Monopoly Capital in the Classroom

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When I was an undergraduate, one of my seminar topics was the so-called stagnation thesis of Alvin Hansen. In 1938, Hansen had written a book entitled Full Recovery or Stagnation?, in which he suggested that a number of long-run changes in the U.S. economy had made the sluggish recovery from the Great Depression (and the sharp recession of 1937) a “new normal.”1 Going to college in the early 1960s, when the postwar revival was still going strong, it was hard to see how Hansen’s analysis would still hold. The reading list for that week included an alleged refutation of Hansen by George Terborgh, The Bogey of Economic Maturity.2 I remained quite uncertain. My Old Left background told me there was something wrong with capitalism, but my education up to that point had given me no tools to affirm my instincts with convincing analysis.

In 1964, I began my graduate studies at Cambridge University. The reading list included a book by Josef Steindl with the intriguing title Maturity and Stagnation in American Capitalism.3 I read it, and was immediately drawn to the last chapter, “Karl Marx and the Accumulation of Capital.” Aside from reading the first few chapters of Capital in a study group, I had not yet read any of Marx’s economic writings (predictably, none had been assigned in any of my college courses). However, that last chapter persuaded me that Steindl’s analysis aligned with what I understood to be Marx’s general vision about the “laws of motion” of capitalist economies. Instead of relying on Hansen’s list of external factors leading to so-called “economic maturity,” Steindl identified stagnation as stemming from the heart of the accumulation process in the mid-twentieth century U.S. economy.

This set the stage for my reading of Baran and Sweezy’s Monopoly Capital in the spring of 1966. I devoured that book. I doubt that I got up from the kitchen table until I had read it from cover to cover. My favorite chapter was entitled “On the History of Monopoly Capitalism.” I had read with great interest Joseph Schumpeter’s The Theory of Economic Development, which described a capitalist dynamic that grew with the fits and starts of the business cycle. Schumpeter introduced his theory in 1911, long before Keynes (and Kalecki) had created what would become

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the basis of modern macroeconomics. To me, it seemed straightforward to combine Schumpeter’s analysis with the distribution-centered micro-analysis from the first volume of Capital and the Keynesian macroeconomics of my U.S. undergraduate education into a “story” that capitalist economies—at least the nineteenth-century variety—grew in spurts, only to be routinely interrupted by periods of depression.4

First in this story would come some initial investments. Schumpeter emphasized innovation. Keynes used the term “animal spirits,” while Marx argued that capital by its very nature depended on “self-expanding value.” That initial investment through the multiplier (and later accelerator) process would lead to a boom. Schumpeter emphasized the over-expansion of credit, which was less apparent in the 1960s than it would be later, with the rise of modern financialization. Marx pointed to the rise in the organic composition of capital, while Keynes described a decline in what he called the “marginal efficiency of capital.” All three were plausible explanations for the fact that business cycle upswings always ended in a crisis, or at least a downturn. It mattered little to me which explanation ruled. I was more interested in the fact of over-investment as the economy boomed than in the actual causal mechanism. The great economist Joan Robinson pithily summed up the problem in one of her lectures. In forming their expectations, she said, “businessmen always over-value the present.”

When the economy ran out of fuel, a “crisis” or “depression” occurred (neither Marx, Schumpeter, nor Keynes used the word “recession”). This stage in the business cycle was crucial for Schumpeter. He introduced the concept of the “gale of creative destruction,” which swept away the least productive businesses during the period of depression or downturn. The destruction of outmoded structures and the write-down of the value of the capital in the firms that disappeared during the downturn would in turn create the conditions for the next period of boom. It also, most importantly, led to the sharing of the benefits of productivity growth with the general population, because a period of downturn often brought declines in prices which would help revive real wages as the next upswing began. This, too, seemed to describe the experience of the U.S. economy in the nineteenth and early twentieth centuries.

Monopoly Capital’s analysis begins with the argument that the new industrial structure of a monopoly capitalist economy had changed the competitive pressures on oligopolistic firms. Schumpeter’s “gale of creative destruction” had become no more than “an occasional mild breeze” because the nature of competition between the giant firms was now “co-respective.”5 Business cycle downturns no longer automatically resulted in the sharing of the benefits of productivity growth with the rest of
the population. Instead, oligopolistic firms had become “price makers” rather than “price takers,” meaning that profit margins were protected during downturns, even if many businesses had to limp along carrying excess capacity until demand revived.

The macroeconomic implication of all this was that once the industrial structure of a capitalist economy changed from competitive capitalism to monopoly capitalism, a tendency towards stagnation would emerge. This would appear as a slowing of the surges in growth associated with business cycle upswings. Baran and Sweezy argued that the stagnation tendency could and would be temporarily counteracted by wars or surges of investments stimulated by what they called “epoch-making innovations.” “On the History of Monopoly Capitalism” presented a test of their theory.

Baran and Sweezy's first point was to specify when the transformation of the U.S. structure was sufficiently advanced to permit these new macro-dynamics to emerge. They traced the change to the 1870s, culminating in the first major merger wave around the turn of the twentieth century. If their analysis of the “laws of motion” of a monopoly capitalist economy held true, then there should be evidence of a change in the process of economic growth over the business cycle beginning in that period, absent any wars or an epoch-making innovation. “We call ‘epoch-making’ those innovations which shake up the entire pattern of the economy,” they wrote, “and hence create vast investment outlets in addition to the capital which they directly absorb. Clearly for an innovation to deserve this designation it must profoundly affect both the location of economic activity and the composition of output.” The authors went on to argue that the steam engine, the railroad, and the automobile fit this definition, but the railroad, they argued, was unique among the three:

During the second half of the nineteenth century and the first years of the twentieth century, the building of the railroad network directly absorbed enormous amounts of capital...from 1850 to 1900 investment in the railroads exceeded investment in all manufacturing industries combined.... [S]omewhere between 40 and 50 percent of private capital formation was in the railroads. This concentration of investment in one industry is surely unrivaled at any time before or since. If we add the indirect effects of the railroad on economic activity and hence on capital investment...we can see that this one innovation quite literally dominated half a century of capitalist development.

Given that Baran and Sweezy locate the origins of monopoly domination in major U.S. industries in the 1870s and the merger wave at the turn of the twentieth century, one would expect the economy to display the tendency towards stagnation once the railroad investment booms ended. And
indeed, they demonstrate such a drop-off in railroad investment around the time of the financial crisis of 1907. The macro-data for the entire economy showed a sluggish recovery from the 1907 depression. The economy remained anemic until the First World War initiated another boom. They further argued that after the war, the 1920s brought the first boom based on the rise of the automobile, another epoch-making innovation:

The automobile industry...has had a...[great] indirect effect on the demand for capital. The process of suburbanization, with all its attendant residential, commercial and highway construction, has all along been propelled by the automobile. The petroleum industry, with more capital investment than any other American industry, is in large part a creation of the automobile, and several other major industries (rubber, glass) are similarly dependent. Many service "industries" too have grown up in the wake of the automobile, such as filling stations and repair shops, motels and vacation resorts.

Explaining the Great Depression of the 1930s, Baran and Sweezy argued that even the vigorous thrust of the automobile during the 20s was...unable to sustain the capital investment boom of that period. And when the depression hit, it did so with such overwhelming force that the further progress of automobilization was effectively arrested for a whole decade...It was only after the serious erosion of the stock of cars during the [Second World] war and in the general forward surge of the aftermath boom, that automobilization with all its multifarious ramifications could once again become a major stimulus.

Of course, the Great Depression was only ended by the Second World War, not the New Deal, as many Democrats were prone to argue. According to Monopoly Capital, postwar prosperity was the result of the next round of automobilization, aided by the building of the interstate highway system in the 1950s and 60s, combined with what had come to be known as military Keynesianism.

Taking Monopoly Capital into the Classroom

When I became a professor in 1970, I found myself teaching a course called American Economic History. I immediately opted for a problem-oriented approach, rather than a broad, boring survey. One of my topics was “The Causes and Consequences of the Great Depression,” and I relied on the historical chapter in Monopoly Capital to integrate Baran and Sweezy’s analysis into the class discussion. This was especially important in the context of the mainstream debate over whether the Federal Reserve was responsible for the Great Depression. The debate focused on whether the decline in the stock of money between 1930 and 1933 was due to the Fed’s failure to keep the money supply up, as opposed to
the traditional Keynesian view that the sharp decline between 1930 and 1933 was the result of a major decline in aggregate demand. Both arguments took a short-run view that I believed was misplaced. It ignored the most significant single fact about the 1930s depression—the failure of the economy to achieve a full recovery. The economy had declined sharply in 1920–21, but had rebounded dramatically in the next year. By 1923, nearly full employment had been reached. What changed in the 1930s? Baran and Sweezy’s answer was that the automobile boom had not been sufficiently strong to sustain demand after the downturn of 1929–33.

(In my first-year graduate economic history seminar at the University of Wisconsin-Madison, I wrote my paper investigating whether those industries that had become concentrated after the merger wave at the turn of the twentieth century showed higher profit margins—evidence of “the tendency of the surplus to rise”—than those more competitive industries. I discovered a significant difference between 1904 and 1914. In that same seminar I encouraged one of my classmates who was researching the 1920s to see if he could find evidence for similar tendencies during that decade and he did.)

As the 1970s turned to the 1980s, succeeding generations of my American Economic History students were confronted with what I called this “oligopolistic competition stagnation explanation” for the Great Depression. Meanwhile, the mainstream continued virtually to ignore the fact that even in 1937, before the second dip of the double-dip Great Depression, the economy had not succeeded in climbing out of the deep hole into which it had fallen between 1929 and 1933. Often on take-home essay exams I would challenge students to either support or defend the *Monopoly Capital* thesis in the face of the apparent prosperity of the 1960s. (I would later ask them if the periods of stagflation in the 1970s were evidence in support of the *Monopoly Capital* thesis.) After the decade of the 1980s, the issue became whether or not the military buildup under Reagan had staved off stagnation. Having such a clearly developed theory of secular stagnation with which to challenge the students was a good way to end the semester-long inquiry into issues in economic history. (A typical final discussion would be about the nature of the postwar U.S. economy. Was growth dependent on military spending? Were our economy and politics dominated by giant corporations? I would leave these as open questions and enjoy the back-and-forth in the classroom.)

When I taught Principles of Economics, I used mainstream textbooks, a departmental decision. To supplement those texts, I had every student finish the first section of the two-semester course with a comparative book report of *Monopoly Capital* and Milton Friedman’s *Capitalism and Freedom*. The second semester of the Principles sequence was introductory
microeconomics—the part that focuses on the four industrial structures: competition, (pure) monopoly, monopolistic competition, and oligopoly. Implicit in this analysis—but often not brought up in mainstream textbooks—are discussions of the role of advertising, the impact of oligopoly on innovation, and the ability of large businesses to influence the political process. Most mainstream textbooks end with a grab-bag of chapters on policy issues—often revolving around the role of government. I used these to raise a number of crucial points that were central to the Monopoly Capital argument, including the role of advertising, the importance of military spending, the ability of government to combat secular stagnation without resort to war or militarism, and the general concept of waste in the modern economy.

I also made sure we discussed racism. Virtually all mainstream introductory textbooks treat racism in the United States as a particular example of Gary Becker’s theory of discrimination. Since the students were reading Friedman’s Capitalism and Freedom, they were exposed to the similar argument that capitalism is antithetical to discrimination, because competition imposes costs on businesses who discriminate against certain groups of workers and imposes higher costs on consumers who refuse to patronize businesses because of the color, religion, or other quality of owners or employees. Monopoly Capital’s chapter on racism provided a convincing antidote to the Friedman argument. Of course, not all students were convinced that racism had an important role to play in a monopoly capitalist society, but it was fascinating to see how they reacted to Monopoly Capital’s historical argument about the role of black Americans as the “most recent” migrants to the industrial sector, just when manufacturing employment growth began to slow in the 1960s. Rereading that chapter more than thirty years later, I am struck at how much Monopoly Capital got it “right.” In opposition to Friedman’s position about the incompatibility of capitalism with discriminatory behavior, Baran and Sweezy asked why black Americans were “play[ing] the part of permanent immigrants, entering the urban economy at the bottom and remaining there decade after decade?”

They answered that there were three major reasons. “First, a formidable array of private interests benefit, in the most direct and immediate sense, from the continued existence of a segregated subproletariat. Second, the socio-psychological pressures generated by monopoly capitalist society intensify rather than alleviate existing racial prejudices...[T]hird, as monopoly capitalism develops, the demand for unskilled and semi-skilled labor declines...a trend which affects Negroes more than any other group.”

Baran and Sweezy identified “tokenism” as monopoly capitalist society’s way of co-opting the upper echelon of the black population. This focus
may appear outdated in the era of Barack Obama and black CEOs, college presidents, and prize-winning journalists and novelists, but that is because the word “tokenism” seemingly refers to a tiny sliver of the population. The more basic point is that no matter how far a growing percentage of the African American population may rise, the majority is confined to a second-class economic and social status and treated with suspicion and contempt by fellow citizens.\(^{17}\) Obviously, in the decades since *Monopoly Capital*, books like *The New Jim Crow* and the older but still relevant *American Apartheid* have added data and enriched the analysis of the role of racism in U.S. society beyond what *Monopoly Capital* presented. Nevertheless, this chapter remains useful for a Principles of Economics discussion of twentieth and early twenty-first century U.S. racism.\(^{18}\)

Thinking back to those end-of-semester discussions every April, I remember the excitement I felt being able to cite chapters on advertising, militarism, racism, or the role of government. The macroeconomic focus of the first semester was all about the Keynesian consensus from the 1960s and through the early 1970s (before stagflation reared its ugly head) that the right mixture of monetary and fiscal policies could guarantee no re-run of the Great Depression.\(^{19}\) The *Monopoly Capital* argument that government expenditures had political limitations was certain to spark a vigorous classroom discussion. The question of whether advertising was anything but a total waste of resources—useful for an irrational system but not for society as a whole—was also guaranteed to be lively. The college had a business school where students earned undergraduate degrees in management, marketing, accounting, and finance. All business students were required to take the two-semester Principles course, with the result that at least 80 percent of the students in my introductory classes were business majors. Based on their experiences studying actual business practices, students lined up on both sides, and no consensus was ever achieved. I simply enjoyed the fact that these students, unlike most other Principles of Economics students, were actually thinking about the things that *Monopoly Capital* had brought to the fore.

Perhaps the most important impact of *Monopoly Capital* was that it gave me hope that a new generation of students could open their minds to radical ways of looking at the economy, rather than being pigeon-holed into one of the various mainstream boxes (monetarist or Keynesian in the 1970s, supply-side or neoclassical in the 1980s). Looking back on my career in the classroom, I think that the value for students of having teachers who, like me, were radicalized in the 1960s was that for at least some of their time in college, they saw and heard alternative approaches. I believed then as I do now that this approach was better at
understanding the world, and therefore at giving people the information necessary to change it. But even if students were not persuaded, they still had the opportunity to think it through for themselves. Tragically, almost a decade after the financial meltdown exposed the failures of mainstream economics and economists, too few students are even aware of the alternatives presented in *Monopoly Capital*. I will always be grateful to Baran and Sweezy, as well as to Joan Robinson, Harry Magdoff, and the first generation of scholars in the Union for Radical Political Economics for giving me the confidence to introduce radical perspectives to a decidedly mainstream economics program.\(^{20}\)

**Notes**

2. George Terborgh, *The Bogey of Economic Maturity* (Chicago: Machinery and Allied Products Institute, 1945).
4. Of course, volume 2 of *Capital* later provided evidence that Marx had realized the importance of fluctuations and periodic depressions (and refuted Say’s Law as well) before Schumpeter, Keynes, or Kalecki.
6. Later, when I read Sweezy’s *The Theory of Capitalist Development* (1942) and Baran’s *The Political Economy of Growth* (1957), I discovered that they had been developing the idea that the monopoly phase of capitalism created a tendency toward stagnation—but that they were quite dissatisfied with the way they had presented it in their earlier works.
13. This argument was initially presented in Milton Friedman and Anna Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, NJ: Princeton University Press, 1963), 299–412. It was dissected by Peter Tien in *Did Monetary Forces Cause the Great Depression?* (New York: Norton, 1976). The problem with both of these books is that they emphasize the fall in the economy between the crash of 1929, the wave of bank failures in 1930, and the depth of the Depression in 1933.
16. Baran and Sweezy, *Monopoly Capital*, 263, and developed further in the following two pages.
17. Two years after *Monopoly Capital* was published, the Kerner Report presented massive documentation of what Baran and Sweezy had argued. They concluded that the United States was dividing into toward two societies, “separate and unequal.” The important point to understand here is that the successful black middle class was becoming more and more separate from the isolated black communities described in the work of Massey and Denton (see note 18 below).
19. It might seem absurd to younger readers, but introductory economics textbooks of the late 1960s and the first two years of the 1970s were earnestly speculating as to whether or not the government’s ability to utilize aggregate demand management through a judicious combination of fiscal and monetary policies had actually ended the danger of business cycle downturns. Such wishful thinking looks more understandable when we recall that the 1960s experienced a very long boom. The end of the 1961 recession inaugurated nine years of economic growth—a “recovery” period longer than any other in the twentieth century. Interestingly enough, the only dissent from the celebration of the seeming success of Keynesian policies came from the monetarists, led by Milton Friedman. Friedman had famously predicted in a 1967 address to the American Economic Association that attempting to keep the economy booming, as the policy makers were doing in 1966–67, would inevitably lead first to an acceleration of inflation and an inevitable correction (a recession). His prediction came true in 1970, and the ensuing decade of stagflation did much to burnish the (undeserved) reputation of his approach to macroeconomic policy. For a representative tribute to Keynesian policies, see “Extending the Record of Prosperity,” *Economic Report of the President*, 1967, 37–71. For Milton Friedman’s famous dissent, see “The Role of Monetary Policy,” *American Economic Review* 58, no. 1 (1968): 1–17.
20. Western New England University (then College) remains a teaching institution with a four-section load every semester. I had the privilege of teaching over a hundred students many of those semesters (approximately ninety at the introductory level). That adds up to a lot of copies of *Monopoly Capital* read and discussed over many years. Swimming against the current in a department that mostly serviced the business and engineering schools (as well as a number of more popular arts and sciences majors) has been an exhilarating exercise in existential struggle. After thirty-eight years at the school (including the last twelve as department chair), I spent four more years teaching a multicultural, working-class student body at a four-year liberal arts college of the City University of New York. *Monopoly Capital* and *Monthly Review* (and the Union for Radical Political Economics as well) have provided a crucial foundation for my entire career.