ROMA TRE
UNIVERSITÀ DEGLI STUDI

COLLANA DEL
DIPARTIMENTO DI ECONOMIA

LONG-TERM STAGNATION AND FINANCIALISATION. A THEORETICAL COMPARISON BETWEEN KALECKIAN AND NEO-MARXIST APPROACHES

Giovanni Scarano

ISSN 2279-6916 Working papers
(Dipartimento di Economia Università degli studi Roma Tre) (online)

Working Paper n° 231, 2017

I Working Papers del Dipartimento di Economia svolgono la funzione di divulgare tempestivamente, in forma definitiva o provvisoria, i risultati di ricerche scientifiche originali. La loro pubblicazione è soggetta all'approvazione del Comitato Scientifico.

Per ciascuna pubblicazione vengono soddisfatti gli obblighi previsti dall'art. l del D.L.L. 31.8.1945, n. 660 e successive modifiche.

Copie della presente pubblicazione possono essere richieste alla Redazione.

esemplare fuori commercio
ai sensi della legge 14 aprile 2004 n.106

REDAZIONE:
Dipartimento di Economia
Università degli Studi Roma Tre
Via Silvio D'Amico, 77 - 00145 Roma
Tel. 0039-06-57335655 fax 0039-06-57335771
E-mail: dip_eco@uniroma3.it
http://dipeco.uniroma3.it

ROMA TRE
UNIVERSITÀ DEGLI STUDI

DIPARTIMENTO DI ECONOMIA

LONG-TERM STAGNATION AND FINANCIALISATION. A THEORETICAL COMPARISON BETWEEN KALECKIAN AND NEO-MARXIST APPROACHES

Giovanni Scarano

LONG-TERM STAGNATION AND FINANCIALISATION. A THEORETICAL COMPARISON BETWEEN KALECKIAN AND NEO-MARXIST APPROACHES

Giovanni Scarano[*]
Roma Tre University
Department of Economics
giovanni.scarano@uniroma3.it

Abstract

Subsequent to the financial crisis of 2007-2008 there has been a revival of theories on the possibility of a "secular stagnation". Some of these theories hark back to Alvin Hansen's doctrine, developed on Keynesian bases. Nevertheless, they have shifted attention toward a disproportion between saving and investment only explained on the basis of demographic and technological factors, typical of a neoclassical framework of growth theory.

However, the idea that neo-capitalist economies have an inherent tendency to stagnation has also long been the main research objective of many heterodox economists, in particular Kaleckian and neo-Marxist, who found stagnation to be a major result of the monopolistic nature of big corporations and the features of their monopolistic forms of competition.

The paper deals with some of these theories and focuses on the role that corporate governance in big corporations can play in producing growing corporate savings and putting them into financial channels.

Keywords: Stagnation, Capacity Utilization, Corporate Savings, Financialisation, Financial Crises.

JEL Classification Codes: B510, E110, E120, E320, G350.

[*] Thanks are due to Prof. Antonella Stirati, for her helpful comments on a previous version of the paper. The usual disclaimer applies.

1. Introduction

After every profound economic crisis, followed by a more or less long period of slowdown of economic activities, the economists suddenly begin to ask themselves whether things have definitively changed. This happened during the years following the Panic of 1873, known as the Long Depression, during the Great Depression of the 1930's, after the financial crisis of 1929, and it is still the case today, after the financial crisis of 2007-2008, with secular stagnation theories re-emerging.

Stagnation is usually understood as a prolonged period of slow economic growth accompanied by high unemployment. But what does slow economic growth mean? Does it mean that growth is slower than experienced in previous years or decades or that it is slower than is estimated as potential? And in the latter case, what determines potential economic growth? Does the existing production capacity matter? Or is it only the opportunities for new investment and its profitability that matter?

From this point of view, the problem of explaining stagnation is the other side of the coin of explaining why economies grow.

Today, most economists fairly agree that capitalist economic systems must grow to be healthy, and that growth depends on the relation between savings and investment decisions. But only a few economists, generally heterodox, recognise that this relation is the result of the inherent dynamic of capitalistic accumulation.

The Classical economists dealt with accumulation of capital as the process through which the wealth of nations grows. But they concentrated their attention on the effects of accumulation without considering the reasons for it, because they were convinced that in capitalist economies there was a "natural" tendency to invest all that is saved (Sardoni, 1994). In this perspective, there was no need for a specific theory of investment as a major component of the aggregate demand (Sweezy, Magdoff, 1987).

In fact, during the childhood of capitalism, when aggregate capital stock was built up from scratch, capital accumulation appeared to be virtually unlimited. All savings seemed to be devoted to investment, and growth seemed to be interrupted only by financial strains and sectoral disproportionalities between demand and supply. Crises and depressions were seen as spontaneous transitional ways to eliminate these temporary disequilibria and resume the normal course of capital accumulation (Sweezy, Magdoff, 1987).

In Marx's economic theory, instead, capital accumulation is driven not only by profit, but also by competition, which forces individual capitalists to invest to survive in the market, utilising dynamic economies of scale, increasing returns, technical innovations and progressive mechanization to defend and expand their market share. And yet he did not see the accumulation of capital as a smooth and orderly process. If expected profits are too low, capitalists can stop the process of new investment, reducing the effective demand and creating the conditions of a general crisis. Crisis in turn increases unemployment, which drives down real wages and raises profits, allowing for a new cycle of accumulation to start.

Thus, in Marx's vision accumulation and growth are a cyclical process, in which accumulation and income distribution are strictly connected. But he also thought that the tendency of capitalist competition towards monopoly would bring about lower dynamism of capital accumulation and economic growth (Sardoni, 1994).

Schumpeter is regarded as the major inheritor of the Marxian vision of capital accumulation and growth. According to him, capitalism is characterized by an intrinsic tendency to grow through accumulation of capital and innovation. Entrepreneurs introduce innovations into the productive process to increase their profits, triggering phases of rapid accumulation and growth. But these are followed by recessive phases, in a cyclical process.

Even though the Keynesian revolution was essentially focused on short-period analysis, the key role it gave to investment stimulated new interest in accumulation theory. Many Post-Keynesians authors, including Harrod, Domar, Robinson, Kahn and Kaldor, developed theories of accumulation starting precisely from Keynes's analysis.

Yet some post-Keynesians developed their own analysis of accumulation by drawing also on classical political economy, reviving the connection between distribution and accumulation. Most Post-Keynesian analyses of accumulation highlight two critical aspects of the economic system: the rate of investment which ensures steady growth with full employment and the strict relationship between capital accumulation and income distribution.

Kalecki was the major exponent of a new synthesis between the Marxian and Keynesian approaches, autonomously arriving at some Keynesian results starting from the analysis of Marx and Luxemburg. This different starting point led Kalecki to deal with an economic system characterised by oligopoly rather than free competition. Steindl followed Kalecki on this path, attributing to oligopolistic behaviour a strategic role in slowing down capital accumulation rate.

Since the 1960s many neo-Marxist economists have taken up this theoretical stream, analysing a series of reasons that can create difficulties in realising the surplus value and inevitably lead "monopoly capitalism" to lasting stagnation.

In the following pages we will deal with the way in which, since the 1920s, all these different accumulation theories have contributed to offering possible reasons for long-term stagnation.

2. Stagnation theories during the Great Depression

As from the 1920's, the boom phases progressively showed new features associated with two new structural economic changes. The first was expanding consumer credit as a booster of the aggregate demand; the second was a progressive contraction of the capacity utilization rate in the non-financial sector.

According to Sweezy and Magdoff (1987), these were signals that, despite the new debt-generated demand, the rate of investment was excessive and able to unleash an overaccumulation crisis, which promptly exploded in 1929.

Overaccumulation was involved in all capitalist crises of 19th century, but the imbalance between investment and demand was usually just a temporary phenomenon. Deflation and price readjustments again gave the investment process its role as demand driver. In fact, crises were the way to eliminate previous imbalances and create new conditions for capital accumulation.

The crisis of 1929 was something completely different from all the previous crises, because, for the first time, overaccumulation appeared as a non-temporary phenomenon. But in the early years of the Great Depression nobody was aware that things had really changed. Most economists expected the accumulation process to restart fairly promptly, even though, owing to the unusually sharp downturn, they expected the recovery probably to prove slower and longer than usual. The final evidence of a changing trend was only the new sudden recession of 1937-38, which burst just after the very short upswing started in 1933 and long before the typical standards of a full recovery were reached.

By that time, no economist had any doubt that the principal reason was the collapse of investment process. The crisis was followed by net disinvestment and such positive investment in the brief recovery after 1933 was merely to replace what had been destroyed. But the mainstream economics was not able to account for this strange behaviour of the economic system. The underlying implicit assumption of the economic theory prevailing at that time was that an unlimited demand for investment was the natural tendency of the system and most economists thought that interruptions in the accumulation process could be caused only by failure of the institutional mechanisms. The idea that such breakdowns might arise from the inherent logic of the system itself was not consistent with the overall current paradigm of economics.

The turning point was arrived at by Keynes, who, for the first time, highlighted the possibility that breakdowns of the investment process might be non-self-correcting.

What Keynes had proposed as a theoretical problem reappeared as a serious practical problem in the new recession of 1937-38. The new Keynesian theory and the unprecedented experience of this recession, as a whole, stimulated keen theoretical debate in the US on a new economic concept: long-run stagnation. This debate mainly involved Alvin Hansen and Joseph A. Schumpeter, who were the most prestigious American economists in the 1930s.

Hansen believed that all contemporary economic history was characterised by ceaseless change, which really is the inherent law of modern economic life. From his perspective, “every period is in some sense a period of transition”. But he also thought that the period between 1914 and 1938 constituted proof that the western economic system was undergoing profound structural change, which was altogether a new “industrial revolution”. According to him, the major feature of this new phase was the

transition from an era of lasting growth and expansion, as the nineteenth century had been, to an era of great uncertainty.

Yet his main focus was on the population dynamics and the features of technological change. He argued that, because of slowdowns in population growth and the high rates of technological innovation, entrepreneurs would not have a high propensity to invest in new capital goods, reducing effective demand. He concluded that low investment spending and low levels of consumption by households would probably obstruct full employment in the future (Hansen, 1939).

Moreover, following Keynes, Tobin and Brad Delong, he pointed out that flexible wages and prices, falling during an output shortfall, may exacerbate the problem, bringing about an increase in real interest rates. Thus, there was the risk of destabilising deflation, which, in a vicious cycle, generates falling prices that lead to higher real interest rates, in turn leading to greater output slowdowns, and so to more rapidly falling prices, and so on.

Schumpeter qualified Hansen's vision as the "theory of vanishing investment opportunities" and rejected it. Instead of focusing on the causes of stagnation in the 1930s, tried to analyse why the cyclical upswing of 1933 had ended so soon. In fact, according to his classification of economic cycles, the recession of the 1930s could be described as a "disappointing Juglar", and he, like most political conservatives at that time, blamed this atypical behaviour on the "anti-business climate" of New Deal legislation. Indeed, he thought that the core of the problem was not so much the contents of the New Deal, which he saw as compatible in themselves with the normal functioning of capitalism, as the anti-business spirit of the technical and political personnel who managed it. According to him, this attitude had a depressive effect on entrepreneurs' optimism and confidence in the future, inhibiting their investment decisions in the present (Schumpeter, 1939).

The debate between Hansen and Schumpeter could have become a new "splendid tournament" in the history of economic thought, like that between Keynes and Hayek, if it had not been interrupted by the outbreak of World War II, which shifted public attention towards other problems and suddenly created new, even though tragic, opportunities for effective demand and capital accumulation (Sweezy, Magdoff, 1987).

In the post-war period, the start of a new phase of accumulation and growth on the ruins of the World War II finally buried the idea of stagnation, so that very little attention was paid by most economists to *Maturity and Stagnation in American Capitalism*, the book by Joseph Steindl published in 1952.

Keynes, on the other hand, was not completely forgotten in the post-war period, but his theory was drastically revised. The problem of long-run demand for investment developed by Hansen was replaced by that of fluctuations in demand for investment during the business cycle and Keynesian policies were only seen as useful recipes to counteract the ups and downs in it.

3. Steindl's contribution

Following along the path opened by Keynes, Kalecki and Harrod, Steindl believed that capitalist economies need a high long-term rate of growth to obtain a normal use of capacity and generate full employment. As he saw it, the depression of the pre-war decade was explained by the fact that the economic system was unable to adjust to new low growth rates because its saving propensity had adapted to a high one. This explanation also helped to understand the reversal of trend in the post-war period, when a new very high long-term rate of growth was prompted by favourable exogenous conditions (Steindl, 1976, 1990).

Steindl developed his analysis of US stagnation on the basis of Kuznets' seminal work, which had provided estimates of national income, investment and capital in the US for a period of seventy years. From these data it emerged that the accumulation of total capital had been sharply decreasing after the downturn of the century, falling from a rate of 5% per annum in the period 1879-1899 to a rate less than 3% in the 1920's. This long-term decrease in the accumulation rate had then shown an acceleration in the 1930s as an effect of Great Depression, tending practically to zero (Steindl, 1976).

Thus, in this figure representing the capital accumulation process, two different kinds of tendency to stagnation are shown: a long-term one and another produced by the slowdown succeeding an unprecedented financial crisis.

To explain this empirical evidence, he started from his equation of sales, applied to the economy as a whole (Steindl, 1976):

$$s = \frac{s}{H} \cdot \frac{H}{Z} \cdot \frac{Z}{C} \cdot C = u \cdot \frac{1}{k} \cdot g \cdot C \qquad (1)$$

where:

s = sales (realized output value)
H = output capacity
Z = capital stock
u = degree of capacity utilisation
k = capital intensity
C = entrepreneur's own capital
g = gearing ratio

This equation obviously applies to a closed economy without government, in which, in fact, there are no foreign investments, nor budget deficit or surplus.

The *gearing ratio*, which is essentially a form of *leverage ratio*, may also be written as follows:

$$g = \frac{Z}{C} = \frac{C + D}{C} = 1 + \frac{D}{C} \qquad (2)$$

where *D* is debt capital of businesses as a whole.

If we operate a logarithmic transformation of the equation (1) and then differentiate it with respect to time, we obtain:

$$\frac{\dot{s}}{s}+\frac{\dot{k}}{k}+\frac{\dot{u}}{u}=\frac{\dot{g}}{g}+\frac{\dot{C}}{C} \tag{3}$$

From equation (1) we also have that:

$$Z=s\frac{1}{u}k \tag{4}$$

Operating logarithmic transformation of this equation and differentiating it with respect to time, we obtain:

$$\frac{\dot{Z}}{Z}=\frac{\dot{s}}{s}+\frac{\dot{k}}{k}-\frac{\dot{u}}{u} \tag{5}$$

Thus, the capital accumulation rate equals the sum of the growth rate of sales and the change rate of capital intensity minus the change rate of utilization capacity.

In accordance with Steindl, in the previous identities *s* may literally be interpreted as gross sales of the system, but also as gross or as net national income. Obviously, the meaning of *H* and *k* change in the different interpretations.

Steindl emphasizes that identity (3) is closely connected with the Keynesian identity of investment and savings, because its left-hand side is no more or less than the determinants of investment, while the right hand side is simply an unfamiliar form for savings. Indeed, $\dot{C}/C$ is the internal saving of businesses and $\dot{g}/g$, different from zero, shows changes in the proportion of outside savings to internal accumulation. Moreover, by means of some algebraic transformations we can rewrite the right side of the identity (3) in the following way:

$$\frac{\dot{g}}{g}+\frac{\dot{C}}{C}=\frac{\dot{C}}{Z}+\frac{\dot{D}}{Z} \tag{6}$$

where $\frac{\dot{C}}{Z}$ is the share of investment financed by the internal savings of businesses (corporate savings), while $\frac{\dot{D}}{Z}$ is the share of investment financed by outside savings.

Thus, identity (3) looks like the Keynesian identity of investment and savings but decomposes savings in two different components, which depend on two different kinds of decision-makers: entrepreneurs and households (or better, financial rentiers), who have different objectives and behaviour patterns.

In particular, Steindl, following Kalecki, assumes that internal accumulation depends on the *net rate of profit* (rate of profit minus interest paid to outside savers). This

assumption is based on the idea that entrepreneurs have a basic standard of consumption proportionate to the amount of their own capital, to which they usually add a fixed proportion of the profits they obtain in excess of this basic consumption rate. Thus, we can write:

$$\alpha = (p - a)(1 - \lambda) \tag{7}$$

where:

α = internal accumulation rate
a = basic standard of consumption as a ratio of capital
p = net profit rate
λ = proportion of profits in excess of that that is basically consumed that is consumed in addition.

The net rate of profit *p*, in turn, is determined as follows:

$$p = \frac{Z}{C}(e - r) + \frac{C}{C}r = \frac{Z}{C}(e - r) + r \tag{8}$$

where:

e = gross rate of profit on total capital
r = rate of interest paid on debt.

Thus, the component of saving consisting of retention of profit (internal accumulation) is not directly determined by income, but by the rate of profit. The Keynesian mechanism of adjustment of savings to investment by means of variations in income is still valid as far the rate of profit is concerned.

But what determines *e*? Steindl's model implies that:

$$e = \frac{(1 - \varkappa_1)}{k}u + \frac{\varkappa_2}{Z} \tag{9}$$

where:

$\varkappa_1$ = production costs strictly proportionate to sales
$\varkappa_2$ = fixed production costs.

Thus, *e* is a positive function of the degree of capacity utilisation to the extent that the *gross profit margin* $(1 - \varkappa_1)$ is positive. If the gross profit margin were varying with *u*, then, more generally:

$$e = F(u, k), \qquad e_u > 0 \tag{10}$$

At this point, following Steindl, we can rewrite equations (8), (7) and (3) as follows:

$$p = g[F(u,k) - r] + r \tag{11}$$

$$\alpha = \{g[F(u,k) - r] + r - a\}(1 - \lambda) \tag{12}$$

$$\frac{\dot{s}}{s} + \frac{\dot{k}}{k} + \frac{\dot{u}}{u} = \frac{\dot{g}}{g} + \{g[F(u,k) - r] + r - a\}(1 - \lambda) \tag{13}$$

Thus, the growth rate of the capital stock has to be in equilibrium with the change rate of the gearing ratio and an internal accumulation which is in turn determined by the degree of utilisation, the capital intensity, the rate of interest and the saving behaviour of entrepreneurs.

But equation (13) is an identity. As Kalecki pointed out with reference to his identity of profits and capitalists' expenses (Kalecki, 1954), in every identity the real problem is to understand what determines what.

If the growth rate of sales were exogenously given, then all the other factors should simply adjust to it. But, according to Steindl, if this hypothesis is reasonable for a single industry, it cannot be accepted for the economic system as a whole. Thus, he assumed that the capital stock showed "a self-perpetuating growth at a certain rate", relying on an endogenous theory of investment. His major idea was that some economic circumstances, such as internal accumulation of businesses, the degree of utilisation of capacity and relative indebtedness, induce an increase or a decrease of investment and capital accumulation rate. Capital growth, in turn, determines the new levels of the circumstances that determine investment, and so on.

Thus, Steindl, like Kalecki and Marx, thought that there is a structural tendency to reinvest a part of profits. In his model, this is reflected by the parametric behaviour of internal accumulation. In this way, the determinants of the demand are driven by the necessities of the accumulation process, even though constrained by the viability conditions of the Marxian schemes of expanded reproduction.

If, for instance, there were changes in some behaviour parameters of entrepreneurs, the growth rate would change. Then, the right side of identity (13) would have to change, by decreasing or increasing internal accumulation by means of variations of the national income which must vary the profit rate. From this point of view, Steindl's model works like a Keynesian model.

Steindl assumes that in every industry there are firms differing in size and, owing to scale economies, cost structure. Thus, there are at least two kinds of firms: "marginal", which obtain only "normal profit" margins, and "progressive", which have large scale economies and greater gross profit margins. Moreover, there is no uniform price, but rather a structure of different prices, owing to different qualities and types of the product but also the fact that different firms are free to charge different prices even for one and

the same quality. This obviously is not a picture of long-run equilibrium, but an outline of a transitional stage in a dynamic process.

According to Steindl, long-run equilibrium excess of capacity is a peculiar form of idle reserve, held in anticipation of future events or in front of some uncertainty. Thus, excess capacity is in part regarded by Steindl as a competitive waste. Steindl's approach puts the traditional reasoning of the imperfect competition theory upside down, because it explains the higher margins of profit by means of planned excess of capacity, instead of explaining the latter by the first.

Steindl is interested in explaining how profit margins are determined in an industry over the *long term*, in the trend of development, making abstraction of boom and slump conditions. He assumes, for the sake of simplicity, that firms can invest only in their own industry and, following Kalecki, as we have seen, that increase in "entrepreneurial capital" of a business (share equity plus reserves or the entrepreneur's capital, depending on whether the business is a joint stock company or a private business) is a major inducement for the management or the entrepreneur to invest. Increase in this capital is usually accomplished by retaining a part of profits as corporate savings (internal accumulation). Finally, he assumes that market growth rate is exogenously given for the industry as a whole, depending on the overall growth rate of the economy.

Under these assumptions, the businesses with higher profit margins, due to large-scale economies or adoption of cost-reducing technical innovations, have the tendency to expand more than the other businesses.

In the absence of entry barriers, their growth can also proceed without increasing their relative share in the industry, in so far as the growth rate of the industry as a whole is at least as great as their expansion rate and the share of the marginal firms is kept up by an adequate increase in their number. But if their expansion rate were greater than the growth rate of the industry, then the "progressive" firms could secure themselves a greater share in the market by means of "special *sales effort*", such as lower prices, quality competition and advertising expenditures. The first two kinds of sales effort reduce gross profit margins, while the third kind reduces the net profit margin only. Because the growth rate of expanding businesses depends on their internal accumulation and the latter depends on their profit margins, then sales effort could reduce their potential expansion rate, unless it stimulated new technical innovations which further increased profit margins by reducing costs. This feature would be central in some Neo-Marxist theories of stagnation which we will be analysing later on.

If the internal accumulation rate of "progressive" firms overtakes the growth rate of the industry, the market share of the other firms has to decrease, producing absolute concentration by eliminating the firms that have the highest cost or the lowest financial resilience. When this process of elimination can no longer continue, the growth rate of the "progressive" firms, multiplied by the proportion of their sales in the total sales of the industry, will no longer be able to exceed the growth rate of the whole industry. In these conditions of new equilibrium, if the growth of firms depends on their rate of internal

accumulation, and the latter depends on their profit margins, then there has to be a limit to the industry's profit margins. This conclusion obviously depends on the assumption that all the profits can be reinvested only in the same industry.

If the profit margins increase by adopting new technical methods that grant cost advantages, then the profit rate will also increase, unless capital intensity in turn rises. The increase in the profit rate in turn induces an increase in the internal accumulation rate.

Obviously, in the real world, compared to Steindl's theoretical model, there exist other kinds of accumulation, such as budget deficits, foreign investments and residential properties. In this context, according to Steindl, a decrease in business capital accumulation may be offset by an increase in the other items, so that the outside savings find compensatory outlets of use (compensatory borrowing).

Observing that one of the most striking features of Kuznets' data was the decline in the growth rate of savings since the end of 19th century, Steindl identified three possible causes for it: outside savings accumulating at a slower pace; a declining propensity to save on the part of corporations; a declining rate of profit. Analysing the data, he judged that the first two hypotheses were not plausible reasons. Thus, he concluded that it was necessary "to lean very strongly towards the remaining alternative": a decline in the rate of profit. But he was aware that demonstrating it was a very hard task, due to the difficulties associated with measuring and estimating the stock of capital.

4. Neo-Marxists' monopoly capital theory and stagnation

What happened to capitalist system at the turn of the century, transforming the recurrent business cycles into a chronical tendency to stagnation? What are the reasons for stagnation? According to Sweezy and Magdoff (1987), like most of the economists we have so far dealt with, its immediate cause is a high propensity to save accompanied by a low propensity to invest. But they, like Kalecki and Steindl, also thought that this immediate cause was only the final effect of more profound structural transformations.

According to them, in the 20th century the capitalist economic system underwent a profound qualitative change by turning from a competitive into a monopolistic economy.

Marx's analysis, they pointed out, neglected monopoly conditions, such as administered prices and a tendency toward stagnation. And so, the "fundamental structural change" of competitive capitalist economy towards monopoly capitalism produces a change in the laws identified by Marx, such as that of the falling rate of profit.

Thus they substituted "the law of rising surplus for the law of falling profit" (Baran, Sweezy, 1966, p. 72) and the concept of *surplus* for that of *surplus-value*, "since the latter is probably identified in the minds of most people familiar with Marxian economic theory as equal to the sum of profit-interest-rent" (Baran, Sweezy, 1966, p. 10). In their definition, surplus is simply the "difference between what a society produces and costs

of producing it" (Baran, Sweezy, 1966, p. 9). Then, this surplus can in turn be invested in expanding productive capacity, or consumed in various forms, or wasted in different ways.[1]

In fact, their entire analysis is organised around one central theme: "generation and absorption of the surplus under conditions of monopoly capitalism" (Baran, Sweezy, 1966, p.8).

According to Baran and Sweezy, monopoly capitalism tends to generate ever more surplus, both absolutely and as a share of total output, by means of both declining costs, due to innovation policies and consequent increase in productivity, and the market power of the giant corporations, thanks to which they can make the price and so widen profit margins (Baran Sweezy, 1966).

Yet, as was highlighted by Mattick's critique, declining costs due to innovation characterised all capitalist development and not only its monopoly phase. Thus, in accordance with Mattick, the new real monopoly strategic means of piling up surplus can be grounded solely on keeping administered prices artificially high (Mattick, 1978).

But, according to Baran and Sweezy, monopoly capitalism alone fails to provide the demand needed to absorb this growing surplus. It may be consumed, primarily by capitalists but also by a part of the workers[2], invested, or wasted in "frivolous and often harmful ways" of the "affluent society" and its "vast military establishment"[3]. To the extent that it is consumed by capitalists or wasted in sale efforts and public waste, its share available for investment is reduced.

The greater surplus arises because the production capacity of the economic system grows too rapidly, owing to the imperfect competition conditions in monopoly sectors. As they see it, in capitalist economies there is a permanent tendency for productive capacity to outpace effective consumer demand (Sweezy, Magdoff, 1972).

Corporate concentration, markedly unequal distribution of personal income and a tax structure more favourable to the corporations and the rich create enormous saving potential that needs, as counterpart, strong and sustained investment performance to prevent the economy from falling into stagnation.

Thus, the limits to capitalist expansion seem to lie in any insufficiency in the modes of surplus utilisation (Baran, Sweezy, 1966). Under monopoly capitalism, in which the law of rising surplus rules, the usual ways of surplus utilisation, namely capitalists' consumption and investment, are eventually no longer able to absorb all the surplus. Thus, the problem of new forms of surplus utilisation arises.

---

[1] Considering the different items into which surplus-value is divided is important only if this distribution affects the rate of accumulation by means the fact that too much surplus-value is consumed instead of being capitalised.

[2] In "Some Theoretical Implications", the missing chapter of Monopoly Capital, recently published in the July-August 2012 issue of Monthly Review, the authors showed their broad agreement with Sraffa's idea that wages may include a share of surplus product (Baran, Sweezy, 2012; Foster, 2012; Foster, 2014).

[3] For the role of "Warfare" in sustaining the effective demand in US monopoly capitalism, see also Braverman (1974).

For this kind of system to be healthy, total income has to rise fast enough to allow for the share of surplus not consumed to be invested. According to Baran and Sweezy, this is possible only if the surplus not consumed rises more than total income. And this can occur only if capitalists' consumption rises as a share of surplus produced, or, alternatively, there is an increase of the share of waste consumption. Alternatively, the investment-seeking part of surplus will rise faster than total income, creating conditions for overaccumulation and crises.

In monopoly capitalism, capitalists' consumption is closely connected to the part of surplus consisting of distributed profit. According to Baran and Sweezy, even if capitalists consumed the entire amount of their dividends, their consumption would not rise as a share of total surplus, because most large companies, even though tending to have a dividend pay-out rate constant over the long-term, do not adjust it immediately in the case of rising profits. So a continuous growth of profit rate is accompanied by an equal decline in the pay-out rate.

The only solution to avoid overaccumulation is a growing absorption of surplus by uses other than consumption and investment. This kind of absorption can be implemented only by conspicuous waste, carried out by the same corporations, in the form of sales efforts and representation expenditures, or the government, in the form of public expenditures made, depending on the circumstances, for social welfare or military and imperialistic purposes.

These sources of effective demand reduce the accumulation rate of the system but stabilise it and allow for "realisation" of surplus.

Magdoff and Sweezy did not think that a theory of the determinants of investment decisions alone could suffice, because the problem is much more complex and includes historical dimensions and the hypothesis that capitalist development takes place in long cycles. They deemed that Keynes had started developing an economic inquiry going in this direction.

The end of stagnation in the post-war period was largely due to three major causes: a massive role played by government spending and deficits, an exceptional growth in consumer debt and, last but not least, a ballooning of the financial sector, which generated a new class of financial rentiers who increased demand for luxury goods (capitalists' consumption).

To better understand stagnation it needs understand its provisional suspension in the twenty-five years after the Second World War. In this period the incentive to invest was very strong and unusual, producing a growth record that was the best in the entire history of capitalism.

The war had altered the givens of the world economy in several ways: the need for recovery of goods and services diminished greatly during the war; a huge mass of purchasing power accumulated during the war by firms and individuals; a great expansion of international trade, fed by the new US worldwide hegemony, with the dollar operating as the basis of a new international monetary system, most of the pre-war trade and

currency blocs dismantled and new conditions for relatively free capital movements; civilian spinoffs from military technology; the building up, mostly in the United States, of a huge peacetime armaments industry.

All these changes raised new long-term optimism in the business world, incentivizing a major investment boom in all the major industries.

But all these forces were self-limiting. Investment not only responds to a demand, it also satisfies it, and expanding industrial capacity, in the anarchy regime of capitalist markets, often ends up by creating overcapacity. That obviously is not sufficient to create a general deficit of aggregate effective demand. Theoretically, the excess capacity created in some sectors should correspond to deficits in others. But the excess capacity destroys capital value and the income it can produce and in doing so reduces the actual capital growth rate, which is essential to guarantee long-term full employment equilibrium for the economic system.

The investment boom generated by the incentives of the post-war period eventually undermined the very incentive to invest. Initially, the new tendency to stagnation was countered by debt creation, frantic financial speculation and higher inflation. But ultimately all these palliatives exhausted their capacity to counteract a decreasing propensity to invest and the problem of stagnation was again raising its head, with the addition of a deteriorating financial situation.

Sweezy did not argue that stagnation is a permanent and structural state of mature capitalist economy, as Hansen did in the 1930s. Following Schumpeter's suggestions, he thought that new powerful stimuli to investment could be engendered by new technological revolutions, but that these cannot be forecast and do not act with regularity.

In the normal short business cycles (Kitchin and Juglar cycles), each of their two basic phases, expansion and contraction, usually contains the "seeds of its opposite". But Sweezy thought this would not happen in long cycles. According to him, in the long post-war expansion the reversal did take place because every investment boom exhausts itself. But the successive stagnation phase could not automatically generate any "forces of reversal". Such forces cannot be generated by the internal logic of the economic system but only by means of greater historical processes, such as major wars or technological revolutions.

According to Sweezy and Magdoff (1987), one of the major forces counteracting the tendency to stagnation in the US since the 1960s has been the rapid growth in the total outstanding public and private debt. This growth was in turn associated with the emergence of a huge and fragile financial superstructure that continuously threatened the stability of the economic system as a whole with its stresses, strains and imbalances.

New financial instruments, providing innovative ways to transfer price risks among investors, and growing competition in financial services, increased financial transactions, stimulating active trading and speculative strategies, which are in fact strictly linked with the outstanding debt explosion. In fact, the growing complexity of new financial superstructure, in turn, increased possibility of settlement failures and price volatility of

financial assets. In a *Business Week* editorial of 16 September 1985, reported by Magdoff and Sweezy, it was claimed "Slow growth and today's rampant speculative binge are locked in some kind of symbiotic embrace".

Baran and Sweezy's theses were strongly criticised by some orthodox Marxists, such as Ben Fine, Laurence Harris, David Yaffe and Paul Mattick, for their rejection of Marx's law of the falling rate of profit. This Marxian law had no central place in the previous Marxian political economy, but it was increasingly adopted by "fundamentalist" Marxists in the 1970s as the key concept for developing an economic crisis theory (Foster, 2014).

In particular, according to Mattick, the falling rate of profit does not depend on competition but on value relations in the expanded capital reproduction. Thus, it is merely another expression for the accumulation of capital along with increasing productivity of labour. Moreover, Mattick asserted that Marx did not use the word "monopoly" in opposition to "competition", as the mainstream theories do. His theory of capital competition is compatible with a theory of monopoly because the latter always remains competitive, and a non-competitive monopoly capitalism would indeed imply the end of all market relations, which are vital for capitalism.

According to Mattick, Marx's theoretical analysis of capitalism disregards competition, which plays a role only in determining production prices, because it rests on the abstract concept of total capital in the aggregate, in which the sum of all production prices equals total value. From this point of view, it is regardless of whether market structure is competitive or monopolistic. Yet, in the descriptive parts of his work, Marx dealt with capital competition and its elimination by way of competition itself, that is the centralisation and concentration process of capital.

Mattick asserted that Marx's analysis was only in terms of value and surplus-value because "the relation between wage-labour and capital determines the entire character of the capitalist mode of production" and one of the greatest advantages in Capital lies in "the treatment of surplus-value independently of its particular form of profit, interest, ground rent, etc." (Mattick, 1978).

In this way, "Marx succeeded where Ricardo had failed, namely, in recognising in the falling rate of profit an immanent law of capital accumulation" (Mattick, 1978).

5. Conclusions

The analyses of stagnation phenomena produced by Steindl and neo-Marxists, in fact, highlight a series of very interesting features of modern economic systems. The economic growth rate is determined by the kind of businesses, the structure of markets and the competition strategies, as well as the rate of profit and the distribution of surplus value between companies and financial rentiers. The absorption of surplus value by private and public waste may allow the expanded reproduction of the system to avoid overaccumulation crises, but, at the same time, reduces the potential capital accumulation

rate and, consequently, the growth rate of the system itself. This effect, combined with a permanent technological change, oriented to increase productivity for competition objectives, can produce growing structural unemployment.

But another way to analyse stagnation can also emerge from Steindl's model. Considering that internal accumulation is the first mover of investment, and that this produces investment-seeking surplus value, the alternatives of investment available for corporations can play a fundamental role in determining the growth rate in a single national economic system. The possibilities for foreign investments, both direct and financial, may decrease the domestic accumulation rate. But also financial bubbles booming in secondary markets or derivatives markets can produce new interest-bearing forms of liquidity holdings for corporations, which can be viable alternatives to reinvesting profits in production plants and machinery in periods of high uncertainty. And the expansion of consumer credit or public debt can play the same role.

Today most of these different kinds of alternatives to domestic production investment are all gathered under the single label of "financialisation". The word underlines the transformation of production capital into interest-bearing capital, or "financial capital", and the parallel transformation of capitalists into financial rentiers. And a large part of the above-mentioned phenomena is broadly within this definition. But another part of them can also offer a rapid way to take part in the accumulation process of regions of the world with greater rate of profit owing to very low wages.

The major role in determining investment attributed by Steindl to internal accumulation is very interesting also for other reasons. In recent years some empirical analyses have pointed out that the global saving glut, which has been identified as one of the major causes of the international imbalances that set off the crisis of 2007-2008, is closely connected to the corporate saving glut, a phenomenon little considered by mainstream economics but actually decisive in the process of worldwide aggregate saving formation (Scarano, 2015).

Corporate saving, as highlighted by Steindl, is a conspicuous phenomenon, determining a very considerable share of global private saving. Its role has been increasing over the last few decades and, because corporate decisions are not simply a veil over the households' decisions, it can raise very interesting theoretical questions about the relationship between consumption and saving decisions.

The excess of corporate saving (the share of profits not distributed as dividends and not invested in the core business of the company) is evidently a phenomenon with many transitory and exceptional causes, but undoubtedly also with some evident cyclical components (Scarano, 2015). Corporations can hold liquid balances for precautionary, speculative and transactional reasons. But the precautionary motive obviously prevails when they fear unforeseen fluctuations or foresee a decrease in their profitability.

In the real world, companies usually utilize their gross saving for depreciation, new investment, acquisitions, paying off debts, and share repurchases, and the change in the cash balance should normally be only the residual after spending. After the financial

crisis, instead, companies were keen to accumulate more substantial cash balances to face up to the credit crunch. Moreover, for US companies there were tax liabilities for repatriating cash from foreign subsidiaries. But most of companies were waiting to invest and make acquisitions because of uncertainty in their profitability following the crisis.

Yet the fact that the phenomenon set in as from the early 2000s, suggests that uncertainty in the non-financial sectors really came to dominate the global economic scene as from the burst of the 1990s bubble.

Moreover, the corporate saving glut exceeded the increase in cash balances and also took the way of risky financial investment, accentuating the financialisation process and helping to create the preconditions for the financial crisis of 2007-2009.

If financial crises can snowball on savings glut, and corporate saving is a major cause of the latter, then it is possible to identify a new kind of mechanism which can connect business cycles and financial crises. Indeed, if the corporate savings glut is the consequence of corporate uncertainties deriving from a lasting downturn of the cycle, then a financial crisis can be a sudden manifestation of the tensions long accumulated during this cyclical phase.

If the dynamics of corporate saving are fundamental in determining and timing financial crises, then it becomes key to understand their structural drivers, such as profitability trends, and identify the right fiscal policy instruments to control them.

References

Baran P., Sweezy P.M. (1966), *Monopoly Capital. An Essay on the American Economic and Social Order*, Monthly Review Press, New York.

Baran P., Sweezy P.M. (2012), «Some Theoretical Implications», Monthly Review, 64, 3, pp. 24-59.

Braverman H. (1974), *Labor and Monopoly Capital. The Degradation of Work in the Twentieth Century*, Monthly Review Press, New York.

Foster J.B. (2012), «A Missing Chapter of Monopoly Capital: Introduction to Baran and Sweezy's "Some Theoretical Implications"», Monthly Review, 64, 3, pp. 3-23.

Foster J.B. (2014), *The Theory of Monopoly Capitalism. An Elaboration of Marxian Political Economy*, Monthly Review Press, New York.

Hansen A.H. (1939), «Economic Progress and Declining Population Growth», *American Economic Review*, 29, 1, pp. 1-15.

Kalecki M. (1954), «The Determinants of profits», in Kalecki M., *Theory of Economic Dynamics. An Essay on Cyclical and Long-Run Changes in Capitalist Economy*, Routledge, London and New York.

Mattick P. (1978), «Monopoly Capital», in Mattick P., *Anti-Bolshevik Communism*, Merlin Press, London.

Sardoni C. (1994), «Accumulation», in Arestis P., Sawyer M. (eds), *The Elgar Companion to Radical Political Economy*, Edward Elgar, Brookfield.

Scarano G. (2015), «Corporate Savings and the 2007-2009 Financial Crisis: A Warning for the European Banking Union», in Calciano F., Fiordelisi F., Scarano G. (eds), *The Restructuring of Banks and Financial Systems in the Euro Area and the Financing of SMEs*, Palgrave Macmillan, London, New York.

Schumpeter J.A. (1939), *Business Cycles. A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, McGraw-Hill, New York, Toronto, London.

Steindl J. (1976), *Maturity and Stagnation in American Capitalism*, Monthly Review Press, New York.

Steindl J. (1990), *Economic Papers 1941-88*, Palgrave Macmillan, New York.

Sweezy P.M, Magdoff H. (1972), *The Dynamics of U.S. Capitalism. Corporate Structure, Inflation, Credit, Gold and the Dollar*, Monthly Review Press, New York.

Sweezy P.M, Magdoff H. (1987), *Stagnation and the financial explosion*, Monthly Review Press, New York.