UK Monopoly Capitalism
Applying a North American Brand to Britain

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During the past decade, persistent excess productive capacity, at levels exceeding at times 25 percent, has blighted the British economy, along with rates of unemployment not experienced for two decades, with the result that a substantial proportion of the economy’s productive resources remain underutilized. Orthodox economic theory often ascribes such phenomena to a lack of capital for investment. However, in the same period, interest rates have been historically low, and the UK corporate sector has accumulated increasing reserves of surplus capital. Clearly, there has been no shortage of capital for investment. The failure to invest stems not from the supply of capital, but instead from the paucity of investment opportunities, suggesting that British capitalism is mired in stagnation.

In the Marxist tradition of Paul Baran and Paul Sweezy, the tendency to stagnation, endemic to monopoly capitalism, arises from a condition of chronic “overaccumulation,” or the inability to absorb all of the investment-seeking surplus potentially available, due to massive excess capacity and vanishing investment outlets.1 There then emerges an economy, not of no growth, but one which grows far less than its full potential. With capitalism unable to sustain full operating capacity through the logic of its own accumulation process, exogenous methods of demand and surplus absorption are needed to stimulate investment.

As an advanced capitalist nation, Britain is a mature economy. Using Marx’s reproduction schema, demand generated from the expansion of Department I, which produces the means of production, does not play the stimulating role it did during initial stages of development, when demand for investment-seeking capital was strong. Given the rapid growth of capitalism in its early phase, demand for the output of Department I came predominantly from the expansion of other Department I industries, rather than the consumer goods industries of Department II. In such an environment, surplus capital was the exception rather than the rule.

By the end of the nineteenth and early twentieth centuries, the productive base of British capitalism had been sufficiently established, resulting in a declining growth of new industries and the subsequent relative

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growth of surplus capital, as investment demand declined. Department I therefore turned mainly to supplying the needs of Department II—which today also includes consumption demand generated by government—and replenishing worn-out means of production. Department I now depends increasingly upon the growth of Department II. The general problem of maturity is intensified by the tendency of monopoly capital to produce widening profit margins, while carefully controlling price, output, and investment. The result is a secular tendency toward slower growth, coupled with growing concentration and centralization of production. It is within this historical context that Britain should be understood as a mature monopolistic economy afflicted by stagnation.

Stagnation associated with the problem of surplus capital absorption is a structurally embedded feature of British capitalism, and can account for the economy’s performance, not just during the last decade, but over the past thirty years, with the real economy of production entering a slow decline. While I will argue that this is the case, this theory, as first advanced by Baran and Sweezy in *Monopoly Capital*, followed by Harry Magdoff and Sweezy, and later by John Bellamy Foster, Fred Magdoff, and Robert W. McChesney—one might also add in David Harvey who adopted this view in his *Enigma of Capital*—has not had the impact on Marxian political economy in the United Kingdom that it has had in the United States. As a result, before illustrating the stagnationist tendencies of British capitalism, I will examine some key characteristics of British Marxism during the 1960s and 1970s that help explain why these ideas did not have the same effect.

**Britain and the New Left**

In 1966, the year of *Monopoly Capital*’s publication, economist Bob Rowthorn argued that in Britain, political economy had historically been on the fringes of left intellectual life. The reasons for this are undoubtedly complex. Marxian historian Eric Hobsbawm pointed out in his *Industry and Empire* that monopoly capitalism came late to Britain, long the workshop of the world, while the United States and Germany catapulted into the new era. Indeed, both economic and political-economic analysis can be said to have lagged in Britain. Although Cambridge University was, with Harvard University, one of the two main centers of the Keynesian Revolution, and constituted its most left-wing variant, this did little to develop a distinctly Marxian political economy. Moreover, in Britain the notion of monopoly capitalism was associated much more with the Old Left, for example Maurice Dobb, and not with the vibrant New Left. This provides some potential clues as to why the reaction to Baran and Sweezy varied on each side of the Atlantic. In the United States, *Monopoly Capital*
gained exposure in various outlets, from the academic to the wider public realm, and became a central source of inspiration for the New Left. However, looking back after fifty years, in Britain the reception was quite different, attracting only limited theoretical engagement.

To understand the book’s relative lack of influence, one must begin with the British New Left itself. Never solely a Marxist movement, it had nonetheless a significant relationship with Marxism. The New Left emerged in the late 1950s under the auspices of such figures as E. P. Thompson, John Saville, Christopher Hill, Raymond Williams, and Ralph Miliband. Although representing a diversity of backgrounds, interests, and theoretical interpretations, common to all was an understanding that socialism was in crisis and working-class organizations had failed to advance the revolutionary class struggle. The decisive break came with the revelations made in 1956 by Khrushchev of Stalin’s tyrannical reign and the Soviet Union’s invasion of Hungary. Compounding this sense of the crisis was the perceived economic determinism of the global Communist movement, including within the Communist Party of Great Britain, and a dissatisfaction with organized British labor.

The British New Left, including both the first and the second generation—the latter emerging with Perry Anderson’s editorship of *New Left Review* in 1963—was largely oriented toward issues of history, culture, and the state, all established concerns of British thought, with Marxism incorporated into a broader range of UK intellectual traditions. Though political economy was also part of this tradition, it was not a prominent area of inquiry during the period.

For the first New Left, the shift away from economics was motivated mainly by opposition to the Old Left. For Thompson, an Old Left iconoclast who became a leading voice of the New Left, more dogmatic forms of Marxism had reduced individuals to passive objects, shaped by the evolution of autonomous social and economic structures. Although never denying the importance of economic conditions and economic exploitation, Thompson, like Raymond Williams, moved toward a cultural materialism, less focused on economics. This turn away from economics would largely continue into the New Left’s second phase.

Remaining attached to the revolutionary potential of the working class, Thompson, Hill, and Saville drew upon movements from British history, including the Levellers and Chartists, to stimulate class consciousness. This recourse to British history was also a source of theoretical influence, calling upon Robert Owen, and in particular William Morris, whose ideas, Thompson claimed, complemented those of Marx and informed Thompson’s own humanism. The first New Left’s affinity with English
popular radicalism would later became a source of antagonism, as the second generation detached itself from this native radical tradition, both theoretically and methodologically. Tom Nairn, a second-generation historian and NLR contributor, rejected the empiricism of the first New Left as an “English ideology” incapable of engagement with “grand” ideas. For the second generation, these grand ideas were those of continental Marxism, including phenomenology, existentialism, and structuralism. Anderson went so far as to complain in 1966 that “there is not one comprehensive and scholarly account of Marx’s work in English.”

Between the first British New Left’s focus on indigenous radical traditions and the second generation’s turn toward history, culture, and the state, Marxist analyses of political economy, including those of Baran and Sweezy, were often overlooked. Nonetheless, several members of the first New Left did develop a relationship with Monthly Review, as Leo Huberman and Paul Sweezy forged an alliance with Thompson, Williams, and Miliband based upon a shared disaffection toward the Soviet Union and a shared general outlook. These key figures of the British New Left published with Monthly Review and Monthly Review Press. This relationship deepened with the establishment of the Socialist Register, a product of the first New Left’s break with the second generation, which was distributed in the United States by Monthly Review. In 1965 the Socialist Register published Harry Magdoff’s “Problems of United States Capitalism.”

Monopoly Capital appeared during the emergence in Britain of the second New Left, and while the book attracted limited attention in the United Kingdom, New Left Review published a review by James O’Connor, who was closely associated with Monthly Review. Monopoly Capital’s subtitle was An Essay on the American Economic and Social Order, and O’Connor questioned Monopoly Capital’s relevance to Western Europe, writing that “the question still to be resolved is, does the United States show Gaullist France the future, or is it the other way around?” In Europe, a neo-capitalist understanding of the state had gained ascendancy on the left, which argued that capitalism was characterized by increased state intervention, often in the form of state-directed national planning, as well as efforts to mediate the relationship between capital and labor through full employment and the welfare state. A central feature of the neo-capitalist concept was the increased effort by the state to manage both economic activity and economic relations. Pre-empting O’Connor’s question, Serge Maller argued the neo-capitalist organization of France should be considered the model for all capitalist nations. In Britain, Thomas Balogh claimed that while neo-capitalism was not as advanced as on the continent, it was nonetheless being implemented. Moreover, for Robin Blackburn,
the British state had been compelled to adopt techniques of neo-capitalism, influenced more by de Gaulle than by the “well-intentioned, ‘reasonable’ regimes of Kennedy or Johnson.” Baran and Sweezy were well aware of these ideas and their influence in Western Europe. Nonetheless, they suggested that Western European nations, including Britain, would, with minor differences, end up following the same general monopoly capitalist path as the United States.

“Back to Marx” and the End of the Postwar Boom

Although the New Left retained its influence, the 1970s witnessed a renewal of Marxist political economy in Britain, illustrated by the competing perspectives of Andrew Glyn and Bob Sutcliffe, who advanced a “profit-squeeze” theory, and David Yaffe, Ben Fine, and Laurence Harris, who argued for the traditional tendency of the rate of profit to fall (TRPF) due to rising organic composition of capital, as presented in volume 3 of Marx’s *Capital*. Both were versions of supply-side Marxian crisis theory, in contrast to the more demand-side based constraints emphasized in Baran and Sweezy’s *Monopoly Capital*. The reasons for this strong emphasis upon supply-side crisis theory in the British New Left in the 1970s (mirroring in some ways the interpretation of the crisis promoted by Thatcherism) were varied, but the most significant factor was likely the decline of British industrial capitalism, signaling the abatement of the postwar boom.

The retreat to supply-side theorizing paralleled the rise of neoliberalism in the same era. Against Baran and Sweezy’s emphasis on a lack of outlets for surplus absorption, supply-oriented analysts pointed to Keynesianism itself as the cause of capitalism’s decline. David Yaffe argued in “The Marxian Theory of Crisis, Capital, and the State” that while Keynesianism had dominated both orthodox and Marxian economics during the postwar boom, economic instability and growing unemployment demanded alternative explanations. Although Marxian political economists of all stripes had long criticized the wan reformism of Keynesian policies, some Marxists, such as Yaffe and Michael Bleaney in his *Underconsumption Theories*, went even further, dismissing any use of Keynesian categories as an abandonment of a revolutionary alternative.

According to Andrew Glyn and Bob Sutcliffe, British capitalism had entered a new period of uncertainty because throughout the 1960s, various factors, in particular international competition, had prevented businesses from raising prices to compensate for rising working-class incomes, both from wages and welfare provisions. For Yaffe, however, even this position, whatever its potential validity, was based on “reformist” Keynesian concepts and so could not ultimately account for the decline
in profitability. As Yaffe saw it, was to locate the source of the crisis of British capitalism within the production process and the TRPF. As constant capital increased relative to variable capital, labor productivity increased and profitability declined. To Yaffe and other fundamentalist Marxist theorists such as Fine, Harris, and Bleaney, the Monopoly Capital thesis represented a crude “underconsumptionist” position. Such a claim necessarily ignored the fact that Baran and Sweezy focused their analysis primarily on surplus absorption and thus on investment and capitalist consumption, adopting what is better described as an overaccumulation theory of crisis.

If Baran and Sweezy’s book had a limited influence on British Marxism, it nevertheless made a mark on academic political economy. From the mid-1970s, many of their core principles influenced British heterodox economist Keith Cowling. It was not just Baran and Sweezy, however, who were to influence Cowling, but also Michał Kalecki and Josef Steindl who, while both at Oxford University’s Institute of Statistics during the 1940s, developed theoretical frameworks inspired by Marx and Keynes—although many of Kalecki’s ideas rather than being derived from Keynes anticipated the latter—that incorporated issues of monopoly and problems of investment, demand, and stagnation. Kalecki and Steindl’s analyses had formed the immediate source of inspiration for Baran and Sweezy’s Monopoly Capital, ensuring considerable overlap between Cowling’s analysis and theirs. Although not in complete accord with Baran and Sweezy, and arguing that their analysis had gaps, Cowling agreed that increasing monopolization in the mature economies led to stagnation, as profit margins rise faster than investment opportunities. This, he argued in the 1990s, was exactly the tendency that had characterized recent British capitalism. But while influenced by Baran and Sweezy, Cowling never centered his analysis within a Marxist framework. Despite supporting labor’s goal for greater control over production, Cowling later argued that although a form of democratic planning was required to combat stagnation, this should occur in the context of the market system.

Monopoly Capitalism and Britain

Since the end of the Second World War, the history of the British economy has been one of initial expansion, stimulated by postwar rebuilding, followed by a slow decline into stagnation that continues today—what Baran and Sweezy characterize as the “normal” state of a monopoly capitalist economy. In the postwar decades, the British economy saw robust growth in the Gross Domestic Product (GDP), which grew at an average rate of 2.9 percent from 1950 to 1960, and 3.5 percent from 1960 to 1970, with
individual years of the 1960s nearing 6 percent. In addition, official unemployment averaged just 1.7 percent in the 1950s and 2 percent during the 1960s. By the 1970s, however, the momentum propelling the UK economy began to wane, and by the middle of the decade it registered the first annual contraction of the postwar era. Average economic growth declined to 2.5 percent, and official unemployment rose to 4.1 percent. The present phase of stagnation afflicting Britain can be dated to this period, which marked the end of the stimulus provided by the Second World War. With no similar stimulus since, this has given rise to what Sweezy called “the profound tendency to stagnation which lies at the heart of present-day capitalism.”

Investment, all economists agree, drives capitalist expansion. Its decline inevitably leads to reduced economic growth, and, should this continue, stagnation. Lower levels of output also cause decreased productivity. With stagnation as the normal state afflicting the economies of the advanced capitalist nations—which, to reiterate, is the consequence of the quantity of surplus capital increasing faster than investment opportunities and demand—it would be expected that diminishing investment levels and subdued economic growth would emerge. This indeed has been the nature of the British economy during the last thirty years.

Compared to the postwar boom, the broad picture from the 1970s has been one of declining growth. Taking each decade as a whole, including recession years, average annual UK GDP growth in the 1980s was 2.7 percent, followed by 2.8 percent in the 1990s, and 1.9 percent from 2000 to 2009. Although these figures already show a decline from the decades of the postwar boom, if we take only the average for years of economic growth, this decline is more apparent. Ignoring the two years of recession during the early 1980s, average economic growth for the remaining eight years was 3.8 percent. In the 1990s, excluding 1990–91, average growth was 3.2 percent, a decline despite one year of higher growth compared to the average of the previous decade. Similarly, for the 2000s, excluding 2008 and 2009, the years of the Great Recession, growth amounted to 2.7 percent. Economic growth rates have weakened gradually with each decade, indicating a creeping stagnation that has become more embedded over time.

Long-term stagnation is manifested in this weakening of investment. Reduced investment in physical assets has been a trait of all mature capitalist economies since the 1970s, declining from 26.1 percent of combined GDP in the mid-1970s to 21.8 percent by 2009. At the beginning of the 1980s the value of all capital utilized for investment in Britain was 20 percent of GDP. Despite a brief increase to 24 percent in 1989, it has slowly declined, falling to 18 percent between 2003 and 2006, reaching a low of 14 percent by 2009-13. By the end of 2014, with the economy
slowly emerging from recession, it had grown to 17 percent. From these figures it can be confidently argued that over the last twenty five years British capitalism has been witness to declining investment, and illustrates, as Magdoff and Sweezy argued, the relative weakening of demand for investment capital within a mature capitalist economy.

At the same time as demand for investment capital has declined, the supply of capital has strengthened. Over the last thirty years, global corporate profits have increased from 7.6 percent of global GDP in 1980 to 9.8 percent in 2013. During this same period, a growing share has been retained, with corporate “cash piles” increasing. Since 1980 surplus capital has increased to 22 percent of GDP in Western Europe. In Britain, since 2002, the value of gross savings of non-financial corporations—i.e., profits available for investment—has consistently been greater than that utilized for investment. Estimates of the quantity of surplus capital in the economy varies, ranging from over £650 billion of surplus in the form of cash and bank deposits in 2009 to £139.5 billion in 2015. With British capitalism harboring large quantities of surplus capital, combined with the decline in investment, the inescapable conclusion is that capitalism in Britain can be defined by diminishing investment opportunities relative to the existence of investment-seeking capital. Without outlets for their absorption, corporate surpluses have steadily increased.

A defining illustration of stagnation for Baran and Sweezy was not only surplus capital, but also excess labor and productive capacity, which, given sufficient demand, could be used to produce future surplus. But instead, “under monopoly capitalism,” Baran and Sweezy asserted “the normal condition is less than capacity production. The system simply does not generate enough ‘effective demand’...to insure full utilization of either labor or productive facilities.” For three decades, unemployment in Britain has been significantly higher than the era of the long postwar boom, increasing during the 1980s to an average of 11.6 percent, followed by 9.6 and 5.4 percent in the 1990s and 2000s, respectively. In the first half of this decade, with the effects of the Great Recession still being felt, unemployment had averaged 7.2 percent. Such figures, however, only reflect the proportion of the population who are officially reported as actively seeking work. A significant minority of working-age adults are considered economically inactive, having not sought work during the previous month. From August to October 2015, official unemployment was 5.2 percent, alongside 21.9 percent of the population who were economically inactive, such as students, the chronically ill, the disabled, caregivers, and those who have been discouraged from seeking work in the past. For various reasons, as Sweezy argued, many individuals in this category have simply given up
hope of employment. As a consequence, the total unemployment rate was 27.1 percent, a sign of considerable economic waste, as the demand for their employment does not exist in a stagnating economy.

In terms of capacity utilization, the available data on manufacturing illustrate the tendency toward long-term stagnation in the productive economy. Beginning in 1985, and taking the first quarter of each year for comparison, capacity utilization rose from 82.6 percent to a three-decade peak of 85.4 percent in 1989. From there it has slowly declined, reaching a low of 72.8 percent in 2009, increasing to 82.7 percent in 2015. With an average of 80 percent capacity utilization during this period, 20 percent of all manufacturing capacity in Britain has remained idle. Further, capacity utilization has exhibited a gradual decline each decade. Between 1985 and the end of the decade it averaged 83.9 percent, decreasing to 81.3 percent in the 1990s and 79.3 percent in the 2000s.

Declining capacity utilization mirrors the trajectory of economic growth and investment over the same period, and along with higher unemployment rates and increasing surplus capital, it further shows that British capitalism has been on a path toward stagnation for over thirty years, with surplus capital, labor, and productive capacity lying idle as a consequence of declining investment opportunities and a lack of demand relative to output.

Counteracting Forces and the Stimulation of Demand

Accumulation is both the source and a potential barrier of capitalist expansion. Since capitalism’s own internal accumulation process is unable to counteract stagnation, external stimuli must account for periods of growth. Monopoly Capital illustrated various methods of surplus absorption, and below, I briefly assess three of these. In a paper entitled “Why Stagnation?” Sweezy claimed that in the United States stagnation was not as severe as it could be, due to the counteracting factors of increased government expenditure, expansion of government and consumer debt, and the growth of the financial sector, which provided outlets for surplus in various speculative activities. Each of these has also been instrumental in the United Kingdom.

Governments can stimulate effective demand through civilian and military services, which absorb large quantities of surplus and provide new investment opportunities. For Baran and Sweezy, military expenditures constituted the greatest expansion of state expenditure in the United States in the quarter-century prior to the book’s publication. In the United Kingdom, military expenditure has historically played less of a role as a counterweight to stagnation, with official military spending declining as
a share of national income from 9.9 percent in 1953—stimulated by the
Korean War—to a postwar low of 2.2 percent in 2014, compared to 3.5
percent (based on the official numbers) for the United States in the same
year.49 British government expenditure in education, health, transporta-
tion, and housing, has had a greater impact upon stimulating demand.

In the United States, Baran and Sweezy argued, civilian government
expenditures were constrained, having reached their “outer limits,” as
a share of the economy in the 1930s. Further expansion would be con-
sidered a politically unacceptable infringement on the private sphere.
In Britain these limits have been less restrictive. Between 1953 and 2014,
combined spending on health and education rose from 5.6 percent to 13.4
percent as a share of national income.50 This overall growth since the ear-
ly postwar years can be taken as an approximate indicator of the steadily
growing use of civilian government expenditure to stimulate demand.

Taking account of general government final consumption—encompass-
ing all current expenditure including defense—as proportion of national
output, a comparison with the United States illustrates how much more
important government consumption in Britain is in stimulating effec-
tive demand. Between 1981 and 2013 the rate for both countries, and the
difference between them, has remained fairly consistent: 21.2 percent
of GDP for Britain and 15.8 percent for the United States in 1981, and
20.1 percent and 15 percent respectively in 2013.51 Despite this constant
picture, even with military outlays less than in the United States, govern-
ment consumption in Britain is of greater importance to stimulate effec-
tive demand, with civilian services constituting much of this.

Baran and Sweezy argued that as a result of declining private sector
investment, even a balanced government budget could stimulate addi-
tional demand. However, should the government borrow, they argued,
total demand for goods and services increases further.52 On average, pub-
lic sector net borrowing has been greater in Britain over the last twenty-
five years, making up 4.1 percent of GDP in the 1990s, 3.7 percent from
2000 to 2009, and 6.5 percent during the first half of this decade. By
comparison, government borrowing represented just 0.7 percent of GDP
between 1955 and 1959, and 2.1 percent during the 1960s.53 Given the
tendency toward stagnation, all government demand supplements the
private sector, becoming a vital additional source of demand to compen-
sate for economic growth lost from declining investment.

Despite quantitative differences between Britain and the United States,
and in the structuring of public expenditure—particularly in the health
sphere—the principle remains the same. Increasing civilian government
expenditure as a share of national income is an overall indication of the
growing importance of the state’s role in generating demand and absorbing surplus in an era of stagnation. What cannot be ignored, however, is that despite all this, stagnation continues. Capacity utilization in the British economy at present is barely 80 percent. Furthermore, unemployment remains high, and it would be even greater if not for the public sector, which provides 20 percent of total employment, since private-sector demand is insufficient to absorb this section of the labor force.\textsuperscript{54} Rather than “crowding out” private-sector activity, the public sector has become a vital support to a permanently sluggish economic system, without which stagnation would be considerably greater.

On top of a stagnating real economy, there has grown in Britain, as Magdoff and Sweezy observed decades ago in the United States, a great financial superstructure built upon the productive base.\textsuperscript{55} Baran and Sweezy already noted these developments in \textit{Monopoly Capital}, at the end of their chapter on “The Sales Effort,” in terms of finance, insurance, and real estate (FIRE). But it would be another decade until Magdoff and Sweezy would place renewed emphasis on the importance of this process to the absorption of surplus, beginning with the visible onset of stagnation in the mid-1970s, and particularly in the 1980s. In \textit{Stagnation and the Financial Explosion}, they argued that the financial structure had grown immeasurably, in both absolute and relative terms, with the creation of various speculative activities, property inflation, and the expansion of debt.\textsuperscript{56} The financial system, which was once subservient to the needs of production, has been freed to become more and more a means of amassing wealth at the top of society. Recently, the role of financialization as a means of stimulating capitalist expansion has inspired a reworking of Baran and Sweezy’s theory as one of “monopoly-finance capital.”\textsuperscript{57}

The pace of the growth of FIRE in Britain during an era of embedded stagnation is truly astonishing: between 1990 and 2014, the share of national income associated with financial intermediation, real estate, renting, and business services grew from 21.2 percent to 30.5 percent. In the same period, the combined activities of manufacturing, agriculture, forestry and fishing—of which manufacturing was by far the largest part—declined from 20.2 percent to 11.2 percent.\textsuperscript{58} Thus the proportion of national income associated with finance increased by about the same amount as the others decreased, indicating that as stagnation has prevailed within the productive economy, the activities of FIRE have attempted to “compensate” with respect to income, if not employment.

In broad historic terms, the growth of the financial sector in Britain reflects the development of capitalism from infancy to maturity. During the half-century leading up to the First World War, financial activity grew
by an average of 7.6 percent annually, largely driven by the rapid development of British capitalism and the market for industrial securities. However, as Western capitalism shifted back to production during the Keynesian era, from 1914 through the early 1970s, average annual growth in finance slowed to just 1.5 percent, less than that of the economy as whole. With the subsequent deepening stagnation, the financial sector once again grew rapidly, averaging 6 percent from 1997 to 2007, more than double the annual rate of GDP. Prior to 1914, the growth of finance, while brisk, was subservient to the needs of an expanding productive sector. In recent years, by contrast, finance has achieved an unprecedented level of autonomy from production, and has become a source of wealth creation itself. Of the various financial services, banking accounts for over half the sector’s value. In 1960 the total value of the balance sheet of the British banking system was barely half of total GDP. However, from the late 1960s it began a rapid rise, peaking in 2013 at 450 percent.60

The expansion of FIRE, while producing few use values, does require the use of material goods. As Magdoff and Sweezy argued, such activities encourage the expansion and demand for property—both commercial and residential—while a substantial proportion of the demand for information and communication technology originates from the financial sector. Moreover, with FIRE employing over 1.6 million people—an increase of 21 percent over the last twenty years—these sectors stimulate demand indirectly in terms of consumption.62

For Magdoff and Sweezy, the structural expansion of debt was one of the most important attempts to counteract stagnation in the productive economy and to increase profits within the financial sector. By the middle of 2011, total UK debt—including that of the government, households, financial institutions, and non-financial corporations—amounted to 507 percent of GDP, up from 200 percent in 1990. This was a rate of growth far in excess of the economy itself, which grew during the same period by 61 percent.

A monopoly capitalist society is characterized by large quantities of consumer goods. Baran and Sweezy argued that the demand for new goods and the replacement of existing ones provides an important source of demand through the mechanism of the sales effort. As a consequence, consumers have contributed greatly to the explosion of debt, with household debt increasing over 314 percent between 1990 and 2013. By 2014, it constituted 155.6 percent of net disposable income, up from 111.1 percent in 1997. Much of this increasing debt is likely attributable to the declining share of national income obtained by labor over the last three decades, having fallen from 76 percent in 1980 to 66 percent in 2013 in
the advanced capitalist economies. While contributing to the growth in corporate profits, labor’s losses inhibit consumer demand. In a mature capitalist economy, where investment in producer goods industries is linked to the growth and contraction of consumer goods industries, a declining share of national income attained by labor exacerbates the problem of surplus absorption, as the economy’s capacity to produce increases relative to its effective demand, leading to market saturation. The increase in consumer debt has therefore allowed firms to maintain profits by increasing demand, while at the same time reducing the share of wealth obtained by the labor force. Yet this process has its limits, as the household debt burdens of the lower-income quintiles rises, feeding financial crises, as in the bursting of the housing bubble in 2007–09.

Although characterized by increasing levels of surplus, non-financial corporations have also increased their debt. One historical analysis estimated that non-financial corporate debt had increased from 45 percent of GDP in 1987 to 122 percent in 2009, falling to 109 percent in 2011. One key cause of growth here has been mergers and acquisitions: faced with declining investment opportunities, corporations seek an alternative means of expanding their market share through increasing centralization of capital. As a process, however, this often requires huge amounts of borrowing, adding to overall debt levels. In the first half of 2015, mergers-and-acquisitions activity in Britain accounted for 45 percent of the total European value.

Along with ever-larger quantities of debt, the expansion of the financial sector has been marked by the growth of financial speculation, whereby money creates more money, without any need for production of tangible objects or services. In this respect the United Kingdom, and especially London, has become central to global monopoly-finance capital. As of 2013, Britain was the site of 41 percent of global foreign exchange trading, had the largest insurance market in Europe, and was central to global equity trading. London is second only to New York as the largest center for hedge funds, managing 85 percent of those based in Europe. The number of shares traded on the London stock exchange increased from 24 million in 1981 to 881 million in 2004. By 2015 this number peaked at over 1 trillion. Debt has spurred speculation, with the single largest component of total debt in Britain in 2011, totaling 219 percent of GDP, owed by financial institutions.

Together with government expenditure, the growth of FIRE activities has become the most important method of surplus absorption in Britain during the last thirty years. Baran and Sweezy argued that stagnation constituted the normal condition of any monopoly capitalist society, as overaccumulation was inherent to the accumulation process. Fifty years on their analysis
remains relevant for mature capitalist economies, including Britain. Since the stimulating effects of the postwar boom have receded, stagnation has permeated British capitalism, with reduced investment and declining economic growth. Capitalism in Britain is defined by the growth of potential surplus in the form of rising unemployment, increasing corporate surplus capital, and excess capacity, as investment opportunities to stimulate expansion have grown at a rate less than the productive capacity of the economy. The consequence, as Baran and Sweezy argued, is that “surplus which is not absorbed is also surplus that is not produced.”

To counteract overaccumulation and stagnation, British capitalism has increasingly relied upon methods of surplus absorption external to the private accumulation process. The activities of both the state and the financial sector have been crucial in lifting the economy. Yet despite such counteracting factors, the downward pull of stagnation continues to re-assert itself. Although state expenditures have risen as a proportion of national output and while this has been accompanied by a proliferation of speculative financial activities of all kinds, the net effect has simply been to slow the secular decline in the overall rate of growth, not to reverse it.

Notes

2. David Harvey, The Enigma of Capital (London: Profile, 2010). While rarely referring explicitly to Baran, Sweezy, or Magdoff in recent publications, Harvey is a British Marxist who has come closest to adopting their position of overaccumulation. As part of his argument regarding capitalist crisis, Harvey argues that in its drive to maintain its expansion capitalism must continually identify new investment opportunities which will absorb existing surplus capital and utilize existing surplus goods, labor and productive capacity. If investment opportunities are less than the existing surplus there then arises the barrier of overaccumulation. Like Magdoff and Sweezy, Harvey has argued that since the 1970s, increasing amounts of surplus capital have been absorbed within financial activity and less within the sphere of production. Harvey’s recent empirical analyses, however, have largely concentrated on global capitalism, with little specific attention to this phenomenon as a characteristic of British capitalism.
25. Magdoff and Sweezy, The Deepening Crisis of U.S. Capitalism, 179. Although Sweezy advanced what he called an underconsumptionist view in The Theory of Capitalist Development, this reflected what Joseph Schumpeter called the non-s spending version of underconsumption—that is, the broad rubric of theories, including Keynes’s, that focus on effective demand, including both investment and consumption—and thus did not fall into the crude underconsumption fallacy (which assumes that demand ultimately depends on workers’ consumption). See Joseph A. Schumpeter, History of Economic Analysis (Oxford: Oxford University Press, 1951), 740. In Monopoly Capital, Baran and Sweezy developed an analysis based on the works of Michael Kalecki and Josef Steindl, who emphasized overaccumulation, monopoly, and investment stagnation.
26. The result of this influence was Keith Cowling, Monopoly Capitalism (London: Macmillan, 1982).
29. Figures calculated from the Office of National Statistics, 2013 Long-Term Profile of Gross Domestic Product (GDP) in the UK.
40. Duncan Weldon “There is an Alternative—Unlock the Surplus,” Red Pepper (December-January 2011) 18–19.
41. Baran and Sweezy, Monopoly Capital, 143.
42. Boyer and Hatton, “New Estimates of British Unemployment 1870–1913.”
44. Sweezy, Modern Capitalism and Other Essays, 26.
47. Magdoff and Sweezy, Stagnation and the Financial Explosion, 34.
52. Baran and Sweezy, Monopoly Capital, 143–45.
56. Magdoff and Sweezy, Stagnation and the Financial Explosion, 95. It should be noted that Magdoff had already pointed to this general tendency of a secular rise in share of debt in the private sector of the U.S. economy, seeing this as a systematic trend, in his “Problems of U.S. Capitalism,” in 1965—even before Monopoly Capital was published.
66. Camilla Canocchi, “Families in the red ‘pose threat to UK recovery’ as household debt more than quadrupled since 1990,” This is Money, August 14 2014, http://thisismoney.co.uk.
68. Dobbs, Manyika, and Woetzel, Playing to Win, 5.
70. Foster and Magdoff, The Great Financial Crisis, 58–59.
74. Roxburgh et al., Debt and Deleveraging, 5.
75. Baran and Sweezy, Monopoly Capital, 218.
76. Baran and Sweezy, Monopoly Capital, 143.