IS OVERCOMPETITION THE PROBLEM?

by JOHN BELLAMY FOSTER

Robert Brenner, *The Economics of Global Turbulence: A Special Report on the World Economy, 1950-98* (Special issue of *New Left Review*, no. 229, May/June 1998), 262 pp.

It is tempting perhaps to attribute all the problems of capitalism to excessive competition. After all, capitalism is generally presented within contemporary ideology as a system which is nothing more than a set of competitive relations governed by the market. Is it not possible then that the economic contradictions of capitalism, and indeed the present world crisis, can be explained in terms of the globalization of competition which now knows no bounds, and is undermining all fixed positions, resulting in a kind of free fall? This seems to be the view of the distinguished Marxist historian and social theorist Robert Brenner in his ambitious attempt to account for the present global economic turbulence.

From a radical (or ultra-radical) perspective such a thesis seems to have the virtue that it strikes at the heart of capital—since if competition is truly the essence of the system, then there is no way of overcoming it or the contradictions that arise from it except through a revolutionary transformation of the system itself. Yet, the short answer to this is that competition is not the essence of capitalism but merely the means by which the basic laws of capitalism, generated within production, are executed. To focus on competition or overcompetition as the problem is then to miss the essential point—the accumulation of capital. Just as the *source of profits* cannot be discovered by focusing on the level of the market or competition between

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capitals, so the *crisis of profitability* or accumulation cannot be explained primarily through the analysis of the market or competition.

Nevertheless, in developing his theory of overcompetition, Brenner insists that previous attempts to account for the present economic crisis have focused

> too exclusively upon the 'vertical' (market and socio-political) relations between capitalists and workers. As a result, they have tended to underplay not only productive benefits, but also the economic contradictions, that arise from the 'horizontal' competition among firms that constitutes the capitalist system's economic mainspring. My point of departure is thus simultaneously that capitalism tends to develop the productive forces to an unprecedented degree, and that it tends to do so in a destructive, because *unplanned and competitive*, manner (p. 23).

Hardly a novel thesis, this view purports to explain the economic distress of the system as resulting from the anarchy of capitalism, which ultimately derives from its emphasis on competition. But by focusing on such "horizontal" relations Brenner also downplays the "vertical" relations of the system, that is, the relations of production and exploitation—and hence the class struggle. Could Marxists have been wrong all along—is economic crisis not to be understood primarily in terms of the class struggle? Brenner, it seems, would say yes.

Brenner, much to his credit, provides a devastating critique of supply-side theories of crisis—both the dominant, mainstream view and overlapping radical perspectives. According to theories of this sort, the "golden age" of capitalism in the first quarter-century after the Second World War—and the persistence of economic stagnation in the three decades that have followed—can be attributed largely to a "full employment squeeze on profits" (in Marxist terms, this translates into a declining rate of exploitation). Such theories of a wage squeeze on profits (sometimes known as "profit squeeze theory") can be found among both conservatives and radicals, Brenner notes, but also "dovetail" with the more fundamentalist Marxian notion of an inexorable tendency for the rate of profit to fall due to a rising organic composition of capital (p. 11). If the mainstream supply-side theories, associated with Thatcherism, Reaganism and neoliberal ideology in general, can be seen as Malthusian in character, their radical counterparts, according to Brenner, can be characterized as representatives of "social Malthusianism." He is quite right when he says that "the consensus of today's economists ... explains the long downturn in terms of the failure of wage growth to fall in line with declining productivity growth" due to "downward wage inflexibility" (p. 12).

Hence, among analysts of the current world economic crisis, Brenner observes, we find a "paradoxical near-consensus":

> Marxists and radicals have joined liberals and conservatives in explaining the long downturn as a 'supply-side' crisis, resulting from a squeeze on

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profits, reflecting pressure on capital from labour that is 'too strong.' In so doing, they have characterized the current crisis in terms just the opposite of those that have often been used to characterize the long downturn of the interwar period [the Great Depression], a crisis widely viewed as a 'demand-side' or 'under-consumption' crisis, resulting from an overly high profit rate, reflecting pressure from labour that was 'too weak' (p. 13).

In a remarkable, if far from original, ten page critique Brenner tears this "consensus" to ribbons.[1] Both logically and empirically, it is shown to be lacking in any rational foundation. Although a short-term crisis of capital could be accounted for by a wage-squeeze on profits, no long-term crisis could be explained in such terms, largely because capital accumulation necessitates the incessant revolutionization of the means of production—and thus the enhancement of productivity and the rate of exploitation. Capitalism constantly responds to the threat of high wages by increasing the reserve army of the unemployed by technological and other means, so as to undermine the position of labor.

Empirically, the weakness of the supply-side view of the long downturn is evident in the length of the downturn itself. It is nearly impossible to argue that workers' accumulation of power was so "effective and unyielding as to have caused the downturn to continue over a period close to a quarter century" (p. 22). Indeed, the fact that real wages in the United States have been declining for decades now, with productivity continuing to rise, completely undercuts the supply-side theory that a wage squeeze on profits is the problem, and that a shift from wages to profits would offer the solution.

Having demolished the underexploitation theory of crisis in this way, one might reasonably expect that Brenner would turn to its antithesis: overexploitation theory. Is it not possible that accumulation is arrested by the fact that exploitation—the rate of surplus value—is too high, leading to overaccumulation of capital (and productive capacity) in relation to effective demand? But rather than directly addressing this alternative theory of the crisis, associated with such thinkers as Kalecki, Steindl, Baran, Sweezy, and Magdoff, Brenner simply chooses to change the question. All "vertical" theories of crisis, which focus on production, the rate of exploitation, and the class struggle, whether mainstream or radical, supply-side or demand-side, are declared wrong, since they stress relations between capital and labor. Instead the crisis is primarily a "horizontal" one, attributable not to the conditions of capital in general, i.e., class struggle between labor and capital, but to competition between capitals and between national blocs of capital. The secret of the present crisis is then said to lie in the globalization of competition.

What is required, Brenner contends, is "a theory of a malign invisible hand to go along with Adam Smith's benign one" (p. 23). For Brenner, capitalism has a tendency toward overproduction that

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arises from the unstoppable force of competition, which compels each producer on pain of extinction to generate overcapacity and overproduction. In this view, "the source" of the long downturn is to be found "in the tendency of producers to develop the productive forces and increase economic productiveness by the installation of increasingly cheap and effective methods of production ... with the result that aggregate profit is squeezed by reduced prices in the face of downwardly inflexible costs" (pp. 23-24). What is projected then is a downward spiral induced by global competition, each corporation and system of national capital undercutting the other, with no seeming end to the process.

More specifically, we are told that constant revolutions in production, that include cost-cutting technology introduced by innovators, force firms with substantial amounts of fixed capital to maintain their output even at lower prices and reduced profitability in order to preserve market share—as long as they can obtain at least the average rate of return on their capital. The result, since the innovating firm is not able to force the high-cost firms out of the market, is "reduced profitability in the line for all, including the cost- and price-cutter itself" (pp. 26-27).

But how—one might ask—does this theory of crisis based on "horizontal competition" relate to the concentration and centralization of capital? Since Brenner's argument rests on the assumption of ever greater and more unrestrained levels of global competition and aggressive price cutting, it is perhaps not altogether surprising that his analysis completely overlooks the fact that we are living through a period in which mega-mergers on an increasingly global scale are a daily occurrence. The concentration and centralization of capital is simply too antithetical to his argument to be included. Indeed, Brenner goes so far as to contend, in passing, that the various theories of monopoly capital on the left—most notably *Monopoly Capital* by Baran and Sweezy—were nothing more than "reifications of quite *temporary* and specific aspects of the economy of the U.S. in the 1950s" associated with rigid, oligopolistic markets in some industries (p. 50). Such views, he contends, were disproved by the growth of the world economy, and the relative decline of the U.S. political economy, which largely obliterated all rigid, oligopolistic markets.

What this fails to acknowledge, however, is that the theory of monopoly capital was from the first a theory of imperialism and the growth of multinational corporations (that is, concentration and centralization on a world scale). In no way was it ever conceived simply in a national context (as was, for example, John Kenneth Galbraith's *New Industrial State*)—but rather in terms of capital's tendency toward concentration and centralization, extending beyond mere national limits.[2] Although the contradictions of capitalism in the current era cannot be seen as arising simply out of the concentration and cen-

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tralization of capital—i.e., the tendency toward monopolization of ever larger shares of total capital among an ever decreasing number of firms—it is foolish to think that an analysis of accumulation and crisis can be developed without attention to this phenomenon, which has so clearly modified the laws of motion of capital.

For instance, despite all the talk about aggressive price cutting in Brenner's analysis, deflation has not been the principal problem of capital over the last quarter-century—and this is true despite large and growing quantities of excess capacity. The degree to which genuine price competition has continued to be restrained is no doubt a reflection of the overall degree of monopoly.

By treating world competition as the annihilation of monopolistic competition—and thereby the elimination of the concentration and centralization of capital as a central problematic of the system—Brenner hopes to add a greater seeming plausibility to his own theory of overcompetition on a world scale. Brenner acknowledges in a footnote that the tendency toward "structural stagnation" and rising excess capacity in the final quarter of the twentieth century was first recognized by thinkers like Baran and Sweezy, who were part of a larger intellectual current that included thinkers like Alvin Hanson, Joan Robinson, Michal Kalecki, and Josef Steindl. But these theorists were wrong, in his view, because they saw stagnation as emanating from vanishing investment outlets, complicated by a rising "degree of monopoly" (which was, within Kaleckian theory, what Brenner would call a "vertical" concept, closely related to Marx's notion of the "rate of exploitation"). Instead, Brenner tells us, the stagnationist tendency lay not in the "vertical" character of the system, or in the phenomenon of market saturation, but in the horizontal war of capital against capital, in which workers' struggles played only a secondary, indirect role. The question of labor vs. capital is thus placed in the background, encountered for the most part only when he is referring to somewhat dubious data on national rates of productivity growth or profit shares; or when he is calling attention to the follies of supply side theory and policy.[3]

Not surprisingly, it is to Joseph Schumpeter rather than Karl Marx that Brenner turns in rationalizing his analysis. We are constantly presented with a view of competition defined in terms of Schumpeter's "perennial gale of creative destruction" in which all that is solid in terms of corporate profits is blown into the air. But insofar as Brenner relies on Schumpeter, it is more in terms of rhetoric than substance. For Schumpeter, the mechanism behind the process of creative destruction, i.e., of entrepreneurial innovation, was the creation of temporary monopoly profits on the part of the innovator. (Marx called these "surplus profits.") Brenner, however, explicitly denies that such temporary monopoly profits are possible, or that

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low-cost competitors—often the giant firms with their economies of scale—can seize control over large shares of the market at the expense of their smaller competitors.[4] Unlike Schumpeter himself, who saw the concentration and centralization of capital (or "trust building") as an inexorable tendency of the modern economy, serving to squeeze out the individual entrepreneur, Brenner reifies competition to the extent that large corporations and indeed entire nation-states become examples of unrestrained competition—as if it was not also a question of monopoly power. The fact that the kind of overinvestment/overcapacity situation that Brenner himself describes is only possible when free competition has been displaced, and considerable elements of monopoly power enter in, simply passes him by.

Perhaps it is because of these holes in his theory that Brenner seldom chooses to discuss firms in his analysis, any more than the class struggle. Rather, his concrete discussion of global turbulence is displaced almost entirely to the level of the horizontal relations between nation-states, where we are treated with grand generalities about comparative national productivities, based on questionable statistics—usually taken at face value. Here his analysis has much in common with the current fashion within mainstream business and economic analysis. The focus on globalization is seen as placing all nation-states in competition with each other over currency values, interest rates, wage levels, productivity growth rates, tax levels, access to finance, and location of firms. The only answer then is to create a country that is in some way a "world-class" competitor, enjoying considerable "competitive advantages," as envisioned by liberal thinkers such as business theorist Michael Porter and economist Lester Thurow.[5]

Hence, much of Brenner's analysis is concerned with accounting for the various "competitive advantages" (to use the term that Porter has made famous) of Germany, Japan, and the United States *vis à vis* each other. But Brenner's analysis purports to be something that Porter's and Thurow's are not, i.e., he claims to be providing a *general theory of world capitalist crisis.* And here is the rub. No amount of analysis of the relative competitive advantages among these three currency blocs/centers of accumulation can by itself generate either a meaningful theory of accumulation crisis or an understanding of the causes of the present world economic malaise.

Still, there is no getting around the fact that Brenner's entire historical treatment of both the long boom and long downturn takes this form—with the whole argument centered not on labor and capital (or even on corporations) but on competition between national centers of accumulation—primarily the United States, Germany, and Japan. For Brenner, both the "golden age" that followed the Second World War, and the long stagnation that began in the 1970s and continues up to the present, can be explained largely in

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terms of the relative competitive positions of nation states. Immediately after the Second World War, he argues, the U.S. economy benefited from low levels of trade (especially the low levels of exposure of the U.S. economy to international trade—exports and imports were only a small portion of GNP) and low levels of competition from Germany and Japan. U.S. economic growth was then a manifestation, in large part, of its hegemony within the world economy. Germany and Japan at that point also benefited from U.S. expansion, given the fact that direct competition between their economies and that of the United States was largely non-existent. At that time it was not yet a "zero-sum world," to use Thurow's term. Yet there was considerable uneven development as Germany and Japan, enjoying very high rates of growth, began to catch up with the United States.

Eventually, this uneven development was to create a situation of direct competition between these three centers of accumulation. The United States became increasingly dependent on trade and expansion within the world economy at the same time, in the early 1970s, when its hegemony began to disappear. Uneven development thus led to overinvestment as both the new low-cost competitors and the already entrenched high-cost competitors struggled to hold on to market share. The result was falling aggregate profitability throughout the capitalist world. Along with this came a burgeoning U.S. trade deficit and growing trade surpluses in Germany and Japan and, of course, the rise of the German *mark* and the Japanese *yen* in relation to the U.S. dollar.

U.S. capital, Brenner argues, counter-attacked with heightened investment while accepting lower rates of return. Hence, there was no easy solution to overcapacity and reduced profitability because the main economic competitors each refused to cede position. The resulting problem of overinvestment and overcapacity was further complicated by the rise of the newly industrializing countries in East Asia. So, a condition of overcompetition led to chronic overinvestment and overcapacity: a competitive standoff with no visible way out. The rest of the story is about how one nation or another attempted to seize a "competitive advantage" by reorganizing its own national economy: subsidizing technology or increasing profit shares at the expense of labor.

Since Brenner downplays throughout his analysis such "vertical" relations as the class struggle and the concentration and centralization of capital, it is perhaps not surprising that he also gives little attention to a third set of vertical relations—namely, relations of imperialism, understood in terms of the domination of the periphery by the center. Despite the fact that this is billed as "a special report on the world economy," Africa, Latin America, and the Asian periphery scarcely appear in the analysis, which is devoted almost exclusively to competition between Europe (mainly Germany), Japan, and the United States within the center of the world capitalist economy. Even

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the Asian Newly Industrialized Countries (NICs) scarcely appear until the last few pages, indicating merely that the crisis in Southeast Asia hit the front pages when Brenner was finishing off his manuscript. In a sense, this emphasis places the cause of international economic distress where it belongs: in the center of the system. But the failure to address the condition of the periphery is a glaring omission in a work that purports to discuss the crisis of the capitalist world economy over a half-century. Even the decline of U.S. hegemony is discussed with no more than a bare mention of the Vietnam War.

Brenner ends his "special report on the world economy" with various scenarios on the world economy—an optimistic scenario and a more realistic one. The optimistic (supply side) one of course is that the U.S. economy is now braced—having forced down wages and increased profit shares, and having reinforced itself with a new armory of technological innovations—for a dynamic leap forward into the twenty-first century, pulling the other center economies along with it, and generating a series of virtuous circles of accumulation. The other, more realistic scenario is that stagnation, resulting from overcompetition and overinvestment will linger on into the future: a sort of continual economic stasis, as long as no competitor will cede position and none can be dislodged. For the time being, then, the "malign invisible hand" will remain dominant. It is in his recognition of the persistence of stagnation and the inability of supply-side economics to overcome the problem that Brenner makes his main contribution. But by seeing overaccumulation and overcapacity as a mere reflection of competition, he misses the true depth of the problem and its relation to exploitation. Ironically, Brenner's analysis only serves to play down the underlying contradictions of capitalism (including the ways in which those contradictions affect the oppressed). The root of the problem lies not in the competition between capitals (nor in monopoly seen merely as a restraint on competition) but in the way in which the surplus product is extracted from the direct producers: that is, in the reality of exploitation and class.

All of this takes us back to the general issue of competition and its relation to capital accumulation and crisis. Here we need to recognize the theoretical limits of any view of capitalism that is confined largely to the level of market-based competition. Competition, in the view of the classical economists—as distinguished from today's neoclassical economists—was not the essential content of capitalism but rather the mechanism through which the fundamental laws of the system were enforced. Such a view of competition was held more or less in common by thinkers like Smith, Ricardo, J.S. Mill and Marx.[6] It was Marx, however, who stated it most clearly. As he wrote in the *Grundrisse*: "Competition generally, this essential locomotive force of the bourgeois economy, does not establish its laws, but is rather their

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executor." And later on in this same work, he stated: "Competition executes the inner laws of capital; makes them into compulsory laws towards the individual capital, but it does not invent them. It realizes them."[7] In Marx's view, the essential nature of capitalism was to be understood not by focusing on competition at the level of the market, but by analyzing the relations of capital and labor within production. It is here that the law of value of capitalism arose.

In writing *Capital*, Marx therefore initially assumed—in the more abstract argument of Volume One, where he tried to analyze the class essence of the system—that competition operated fully, setting aside the issue of the actual mechanics of competition. This simplifying procedure allowed him to concentrate on the nature of capital in general, abstracting from the issue of many capitals. Only in Volume Three, as he moves by successive approximations from abstract to concrete, does Marx introduce the reality of many capitals and the effects of the internecine warfare between units of capital.

In this respect, Marx merely developed much more coherently the method that was implicit in classical political economy. But with the growth of neoclassical economics, fantasies such as "pure" and "perfect" competition were concocted and made into the essence of the system—a system which is no longer analyzed primarily from the standpoint of production, but rather in terms of the market, leading to postulates about hypothetical equilibrium states that could be analyzed with regard to their uniqueness and stability. The realm of production and the class struggle simply disappeared, hidden by the veil of the market and the illusion of perfect competition.

The foregoing considerations should make us skeptical about any analysis of economic crisis that centers almost entirely on the competition between capitals. Moreover, matters are made much worse when the whole argument is displaced to the level of a theory of competitive advantage between nation-states. In effect, the world economic crisis of capitalism is reduced simply to the issue of uneven development among the great capitalist powers—a kind of international political economy of the left. No doubt the attractiveness of such an approach derives primarily from its fashionable globalization of the concept of competition—which reduces whole nation-states into mere pawns gripped by some "malign invisible hand." Yet the superficiality of the analysis is indicated by the fact that the theory of a "malign invisible hand" could just as easily turn back into a theory of a benign one; Schumpeterian pessimism could just as easily turn into Schumpeterian optimism.

More than twenty years ago, Robert Brenner authored a much-discussed article entitled "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism." In that article, he warned against theories on the left that, he claimed, were based on "an abstract

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process of capitalist development," and that "failed to specify the particular, historically developed class structures through which these processes actually worked themselves out," thereby ignoring the way in which the patterns of economic development which they described were "centrally bound up with historically specific class structures of production and surplus extraction."[8] The main weakness of *The Economics of Global Turbulence*, in my view, is that Brenner in this case failed to pay sufficient heed to his own warning. We cannot reduce capitalism to competition, and hence to a Smithian-style "invisible hand"—whether "malign" or otherwise—without losing sight of the very basis of the critique of accumulation: the reality of exploitation and class.

NOTES

1. Although Brenner himself refrains from citing any of these writings, it is important to note that supply-side theory has been subjected to a relentless critique, principally by radical political economists in the United States associated with *Monthly Review*, for two decades or more. All of the major points that Brenner makes in his critique are already to be found in this literature. For example, see the essays by various authors in John Bellamy Foster and Henryk Szlajfer, ed., *The Faltering Economy: The Problem of Accumulation Under Monopoly Capitalism* (New York: Monthly Review Press, 1984); also John Bellamy Foster, "The Long Stagnation and the Class Struggle," *Journal of Economic Issues*, vol. 31, no. 2 (June 1997), pp. 445-51, and "What is Stagnation?," in Robert Cherry, ed., *The Imperiled Economy* (New York: Union for Radical Political Economics, 1987), pp. 59-70.
2. Baran and Sweezy devoted a substantial portion of their book to the analysis of Standard Oil of New Jersey, which they viewed as "the leading multi-national corporation," and an example of the contemporary mechanisms of imperialism. See Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), pp. 193-202. The global dimension of monopoly capital was brought out even more strongly in Harry Magdoff's *Age of Imperialism* (New York: Monthly Review Press, 1969).
3. On the use and abuse of productivity-growth statistics, see Harry Magdoff and Paul M. Sweezy, *The Deepening Crisis of U.S. Capitalism* (New York: Monthly Review Press, 1981), pp. 115-26 and 169-77.
4. It would not be too much to say that Brenner's entire model depends on the inability of the low-cost innovator to obtain short-term monopoly profits, even though the existence of such temporary monopoly profits constituted the essence of Schumpeterian profit theory. On Schumpeter's theory, see John Bellamy Foster, "The Political Economy of Joseph Schumpeter: A Theory of Capitalist Development and Decline," *Studies in Political Economy*, no. 15 (Fall 1984), pp. 5-42.
5. See Michael E. Porter, *The Competitive Advantage of Nations* (New York: The Free Press, 1998); Lester Thurow, *The Zero-Sum Solution: Building a World-Class American Economy* (New York: Simon and Schuster, 1985).
6. The following discussion on the classical theory of competition relies very heavily on Paul M. Sweezy, "Competition and Monopoly," in Foster and Szlajfer, ed., *The Faltering Economy*, pp. 27-29.
7. Karl Marx, *Grundrisse* (New York: Vintage, 1973), pp. 552, 752.
8. Robert Brenner, "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism," *New Left Review*, no. 104 (July-August 1977), pp. 25-93.

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