

A Rejoinder to the Monthly Review-Keynesian Debate

Monthly Review magazine, which long continues to have cache on the left—especially with regard to economic analysis—is currently hosting a debate on the so-called “Minsky moment.” MR, of course, long defends the view advanced in the 1960s by Paul Sweezy’s and Paul Baran’s book *Monopoly Capital*. In brief, that book advanced the thesis that the method of accumulation in modern capitalism differs significantly from its more competitive past due to significant changes in the level of concentration and centralization, that is because of the monopolization process itself.

The reason for this is that monopoly capital is able, through its market power, to alter the rate of exploitation, the rate at which value is divided and redistributed to capital, by operating below full capacity. This creates market shortages, artificially raising prices above the limits that might otherwise competitively prevail in the absence of monopoly restrictions on potential competition. These barriers to entry are due not to collusion as such, but rather to the prohibitively high cost of entry at the necessary scale of production needed to force prices down.

The consequence, according to Baran and Sweezy, is the generation of a mass of surplus-value that cannot be readily recycled. There is no reason to build additional productive capacity when the key to monopoly profits resides in *withholding* production. The system therefore suffers from stagnation, a permanent difficulty in recycling its “surplus” (the preferred term in *Monopoly Capital*) by means of additional capital formation. In this unique sense, monopoly capitalism is said to suffer from chronic overaccumulation, which it attempts to counteract through a multiplicity of waste generating activities that absorb the surplus without

arresting the central dynamic of overaccumulation. Whereas “competitive” capitalism lapsed into periodic crisis due to an insufficiency of surplus-value, the modern stage of capitalism is said to suffer from its inverse. Business cycles are replaced with an overarching tendency to stagnation, which is itself only periodically transformed into prosperity to the degree in which surplus absorption can be made successful. This takes the form primarily of advertising, war production, and imperialist adventures, the latter two financed by taxes and by the issuance of government debt. But not only by those means.

The “Minsky” analysis, named after the late left Keynesian economist, who most famously questioned whether “it”—a second Great Depression—could occur, dealt primarily with the issue of financial instability. The creation of new financial products as a result of a combination of innovation, deregulation or regulatory avoidance, Minsky argued, increased the appetite for financial risk. This engenders a speculative boom that can be maintained as long as a sufficient revenue stream is available. Financial booms pass through three stages: a hedge phase, in which revenues are sufficient to cover interest and principle on debt; a speculative phase in which revenues are sufficient only to cover interest; and a Ponzi phase, the most dangerous, in which revenues are altogether insufficient and reliance is now placed on unsustainable asset inflation to meet ongoing debt obligations. The duration of the speculative boom requires therefore a particular architecture of profits to fend off onset of the Ponzi phase.

This is what fits so neatly into the Baran and Sweezy analysis. For a capitalism systemically awash in a surplus that needs to be recycled, while retaining a relatively low level of capital formation, habitually seeks out other—speculative—avenues for investment that offer greater rates of return than, say, that on government debt.

The problem, however, is this. There is nothing in the marriage of these two approaches that permits us to see why the Ponzi phase is ever attained. And, more significantly, there is nothing that helps us understand how the financial crisis is transformed from a self-contained bubble into a general capitalist crisis; how a crisis in the banking system broadly defined comes to profoundly disrupt the production of commodities—be they goods or services. For that to occur, we would have to see, as we have, a rise in the debt to revenue stream of nonfinancial capital. That is, we would have to see the Ponzi like dynamic transferred into the commodity producing sectors of the economy. But this is largely inexplicable in the MR framework.

For, if we were to follow Baran and Sweezy, the disproportional growth of the financial sector should be no more destabilizing than the growth of advertising. The service they perform for capitalism, according to MR—absorbing the surplus, while not adding to capital formation—is after all in principle quite similar. Equally, there is no reason why the debt to revenue ratio should attain Ponzi like dimensions in a monopoly system of commodity production that is choking on its excesses of surplus-value. Why, in other words, would borrowing displace internal financing in the nonfinancial sector when profits are plentiful and the need for additional capital accumulation relatively modest? Conversely, if the traditional avenues for mopping up the excess surplus have overreached and actually created a capital shortage, what is the continuous source of excess capital that so over-fuels the growth of the financial sector without triggering a self-correction in the form of prohibitive interest rates?

The MR framework is ill equipped to answer these questions. The reason, in part, is the insistence that “monopoly” capitalism has created new laws, new dynamics, that upend the previously understood laws of capital accumulation. But those previously understood laws were derived independent of the

particular degree of market competition. They are concerned with the general characteristics of capital and are based on how the system regulates the relations between surplus-value and invested capital. The form of competition can alter the distribution of surplus-value and create disturbances in the reproduction process that flow uniquely from this redistribution. But that is a question of the concrete application of these laws operating within a monopolistic context.

This is precisely what the MR theory fails to answer. The nonaccumulating capitalism awash in surplus that Baran and Sweezy postulate as a "fundamental structural change" is a theoretical fantasy. Monopolistic limitations on production, largely overstated in any case, do not create surpluses for the system as a whole, they merely redistribute surplus-value by suppressing the rate of profit in less competitive sectors. It may be argued that monopolies also convert paid labor or wages into unpaid labor or profits through price gouging. But, at the same time, the idling of productive capacity needed for price gouging means a sacrifice of the surplus-value that would otherwise be available to a system operating under competitive conditions where additional workers would be exploited to the point of full capacity utilization. In any case, monopolies that fail to innovate through the accumulation of capital will find themselves unable to maintain their monopolistic advantages. Moreover, the larger the already existing base of accumulation, the larger the investment required for replacing the existing stock with more effective means of production needed to secure an expansion of the scale of production beyond the reach of potential competitors.

Large concentrations of capital therefore are continuously faced with the need to expand profits and are no less threatened by a shortfall of profits than their less advantaged counterparts. Waste production redistributes

surplus-value, while withholding value from additional capital formation. For the system as a whole, nonreproductive investment converts profits into revenue. "Waste production" may indeed provide needed services for the social reproduction of capital—not only through advertising that creates brand loyalty, in empire building that extends the availability of markets or secures vital resources and in generating public works and social services that fosters social stability. But waste production also can impede capital accumulation if the rate of exploitation cannot be increased sufficiently to meet the needs of all the expanding claims on surplus-value.

Exploitation has been pushed ever higher in the American economy over the past 40 years. To some extent this can be attributed to the all out assault on labor unions that commenced in the Reagan years, but also to the neo-liberal free trade policies of both Democratic and Republican administrations that threatened the export of jobs if wage restraint was not strictly adhered to. As a result, almost all the productivity gains of the last generation were captured by the ruling class. If working-class living standards were nevertheless roughly maintained this can largely be attributed to the massive accumulation of consumer debt. This is the consumer aspect of Ponzi-ism, insofar as workers were able to sustain previously unheard of debt levels, not through anticipated pay increases, but by refinancing home mortgages under the assumption of an ever appreciating housing market.

Yet even this massive redivision of the collective working day in favor of capital was insufficient for the needs of additional capital formation. The nonfinancial sector found itself ever more reliant on borrowing, yet this external financing would have otherwise presented no fundamental problem if profit margins had kept pace with the requirements of capital accumulation. Instead, however, the ratio of debt to revenue blossomed out of control. The fragility of this business borrowing became evident insofar as equity asset

prices increasingly bore only the most fictional relationship to the underlying profitability of the system as a whole.

This entire process was underwritten not by a continuous flow of "monopoly profits" but by the undervaluation of the Chinese yuan with respect to the dollar. This kept the Chinese export accounts in perpetual surplus, allowing an ocean of recycled dollars flowing back into American banks and into the bloodstream of the economy in the form of cheap credit. It also allowed a relative measure of relief for capital, insofar as imported input prices were artificially suppressed slowing down the erosion of profits. The entire credit bubble therefore collapsed in on itself at its most overburdened point. As the consumer market began to default in housing it initiated concentric ripples from there to the stock market, the financial sector and to the remainder of the economy.

Keynesians and MR radicals believe that countercyclical measures can *theoretically* restore full employment and prosperity. They differ however on the political feasibility under capitalism for the type of radical income redistribution and investment socialization, beyond deficit spending, that this would require. An examination of the contradictory nature of state intervention would take us beyond the limits of this essay. Suffice it to say here, that production of surplus value in the private sector is the determining factor in the development of the overall system. If state activities improve the conditions of accumulation to the benefit of private capital in the sphere of production, while also accommodating rising living standards and the annexation and reconversion of surplus value into improved social entitlements, a capitalist prosperity meaningful to working people can be restored. This is particularly unlikely insofar as capitalist prosperity generally first requires a thoroughgoing purge of capital values and cuts in working class living standards of sufficient magnitude to reestablish the conditions of capital accumulation on a profitable basis. Measures that restore full

employment through the expansion of state activities at the expense of the private sector can only create a pseudo-prosperity that leaves the immediate causes of economic instability latent. But even if the state could temporarily contribute to the creation of a meaningful capitalist prosperity, it cannot arrest and eradicate the recurrent causes of economic crises, causes which are embedded in the fundamental class divisions of society.

As socialists we are in no position to place society on a different footing. Our class loyalties demand that we make every effort to mobilize for remediation of working-class living standards, to demand government act, if necessary, as employer of the last resort. But it is also imperative that we lose no opportunity in explaining that every measure short of socialism is a stopgap to real working class security and prosperity. Neither the Keynesian nor the MR approach lend themselves to that.