, and the degree of monopoly (the ratio of price minus marginal cost to price) will define the share of profits plus overheads in value-added. Thus the aggregate share of profits plus overheads, and therefore the share of wages, in national income will be defined by the average degree of monopoly.¹ Forces leading to a high average degree of monopoly will imply a lower wage share and thus a higher share for profits and overheads.

Market Structure and the Degree of Monopoly

One of the major problems with Kalecki's analysis of the distribution of income in terms of the degree of monopoly was that it left the degree of monopoly itself undetermined, and therefore we will turn first to this question.² Since oligopoly is the general case under contemporary capitalism,³ with some sectors effectively monopolised at the national, regional or local level, we will be determining the industry mark-up of price on marginal cost (the Lerner/Kalecki degree of monopoly or oligopoly) in terms of the structure of the industry in question and the effective recognition by the firms in the industry of their mutual interdependence.

Assuming that a fixed number of firms follow profit-maximising rules in the production and sale of a homogeneous

product, equation (2.1) provides a useful way of describing industry equilibrium (see the appendix to this chapter for details of its derivation):

$$\frac{p_k - c_k'(X_k)}{p_k} = \frac{\alpha_k}{\eta_k} + \frac{(1 - \alpha_k)}{\eta_k} H_k \quad (2.1)$$

where p_k is the market price, $c_k'(X_k)$ defines the industry's marginal cost function, which is a weighted average of the marginal cost functions for the n firms in the industry, H_k is the Herfindahl measure of concentration ($\sum_i [X_{ik}/X_k]^2$), η_k the absolute value of the industry price elasticity of demand ($-d \log X_k / d \log p_k$), and α_k captures each firm's expectations about the response of each rival to its own output decision ($[dX_{jk}/dX_{jk} | [X_{jk}/X_k]]$). These expectations could be different for each firm, in which case α_k could be loosely interpreted as the weighted average of such expectations.

Thus the degree of monopoly is directly related to the degree of concentration in the industry and inversely related to the absolute value of the industry price elasticity of demand. It is also affected by the value of α . The Cournot model of oligopoly behaviour assumes that each member of the oligopoly group takes the output of rivals to be fixed and invariant to their own output and therefore specifies a value of zero for α . Despite the existence of interdependence each firm assumes it away in setting its own output. This lack of recognition of interdependence puts a lower bound on the set of outcomes under oligopoly, with $[p - c'(X)]/p = H/\eta$. This is a point which is often lost sight of in discussions of oligopoly. The absence of collusion does *not* imply a competitive outcome. The outcome, in terms of the degree of monopoly, will still be conditional on the degree of concentration (H) and the industry elasticity of demand (η). Thus in oligopolistic markets where firms are proceeding quite independently to fix output, without either overt or tacit collusion, profit-maximising behaviour within such constraints can still ensure an output departing substantially from competitive output. For instance, a *non-collusive*, symmetric duopoly will have an equilibrium mark-up of price on

marginal cost of one-third where the industry elasticity of demand is two. This is not to say that this is the expected outcome in the case of symmetric duopoly since, in the absence of external constraints, it is possible for the participants to do better than this. It should however be regarded as a lower bound, and a lower bound which departs farther and farther from the competitive outcome as the industry becomes more concentrated.⁴

The joint profit-maximising solution, $[p - c'(X)]/p = 1/\eta$, implies a value for α of unity, which establishes the upper bound on price-cost margins. The actual value of α can therefore be used as a measure of the degree of apparent collusion (see Cubbin, 1975b); $\alpha = 0$ implying zero collusion, $\alpha = 1$ implying perfect collusion, $0 < \alpha < 1$ implying some degree of imperfect collusion.⁵ Equation (2.1) can then be interpreted as a convex combination of monopoly (perfect collusion) and Cournot (non-collusive) equilibria.⁶ Whether the particular oligopoly equilibrium ends up close to the monopoly or Cournot positions will depend on the extent to which they can co-ordinate their output policies. We will delve into this question below, but before we do that we need to consider the generality of the result we have obtained.

Clearly the description of oligopoly equilibrium which has been developed above is general in the sense that it spans the whole range of possibilities between full and zero collusion.⁷ It is less than general in that it assumes that all participants have essentially the same view about interdependence. In contrast Saving (1970) derived a relationship between concentration and the degree of monopoly assuming a basic asymmetry between a dominant collusive group and a competitive fringe. It is the recognition by the dominant group of the supply function for output from the competitive fringe in coming to their own price-output decisions which sets this model apart from the one we have described above, and we must therefore ask whether this represents an additional and useful way of describing oligopoly equilibrium. It seems to me that this alternative approach should be rejected as a useful additional description on two counts; first as a description of a typical industry and second as a useful description of behaviour, even if such industry structures existed.

On the first point it would seem that where industry structures appear as described, the 'competitive' fringe is typically either producing a different product to that produced by the dominant group, with a low cross-elasticity of demand, or the product produced is essentially complementary, on either the demand side or the production side, to that of the dominant group. But even if we were to grant that such industry structures may exist, it does not mean they will persist. Where such models are deficient is in assuming that the supply function of the competitive fringe is a constraint about which the dominant group can do nothing. If this were so then it would be a misuse of the term dominance. If such a fringe existed and became a threat to the profitability of the dominant group then we would expect the dominant group to do something about it. One solution would be to buy out the fringe, a solution which would always be possible given the higher valuation put on the assets of such a fringe by the dominant group. Alternatively such a fringe could be eliminated by an array of aggressive policies, like predatory pricing. Obviously this would only be optimal for the dominant group if the eliminated fringe were not immediately replaced by another with similar characteristics. This question will be postponed until we take up the question of entry, but the dominant firm model is the static version of the dynamic limit-price model of entry, and for related reasons we will argue that the degree of monopoly remains normally unaffected by the conditions of entry because alternative action by the dominant group will tend to dominate.

One other restriction on the generality of the result is the assumption of profit-maximising behaviour, within a fairly narrow context. In the next section we will relax this rather informally to see how the pursuit of profit leads to the modification of those factors which have been shown to determine the degree of monopoly. We will however want to stick with the assumption of profit-maximising behaviour in price-output determination. This does not mean that we reject managerial theories of the firm but we will interpret them in distributional rather than allocative terms (see Chapter 4). Others believe that those firms which are price-makers follow simple rules of thumb for price-fixing rather

than adopting profit-maximising rules. Thus to some 'full' or 'normal' measure of cost is added some mark-up, but the way in which the mark-up is determined is usually left undefined. This does not seem to be a very helpful line to follow, and there is plenty of evidence to suggest that the mark-up can vary quite widely in patterns which are quite consistent with profit-maximising behaviour. The widescale incidence of systematic price discrimination revealed in various Monopolies Commission investigations would suggest both the existence of monopoly power and pricing behaviour according to profit-maximising rules.⁸ Similarly, widely differing mark-ups in supermarkets have been observed.⁹

Lastly, it is of course the case that our formulation relates specifically to firms producing a homogeneous product, when in fact many markets are characterised by product differentiation. Whilst equation (2.1) still stands as a useful description of industry equilibrium it is obviously the case that some firms will be in a relatively dominant position in the market because of their past investment in an amalgam of product and marketing strategies. Thus price—cost margins can vary across firms operating in the same market, but we will be focusing mainly on changes at the industry level.

Capitalist Control over the Degree of Monopoly

The factors we have identified as determining the degree of monopoly in an industry are obviously partly determined by the actions of firms within the industry in question, in contrast to the view expressed by Johnson (1973), who seemed to feel that the degree of monopoly was purely determined by the behaviour of consumers, given that their tastes determine the elasticity of demand for the product in question. This is obviously wrong in that in the oligopoly case, which we take to be the general one, the degree of monopoly is determined by concentration and the degree of collusion, as well as by the elasticity of demand, but, also, the elasticity of demand is itself at least partly a variable within the control of the firms in question,¹⁰ just as the degree of concentration and collusion are. In the case of concentration we can see the monopolisation of specific industries as being a long-term aim of capital