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Monopoly Capital Theory and Stagflation: A Comment

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In my view, David Kotz's article, "Monopoly, Inflation and Economic Crisis" (Kotz 1982), provides a clear and, for the most part, internally consistent explanation of the inflationary features of monpolistic pricing in the context of long-term economic stagnation, and deserves to be recognized as a notable addition to Marxian analysis. But his claim of having constructed a "new theory" (1982: 7) demands critical comment of a fraternal kind for two reasons: (1) It downplays the extent to which Kotz's argument merely expresses the main tendency of neo-Marxian monopoly capital theory, as previously developed by Michal Kalecki, Josef Steindl, Paul Baran, Paul Sweezy, Paolo Sylos-Labini and Howard Sherman, among others (see Foster and Szlajfer 1984); (2) Kotz's own contribution is not diminished, but only enhanced, when seen in terms of this larger historical tradition.

The cornerstone for Kotz's argument is the much-discussed phenomenon of "limit pricing." In the simplest version of his model, the barriers to entry that protect monopoly sector markets are reduced to certain cost advantages that monopolists/oligopolists normally have over smaller, competitive sector firms. Hence, "the degree of monopoly power," or the ability of the giant corporation to enlarge its profit margin by augmenting its price mark-up on unit costs, depends on its relative cost advantage vis a vis any potential new competitors. Under these circumstances, the profit-maximizing monopolist will price goods so as to limit entry, choosing a mark-up (or rate of surplus value) that is high enough to provide some monopoly profits, but low enough to make it impossible for a new entrant to overcome the cost advantage enjoyed by the monopolist and still receive the competitive rate of return. A more complex version of the same model also takes account of the fact that some entry barriers, like product differentiation, cannot be reduced to advantages in the area of cost — though this has little effect on the overall argument. Since barriers to entry are obviously more effective in contraction than expansion, the theory of "entry-deterring pricing," as Kotz clearly demonstrates, leads to a partial solution to the stagflation puzzle, based on a recognition of the fact that monopoly capital has a strong, strategic inducement to maintain (and even raise) prices during periods of cyclical crisis or long-wave downturns. At the level of high theory, Kotz devotes much of his article to proving that a model of monopolistic pricing, such as the one that he has developed, is entirely consistent with, and merely serves to modify, the classical Marxian analysis of prices of production as "centers of gravity" for market prices.

It is no doubt within the bounds of fairness to note that much of this argument falls under the rubric of what Myrdal once termed "unnecessary originality" (Patinkin 1982: 37). Notwithstanding the impression that Kotz clearly conveys

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to the contrary, there is nothing especially new about a general theoretical approach that emphasizes the modification in prices of production associated with monopolistic mark-ups, or about a broad notion of limit pricing based on "the degree of monopoly power" (rooted in barriers to entry). The former can be traced back to Marx and Hilferding and has been stressed numerous times by Sweezy over the last four decades (see Sweezy 1942: 54–55, 270–272; Foster and Szlajfer 1984: 241–242). The latter has its principal expression in the work of such theorists as Kalecki, Steindl and Sylos-Labini (see Kalecki 1965: 11–18; Sylos-Labini, 1969: 40; Steindl, 1975: 16–17). It is to Kalecki more than any other economist, after Marx and Veblen, that we are indebted for the modern theory of monopolistic accumulation, upon which Kotz implicitly relies. Hence, his failure to mention Kalecki's work at all must be considered an unfortunate oversight.

Of course Kotz does guard against the criticism that the degree of monopoly/barriers to the entry/limit pricing idea is not altogether new to radical thought, by pointing out in a footnote (1982: 14) that: "There has been some recognition in Marxian writings of the importance of barriers to entry to the determination of monopoly profits" — citing Steindl in this regard. But when looked at from the standpoint of a well-defined tradition of monopoly capital theory dating back over half a century (if Kalecki's early works are taken into account), this qualification to Kotz's general argument, which otherwise seems to suggest just the opposite, appears to be something of an understatement.

In order to emphasize the original points in his own account of inflation in the midst of stagnation, Kotz discusses two recent approaches to the problem, which he classifies as "mark-up pricing theory" and "conflict theory." With respect to the former, he refers (1982: 2) to the contributions of John Blair, Howard Sherman and Alfred Eichner — though he excludes Sherman from the actual discussion. Both Blair and Eichner are criticized for their apparent inability to explain why firms with monopoly power seeking maximum profits wait until a recession to take full advantage of their pricing leverage. For both Blair and Eichner, though in somewhat different ways, this contradiction is resolved by abandoning the profit-maximizing assumption — a procedure that Kotz rightly criticizes. But is it reasonable to imply that Sherman made the same mistake? It is true, of course, that in his introductory textbook on *Stagflation* (Sherman 1976), to which Kotz refers, Sherman acknowledges his intellectual debt to Blair and Eichner. Yet, even here he attributes "the basic theory" to Kalecki, and manages not to fall into the trap that Kotz has associated with mark-up theory. For Sherman, as for the monopoly capital tradition in general, the conditions governing long-term profit maximizing behavior differ widely between boom and slump. In a boom, monopolists (or oligopolists) maximize their profits by "raising prices only slowly while rapidly increasing their production and employment to obtain or keep a high share of the expanding output." However, in a slump, their long-term profit-maximizing strategy is the obverse — there they protect (and even push-up) prices and profit margins, while cutting back on capacity utilization, output and employment. Behind this dual strategy of course is the fact that barriers to entry, taken as a whole, tend to be more easily surmounted in an upturn than in a downturn (Sherman 1976: 168–171, 174; Sherman and Evans 1984: 368–370).

This general outlook, common to economists like Kalecki, Steindl, Baran, Sweezy and Sherman, already embodies all of the essential elements of Kotz's theory — though lacking some of the detail that he brings to bear on the subject.

Nevertheless, Kotz himself seems to see his analysis as a spin-off from the quite different tradition of "conflict theory" (1982: 4). This well-known model, developed in recent years by such theorists as Andrew Glynn, Bob Sutcliffe, Rafford Boddy, James Crotty, Bob Rowthorn, Samuel Bowles, David Gordon and Thomas Weisskopf, emphasizes the presumed wage squeeze on profits associated with a boom, and is commonly referred to as "profit squeeze theory." Kotz criticizes such approaches — justifiably I believe — for "their lack of clarity concerning the profit-seeking behavior of capital" (1982: 4). Yet, he seems to think that a more definite explanation of how monopolistic firms target their profit rates should provide the basis for some kind of larger synthesis, and it is not easy to see how this would work. Putting things as baldly as possible, profit squeeze theorists, with their emphasis on supply-side constraints (underexploitation), tend to play down the role of monopolistic accumulation. To my mind, there is nothing inadvertant about this, since it stems from the fundamental logic of their position, which stresses labor's ability to extract real wage increases sufficient to expand its relative income share under conditions of near full employment. In this context, notions of monpolistic pricing and regulation of output are more than a little unsettling.

All of this is tied to what I see as the larger problem associated with Kotz's essay. From the very beginning, he indicates that he doesn't wish to argue "that monopoly capitalism produces inflation 'in general' " — since "historical experience would not support such a claim" — but only that it can be held responsible for the paradox of stagflation, where the advanced capitalist economy, for some undetermined reason, is already experiencing conditions of "prolonged stagnation" (1982: 2). Here it seems appropriate to suggest that Kotz's analysis would have been much enhanced if he had incorporated some of the deeper insights of the neo-Marxian tradition of monopoly capital theory, to which much of his own analysis appears to be related.

In fact, what makes Kotz's approach to the question of stagflation so significant, in my eyes, is that it can be understood as an integral part of a much larger conceptual framework; one which does not simply skirt the issue of stagnation, but deduces it from a theory of widening underemployment (endemic to monopoly capitalism). Thus, in his writings from 1952 on, Paul Baran pointed to some of the major factors inducing stagflation (or inflationary tendencies superimposed on top of a chronic realization crisis) — although his argument was sharply criticized at the time, and has received little attention ever since (see Baran 1957: 120–129; 1969: 115–138; Sweezy 1974).

This more general interpretation of stagflation, as a natural outcome of the entire pattern of monopolistic accumulation, is presented in a simple, straightforward manner by the Canadian socialist economist, H. Lukin Robinson, in a discussion of "the underlying of inflation" (those causes that operated even between the Korean and Vietnamese Wars, before the coming of accelerated inflation):

> The tendency [towards stagnation] is due to the gap, which widens as output and employment expand, between production and effective demand. As incomes rise,

> savings rise even more and there is a widening gap between production capacity and the sum total of spending by consumers, business and governments. And this gap in turn is due to the unequal distribution of income which is inherent in a capitalist organization of production...
>
> [A]s monopoly more and more becomes the dominant form of corporate organization, the more *un*equal becomes the distribution of income, and the greater becomes the economic surplus which must find outlets in spending of one kind or another. If increased spending fails to offset the increased savings, output and employment will fall. All this strengthens the tendency towards stagnation. Hence, in order to keep the economy operating reasonably satisfactorily, more and more powerful means have to be found to counteract this tendency. As we shall see, many of the means by which this is done strengthen the tendency still more. They are also inflationary (Robinson 1978: 42–43).

Pursuing a line of thought largely derived from the work of Baran, Sweezy and Magdoff, Lukin Robinson goes on to argue that those wasteful expenditures, such as an increasing sales effort, military spending, etc., which have served to counteract demand deficiencies — while "necessary to keep the system going" — have the long-run effect of intensifying both stagnation and inflation, since "production as well as distribution is distorted" (Robinson 1978: 44–49; Morris 1983: 327–329). Thus, stagflation represents the *doubling-over* of economic contradictions, as the attempt to combat stagnation by unproductive, inflationary means creates ever greater distortions in the system as a whole. From this standpoint, "the factors which underlie" unemployment and inflation in an advanced capitalist economy "are related," with the nemesis of inflation, like that of stagnation, arising out of the inner workings of the system. "Monopoly capitalism... has a built-in and increasingly strong bias towards rising and against falling prices" (Robinson 1981: 14; 1978: 37–38).

Hence, there is ample reason to believe — Kotz's argument notwithstanding — that there is a historical connection between monopoly capitalism and inflationary tendencies in general. An expectation that finds some support in the fact that the wholesale price index for the United States economy showed a downward trend throughout the nineteenth century (with the exception of the Civil War), and has shown a fairly steady upward trend during most of the twentieth century (with the Great Depression as the most notable exception). Naturally, this is not simply a consequence of monopolistic pricing as such (which should be understood as encompassing the inflationary effect of normal shifts in supply and demand, when prices adjust, as a rule, only in an upward direction), but has to do with the whole changeover from competitive to monopoly capitalism, including: the spread of imperialism, armaments production and war; the "labor aristocracy" phenomenon; growth of tariffs and restraints on trade; the global struggle over commodity prices; the dollar outflow associated with the period of United States hegemony; the ballooning of the financial superstructure; expansion of advertising, sales promotion and consumer credit, and the relative growth of the service sector in general; and state attempts to stave-off the stagnation intrinsic to monopoly capitalism through accelerated government spending and money market manipulations (Sweezy 1979; Foster and Szlajfer 1984: 118–123). The problem of secular

inflation, which still lies on the horizon, cannot, in other words, be subsumed entirely within a narrow theory of monopolistic pricing, but must be seen in the larger historical context of a mature capitalist order.

In view of the foregoing, it seems reasonable to suggest that David Kotz's very illuminating analysis of monopoly, inflation and economic crisis could have had an even greater significance for radical thought, had he related it to prior work of a similar and complementary character by major neo-Marxian theorists. Moreover, his particular contribution gains in stature, whatever it loses in originality, if seen as an exceptionally lucid presentation of a pivotal aspect of a much larger theory of accumulation under monopoly capitalism.

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