

## SWEETZY AND THE MONTHLY REVIEW ON CAPITALISM AND FINANCE

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The New York *Monthly Review* established by Paul Sweezy and Leo Huberman in 1949 represents a unique venture in disseminating Marxist ideas in a way that has been informed by serious economic analysis. In particular it has benefited from the close relationship that Paul Sweezy had with his PhD supervisor at Harvard, Joseph Schumpeter; Sweezy's own personal knowledge of finance through his father, who was one of five vice-presidents of the New York-based First National Bank (which eventually became Citibank); and the exposure to practical business of Harry Magdoff, who in pre-McCarthy days had served as head of the current business analysis section of the US Department of Commerce. This background, allied with a Marxist conviction that a critical evaluation of the evolution of capitalism and its political economy, rather than the mentalities and calculations of individuals, is the key to understanding finance and business and its political significance.

The key theorist among the *Monthly Review* team was Sweezy. Graduating in Economics at Harvard in 1932, where the only challenge to neo-classical ideas was provided by institutionalists and their associates, such as John A. Hobson, who were not considered academically respectable, Sweezy spent a year in London at the London School of Economics and returned 'a convinced but very ignorant Marxist' (Sweezy 1981, pp. 12-13). He appears to have followed an intellectual trajectory from Austrian and German ideas, in which business cycles are produced by misalignments of interest rates with real capital productivity (drawn ultimately from Wicksell) through Keynes's critique, in the *General Theory*, of a capitalism whose equilibrium is subverted by finance, to a Marxist conviction that it was in the nature of capitalism to operate at less than full employment in a way that wastes economic resources, rather than, as he had been taught, making the best use of all available resources. Inevitably, in the depression that followed the 1929 Crash, finance was to play an important part in Sweezy's analysis. But, in the end, it was subordinated to capitalist enterprise in the real economy and the logic of capitalism that, in Sweezy's view, produced underconsumptionism.

Sweezy discussed the role of finance in twentieth-century capitalism in a little-remarked essay in 1941, 'The Decline of the Investment Banker' (Sweezy 1941). Here he argued that the investment banks that, in the American capital market system of business finance, manage issue of equity and bond securities, constitute the way in which finance dominates and centralises control over American capitalism, i.e., an American equivalent of Hilferding's *finanzkapital*. However, investment banking had been greatly diminished, and largely discredited, by the 1929 Crash. Capitalist firms were reduced to financing their activities through internal finance (out of current income or reserves). The function of investment banking as an organiser and coordinator of capitalist corporations, had been taken over by Roosevelt's New Deal administration which was facilitating business cartels to try to prevent deflationary competition but was also, as Sweezy noted, organising stock issues for corporations. Sweezy, like many other leftist critics of the New Deal, viewed this as a kind of socialisation of capitalist enterprise, but by and favouring capitalists, rather than as a genuine step towards socialism.

In the following year, his fundamental book *The Theory of Capitalist Development* was published. This gave an essentially underconsumptionist interpretation of Marx's critique of capitalism. Capitalism was prone to economic stagnation, unemployment and depression because workers are paid less than the value of their actual production, and this gives rise to deficient aggregate demand. This could be overcome by Keynesian means of government expenditure, imperialism, or raising wages. However, Keynesians were deluded by notions of a neutral, social welfare-orientated state, and capitalism does not exist to raise wages. On the eve of the establishment of *Monthly Review* Sweezy was convinced that capitalism could not effectively overcome tendencies to stagnation without imperialism or fascism. His analysis gave no role for finance in all this: capitalism was presented as an industrial machine in which capitalists and workers co-operated in production.

At this point, in the early 1950s, Sweezy came across the work of Michal Kalecki and perhaps the latter's most profound and financially-aware collaborator, Joseph Steindl. Kalecki was working at the UN in New York at the time and he and Sweezy met regularly. Kalecki had already pointed out that, in his *Essays in the Theory of Economic Fluctuations* in 1939 that capitalist stagnation was usually overcome by investment, rather than consumption. In 1952 Steindl published his book *Maturity and Stagnation in American Capitalism*. This explained capitalist stagnation not only in terms of monopoly (a monopolist can afford to keep equipment in under-utilised operation, whose excess capacity simultaneously discourages new investment), but also analysed key issues of banking and finance in American capitalism, such as the role of the holding company, and the Steindl's key original concept of 'forced indebtedness': the indebtedness arising from firms' cash flow deficiency.

The effect of this was a shift in the *Monthly Review's* essential macroeconomic analysis away from underconsumptionism as the key factor in economic stagnation and towards the notion that inadequate investment would prevent the surplus produced in capitalist production from being realised as money. This is essentially Kalecki's theory of profits (Toporowski 2013, Lebowitz 1990). This new view was put forward in Sweezy's new analysis, co-authored with Paul Baran, *Monopoly Capital An Essay in the American Economic and Social Order* (Baran and Sweezy 1966). However, this, like Sweezy's earlier book, was almost completely devoid of financial analysis: interest appears as a category of income from surplus, rather than as an element in the financial conditions of capitalist accumulation.

Finance finally entered the core *Monthly Review* analysis with the failure of Keynesianism, in the 1970s, and the publication of Hyman Minsky's *John Maynard Keynes* in 1975, which gave a financial interpretation not only of Keynes, but also of big business in the United States. Harry Magdoff and Paul Sweezy had noted, at around the same time, the growing indebtedness of American business, in sharp contrast to its condition during the 1950s, when Wall Street was still depressed following the 1929 Crash. This aroused concerns that capitalist firms would be unable to generate the surplus required to pay interest and debt repayments, as well as generate dividends and salaries for industrial capitalists (Sweezy and Magdoff 1975). Two years later, Magdoff and Sweezy hailed Minsky as highlighting a fundamental flaw in Keynesianism, namely the tendency of debt-financed public and capitalist expenditure to produce a debt crisis (Sweezy and Magdoff 1977).

Thus while *Monthly Review* authors were able use their insights into capitalist finance to understand particular crises in American capitalism, they were unable to provide a systematic account of the role of finance in modern capitalism. Four years after his appreciation of

Minsky, Sweezy produced his *Four Lectures on Marxism*, giving a summary account of his views on Marxism and the critique of capitalism. While not quite returning to the underconsumptionism of the 1940s, Sweezy argued that the underlying condition of capitalism is determined in industry, with under-investment caused by monopoly (Sweezy 1981). A further set of essays by Magdoff and Sweezy, under the title *Stagnation and Financial Explosion* and published in 1987, argued that capitalist finance and money were now out of control. Hence monetary policy aimed at control of the money supply was stabilising the economy at low levels of output and employment, but was unable to stem inflation. Non-financial firms were now much more fully engaged with the financial markets. But this engagement consisted of widespread financial speculation, rather than finance for fixed capital investment. The greater financial activity by corporations was therefore unable to reverse the underlying condition of industrial stagnation (Magdoff and Sweezy 1987).

In the last decade of the twentieth century and the years running up to the financial crisis that broke out in 2008, *Monthly Review* continued its critique of the political economy of American capitalism highlighting the growing engagement of American business with the financial markets. Following the death of Paul Sweezy in 2004, the editorship of the journal was taken over by John Bellamy Foster, who had written his doctoral thesis on the *Monthly Review* approach to monopoly capitalism (Foster 1986). Following the outbreak of the crisis, Foster co-authored with Fred Magdoff, the environmentalist son of Harry Magdoff, a notable book on the crisis, *The Great Financial Crisis Causes and Consequences* (Magdoff and Foster 2009). This re-emphasised the essential *Monthly Review* argument about stagnation in monopoly capital, with stagnant or falling wages reinforcing underconsumption. But monopoly capital was now firmly allied with the system of investment banking and the capital markets. Attempts to overcome this stagnation were now by means of speculative bubbles, whose bursting had caused the crisis.

Foster subsequently wrote with Robert McChesney a more substantial analysis of what Foster now calls ‘monopoly-finance capital’ (Foster and McChesney 2012). This returned to an old theme first advanced by Hobson in his analysis of imperialism, namely the excess of saving over investment in a capitalist economy in which the personal distribution of income is becoming more unequal. This excess of saving appears as an excess of capital in the financial markets, where it feeds speculation and bubbles. Giant corporations become more dependent on the financial markets to realise profits (the increasing preponderance of income from financial operations in corporate profits). But in the absence of profitable investment opportunities these profits are not fully invested in production, so that real economic activity remains depressed, despite the apparently buoyant picture presented by corporate results before the crisis. Foster and McChesney revive another historic theme in the absence of innovations that would stimulate investment. This is familiar from the work of Joseph Schumpeter.

In the final analysis, over three quarters of a century, *Monthly Review* has documented and commented upon the weakness of American corporate capitalism. Small and medium-sized capitalists do not feature in their analysis; nor does the middle class, whose lifestyle is such an influence on the inadequate consumption that lies at the root of their macroeconomics and the motivation for the growth in household indebtedness apparent in the United States in recent decades. The growth of income from financial operations, itself the result of the shift of corporations into financial intermediation rather than any excess of saving over investment, is not analysed in greater detail as, for example, in Keynes’s analysis of ‘liquidity

preference', or Minsky's balance sheet 'hedging'. Nor are those financial operations integrated with shifts in upper and middle class wealth holding towards financial assets. In other words, the mechanisms within the bloc named 'monopoly-finance capital' are not disentangled and analysed to show how the financial operations of modern capitalism differ from those of Marx's 'functioning capitalist' or Schumpeter's 'entrepreneur', and what has made those financial operations different. However, it should be noted that *Monthly Review* is fundamentally a *political* project, albeit one that, among outlets for political commentary, has been uniquely informed by a Marxist critique of twentieth-century political economy that, with the work of its editors, Leo Huberman, Paul Baran, Harry Magdoff, John Bellamy Foster and, above all, Paul Sweezy, has been research-based to an unusual degree. The gaps in its analysis of finance are therefore secondary to the political and class analysis that it has consistently put forward.

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