

## Karl Marx's Theory of Market Competition<sup>1</sup>

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The main objective of this paper is to lay down the architectonics as well as dynamic working logic of Karl Marx's theory of market competition by linking his observations on the emergence of joint-stock companies or corporations, the transition from industry to commerce, and the rising role of the credit system and finance capital to his vision of market competition. Both Marxists and non-Marxists have overlooked this link in analyzing his theory of market competition. The primary argument in this paper is that it is not possible to comprehend the underlying principles and working logic of market competition as a dynamic process in Marx's theory of competition without recognizing the strong influence of the emergence of joint-stock companies or corporations, the transition from industry to commerce and the increasing role of the credit system in his view of market competition.

This connection is not only essential for both understanding the dynamics of his theory of market competition, but also for grasping the *raison d'être* behind economic globalization and the ascending influence of finance capital in contemporary global capitalism. Exploring this connection also makes it possible to capture the essence of his idea of market competition as a dynamic process that appears in different forms and intensities in different phases. Furthermore, this approach reveals that Marx did not see an inverse relationship between the emergence of giant monopolistic corporations and market competition. Following a review of the existing literature on Marx's theory of competition, the second part of this paper elucidates Marx's observations on the structural changes within the capitalist economy entailed by the rise of joint-stock companies, the resulting replacement of industry by commerce, the rising role of the credit system and finance capital and their effect on his vision of market competition. The third section elaborates on Marx's definition of market competition, which is followed by a summary of the phases of market competition as well as its effects in

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the fourth part. The final section evaluates Marx's contribution to the literature on market competition together with the criticisms directed against his theory.

### 1. Review of Literature

Even though Marx's theory of market competition has attracted significant attention, non-Marxists and Marxist alike have given inadequate treatment to his theory of competition, which has led to a number of omissions and errors in the literature on competition. For instance, McNulty concluded in 1957 that since Adam Smith, the cost of production has not been systematically related to the notion of competition, nor has it been related to economic growth.<sup>1</sup> McNulty was only able to come to this conclusion by having totally ignored Marx's theory of competition. In a similar way, Stigler reached the conclusion that the effects of competition on income distribution had not been adequately studied in economic theory.<sup>2</sup> Despite his attempt to study the impact of competition on distribution in classical economic theory, Stigler totally dismissed Marx's theory of competition and its effects on economic distribution on the grounds that Marx's adherence to the labour theory of value and the doctrine of equalization of profit rates were theoretically untenable.<sup>3</sup>

Contrary to the propositions of McNulty and Stigler, in certain terms Marx can be seen as a classical economist with respect to the fact that, similar to Smith and Ricardo, he thought of competition within the context of value and the prices of commodities. Accordingly, he contended that the inherent laws of capital and its tendencies are not created by competition, but are *realized* in competition.<sup>4</sup> He perceived the processes of both the appropriation and the realization of surplus value as the two sides of the same coin, in so far as they help in the realization of the labour objectified in commodities.<sup>5</sup>

Interest in the Marxist theory of value was revived in the second half of the 1970s and 1980s. The main goal of these debates,

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<sup>1</sup> P. J. McNulty, "Economic Theory and the Meaning of Competition." *Quarterly Journal of Economics*, 82:4 (November 1968), p. 639-656, p. 652.

<sup>2</sup> G. J. Stigler, "Perfect Competition, Historically Contemplated." *The Journal of Political Economy*, 65:1 (February 1957), p. 1-17, p. 16.

<sup>3</sup> *Ibid.*, p. 4.

<sup>4</sup> K. Marx, *Grundrisse: Foundations of the Critique of Political Economy* (Rough Draft), trans. by Martin Nicolaus (Middlesex, UK, Maryland, USA and Victoria, Australia and London: Penguin Books Ltd. and New Left Review, 1973), p. 751.

<sup>5</sup> K. Marx, *Capital: A Critique of Political Economy, Vol. 3* Trans. by D. Fernbach (London: Penguin Books and New Left Review, 1976), p. 182.

however, was not to establish a model of Marx's theory of competition, but to reconcile the emergence of oligopolistic or monopolistic multinational corporations with Marx's theory of value.<sup>6</sup> Although they were Marxists, these scholars were not interested in his theory of market competition *per se*. For example, both Semmler and Wheelock equate Marx's understanding of competition with market structure by seeing a continuum between competition and monopoly. As Bryan notes, "while Semmler and Wheelock may refute the rhetoric and simplicity of 'monopoly capitalism' theory's propositions about the economic power of giant corporations, they nonetheless remain within its problematic. They continue to locate a Marxist theory of competition and monopoly in the institutionalist categories of relations between enterprises of different sizes."<sup>7</sup> Other Marxists have also failed to consider the multi-dimensional character of Marx's theory of competition, resulting in one-sided presentations of his theory. For example, Burkett considers the relations between capital and labour, competition over the rate of surplus value production, competition between different capitals (both within industries and in the movement of capitals among industries) and competition among workers, but fails to mention competition between buyers.<sup>8</sup> Similarly, Semmler focuses on competition between producers, but then overlooks competition between labour and capital and competition among workers.<sup>9</sup> As discussed below, all of these relations are important, for they help us understand the dynamic and cyclical character of capitalist competition. In explicating the effects of competition, Bryan underestimates the effect of demand on the rate of profit. He argues that capitalist competition always revolutionizes the forces of production, assuring permanent profits which are above

<sup>6</sup> J. Wheelock, "Competition and Monopoly: A Contribution to Debate." *Capital & Class*, 30 (Winter 1986), p. 184-191; P. Burkett, "A Note on Competition Under Capitalism." *Capital & Class*, 30, (Winter 1986), p. 192-208; R. Bryan, "Competition and Monopoly: A Reply." *Capital & Class*, 30 (Winter 1986), pp. 209-214; G. Kay, "Macroeconomics and Monopoly Capitalism: Review Article." *Capital & Class*, 30 (Winter 1986), p. 215-222; R. Bryan, "Monopoly in Marxist Method." *Capital & Class*, 26 (Summer 1985), p. 72-92; J. Wheelock, "Competition in the Marxist Tradition." *Capital & Class*, 21 (Winter 1983), p. 18-49; W. Semmler, "Theories of Competition and Monopoly." *Capital & Class*, 18 (Winter 1982), p. 91-117; A. Shaikh, "Marxian Competition Versus Perfect Competition: Further Comments on the So-Called Choice of Technique." *Cambridge Journal of Economics*, 4:1 (March 1980), p.75-83; A. Shaikh, "Political Economy and Capitalism: Notes on Dobb's Theory of Crisis." *Cambridge Journal of Economics*, 2:2 (June 1978), p. 233-251.

<sup>7</sup> *Ibid.*, p. 73.

<sup>8</sup> P. Burkett, "A Note on Competition Under Capitalism," p. 193.

<sup>9</sup> W. Semmler, "Theories of Competition and Monopoly," p. 97, 108.

average for some individual enterprises.<sup>10</sup> It will be argued, however, that this maxim is not always true, because a profit squeeze comes not only from the supply side, but from the demand side as well.

In the most recent debate on Marx's theory of competition, scholars have sought to relate Marx's theory of market competition either to the decline in the rate of profit or to economic globalization.<sup>11</sup> Similar to previous debates, the different effects of competition have been discussed before a holistic picture of Marx's theory or competition has been provided. For example, Marx's observations about the emergence of the giant corporations with tentacles in many different industries and geographies are not mentioned at all. It is the contention of this paper that without explaining the fundamentals of Marx's theory, it is impossible to understand when and how profit rates decline and therefore it is also impossible to understand the wider repercussions of his remarks on the emergence of joint-stock companies, the movement from industry to commerce and the rising significance of the credit system and finance capital. Nor is it possible to provide a rigorous and consistent explanation for the link between economic globalization and market competition.

<sup>10</sup> R. Bryan, "Competition and Monopoly: A Reply," p. 210.

<sup>11</sup> B. Jessop, "Time and Space in the Globalization of Capital and Their Implications for State Power" *Rethinking Marxism*, 14:1 (Spring 2002), p. 97-117, p. 101-102; J. B. Foster, "Monopoly Capital and the New Globalization." *Monthly Review*, 53:8 (January 2002), p. 1-16; S. Gindin, "Social Justice and Globalization: Are They Compatible?" *Monthly Review*, 54:2 (June 2002), p. 1-11, p. 2-3; M. D. Bordo, "Globalization in Historical Perspective." *Business Economics* (January 2002), p. 20-29, p. 1; S. Clarke, "The Globalization of Capital, Crisis and Class Struggle." *Capital & Class*, 75 (Autumn 2001), p. 93, 101; J. Weeks, "The Expansion of Capital and Uneven Development on a World Scale." *Capital & Class*, 74 (Summer 2001), p. 9-31; G. Duménil, M. Glick and D. Lévy, "Brenner on Competition." *Capital & Class*, 74 (Summer 2001), p. 61-77; S. W. K. Tabb, "Progressive Globalism: Challenging the Audacity of Capital." *Monthly Review*, 50:9 (February 1999), p. 1-10, p. 1; W. Bonefeld, "Globalization and the State: A Note on Joachim Hirsch." *Studies in Political Economy*, 58 (Spring 1999), p. 161-175, p. 164; S. Clarke, "Capitalist Competition and the Tendency to Overproduction: Comments on Brenner's 'Uneven Development and the Long Downturn.'" *Historical Materialism*, 4 (Summer 1999), p. 57-71; W. Bonefeld, "Notes on Competition, Capitalist Crises and Class." *Historical Materialism*, 5 (Winter 1999), p. 5-28; J. B. Foster, "Is Overcompetition the Problem." *Monthly Review*, 51:2 (June 1999), p. 28-38; P. M. Sweezy, "More (or Less) on Globalization." *Monthly Review*, 49:4 (September 1997), p. 1-4, p. 1; T. Klein, "'Globalization' as a Strategy of Capital: New Thinking in Modern Capitalism?" *International Political Economy*, 26:3 (Fall 1996), p. 60-68.

In sum, the main reason why Marxists and non-Marxists alike have failed to treat Marx's theory of competition fairly is that they have failed to appreciate the dynamic model of market competition provided by Marx in Volume III of *Capital*. In order to correct this lacuna, this paper seeks to return to Marx and explicate his theory of market competition as a process that appears in different forms and intensity in different phases.

## *2. Joint-Stock Companies, Commerce and the Credit System*

Marx was aware of the emergence of giant joint-stock companies or corporations in the second half of the nineteenth century and developed his theories of value and market competition accordingly. Marx drew three conclusions for the structural reconfiguration of the capitalist market economy. The emergence of joint-stock companies represented the emergence of a new form of organization of production on a very large scale, the socialization of capital, and the separation of ownership from management.<sup>12</sup> First of all, joint-stock companies or business corporations made possible the expansion of both the scale of production and capitalist enterprises on an enormous scale, as individual private capitalists brought their small amounts of capital together. Second, this socialization of capital differed from previous corporate forms, which were largely private undertakings. Furthermore, joint-stock companies were heavily based on credit money to sustain their activities by selling their stocks and bonds, furthering the 'social' character of capital. As a consequence of these first two changes, ownership and management became separate functions whereby the owner of capital became a mere owner or a mere money capitalist, while the actually functioning capitalist transformed into a mere manager or an administrator of other people's capital. The aggrandizement of production which these structural changes entailed made the joint-stock companies aggressive profit seekers not only in their respective industries and countries, but also in other industries, sectors and countries, due to their widespread organizational clout. In other words, they became major risk takers.

At a general level, these new joint stock-companies destroyed private industry as they expanded and invaded new spheres of production for commercial purposes. In this regard, the emergence of the joint-stock companies or corporations marked the abolition of capitalist private industry and its replacement by commerce for which profit, not the product, is important. Basically, these modern

corporations are not necessarily production units, as are individual capitalists. They are commercial entities that engage in production, in so far as it generates profit. In simple terms, the emergence of the modern corporation marked a transition from industry to commerce. Whereas the fundamental objective of industry was production, that of commerce is profit.<sup>13</sup>

As mentioned above, the modern corporation is solely based on credit. The credit system was the principle basis for the gradual transformation of capitalist private enterprises into capitalist stock companies, which, in turn, also increased the significance of the credit system and finance capital. The credit system plays two roles. Its first role is to accelerate the material development of productive forces, new technologies and the establishment of the world market by making abundant credit available for the joint-stock companies. To attract more credit, the corporations inflate their profits through speculation, gambling and swindling, in addition to producing in large amounts. The second role of the credit system comes into the picture here. This role is to discipline the corporations as the main lever of over-production and over-speculation in commerce. In other words, the credit system also accelerates the violent eruptions of crises and the concentration of capital in few hands.<sup>14</sup> In short, the emergence of joint-stock companies changed the fundamental characteristics of modern capitalism, as Marx described in the following way:

It produces a new financial aristocracy, a new kind of parasite in the guise of company promoters, speculators and merely nominal directors; an entire system of swindling and cheating with respect to the promotion of companies, issue of shares and share dealings. It is private production unchecked by private ownership.<sup>15</sup>

How did these developments influence his definition and processes of market competition? How did the increasing power of the credit system and finance capital manifest itself in the process of market competition? The next two sections answer these questions.

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<sup>12</sup> K. Marx, *Capital: A Critique of Political Economy*, Vol. 3, p. 567-568.

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<sup>13</sup> K. Marx, *The Poverty of Philosophy* (Moscow: Foreign Languages Publishing House, 1961), p. 146.

<sup>14</sup> K. Marx, *Capital: A Critique of Political Economy*, Vol. 3, p. 572.

<sup>15</sup> *Ibid*, p. 569.

## 3. Market Competition

Marx defined competition as emulation with a view to profit. However, he made a distinction between industrial emulation and commercial emulation: the fundamental objective of industrial emulation was the product, while in commercial emulation the fundamental goal is profit.<sup>16</sup> According to Marx, market competition became commercial emulation with the emergence of the joint-stock companies, since modern corporations can make profit through speculation without producing. In this regard, periodic speculation is an essential part of market competition.

In this process of emulation, different capitals strive to make profits. In this regard, competition appears as 'the action of capital upon capital' at the very general level.<sup>17</sup> "Free competition is the relation of capital to itself as another capital, i.e. the real conduct of capital as capital."<sup>18</sup> This is not a peaceful process, but more like a war with short periods of truce.<sup>19</sup> The inherent laws of capital, as well as its tendencies, are realized only in competition. In other words, competition executes the inner laws of capital by making them into compulsory laws which impinge upon the individual capitalist. However, competition does not invent these laws.<sup>20</sup> "Free competition brings out the inherent laws of capitalist production, in the shape of external coercive laws having power over every individual capitalist."<sup>21</sup> In other words, competition between capitals coerces each and every capital to follow the same rules of capitalism. The immanent laws of capitalist production, which are directing motives of individual capitalists' operations, assert themselves as coercive laws of competition.<sup>22</sup> In short, his theory of competition deals with exchange among many capitals.<sup>23</sup> This is why Marx characterizes competition as an 'inner nature of capital.'<sup>24</sup>

However, Marx's theory of competition is different from the existing theories of competition in that he does not oppose competition to monopoly, as the neoclassical economic theories of

perfect, imperfect and monopolistic competition do.<sup>25</sup> This is why H. M. Best's characterization of Marx's theory of market competition as static, i.e., it is perfect competition, is not correct.<sup>26</sup> In fact, Marx particularly illustrated that market competition and monopoly are dynamic processes, not two polar opposites or mutually exclusive categories, but two sides of the same coin. It is impossible to find either of them in pure form in a real market situation. They always exist in the form of synthesis. They need each other for their existence, as illustrated by the following quotation.

In practical life we find not only competition, monopoly and the antagonism between them, but also the synthesis of the two, which is not a formula, but a movement. Monopoly produces competition, competition produces monopoly. Monopolists are made from competition; competitors become monopolists. If the monopolists restrict their mutual competition by means of partial associations, competition increases among the workers; and the more the mass of the proletarians grows as against the monopolists of one nation, the more desperate competition becomes between the monopolists of different nations. The synthesis is of such a character that monopoly can only maintain itself by continually entering into the struggle of competition.<sup>27</sup>

In other words, competition and monopoly are products of each other and thus need each other for their existence. A capital that has a monopolistic position has to enter into the struggle of competition in order to maintain its position. This is why capitalists do not merely confine their ambitions to the limits of the market within the process of competition. Instead of taking the conditions of the market as they are, they always confront and overcome them by revolutionizing "the forces of production, the intensification of labour, the extension of the working day, and the expansion of the market on a world scale."<sup>28</sup> However, this is not a linear process. Marx perceived market competition as a cyclical process during which the intensity decreases

<sup>16</sup> Karl Marx, *The Poverty of Philosophy*, p. 146.

<sup>17</sup> K. Marx, *Grundrisse: Foundations of the Critique of Political Economy*, p. 751.

<sup>18</sup> *Ibid.*, p. 650.

<sup>19</sup> K. Marx, *The Poverty of Philosophy*, p. 152.

<sup>20</sup> K. Marx, *Grundrisse: Foundations of the Critique of Political Economy*, p. 752.

<sup>21</sup> K. Marx, *Capital: A Critique of Political Economy, Vol. 1 The Process of Capitalist Production* eds., by Frederick Engels (New York: International Publishers, 1967), p. 270.

<sup>22</sup> *Ibid.*, p. 316.

<sup>23</sup> K. Marx, *Grundrisse: Foundations of the Critique of Political Economy*, p. 731.

<sup>24</sup> *Ibid.*, p. 414.

<sup>25</sup> W. E. Nicholson, *Intermediate Microeconomics and Its Application*, Seventh Edition (Fort Worth, TX: The Dryden Press, 1997), p. 250; J. Robinson, *The Economics of Imperfect Competition* (London and New York: Macmillan & Co. Ltd. and St. Martin's Press, 1965[1933]); E. H. Chamberlin, *The Theory of Monopolistic Competition: A Re-orientation of the Theory of Value* (Cambridge: Harvard University Press, 1950, 6<sup>th</sup> ed.).

<sup>26</sup> M. H. Best, "Regional Growth Dynamics: A Capabilities Perspective." *Contributions to Political Economy*, 18 (1999), p. 105-119, footnote 1, p. 110-111.

<sup>27</sup> K. Marx, *The Poverty of Philosophy*, p. 152.

<sup>28</sup> S. Clarke, "Capitalist Competition and the Tendency to Overproduction: Comments on Brenner's 'Uneven Development and the Long Downturn,'" p. 68.

or increases depending on a specific phase. Nevertheless, the intensity of competition increases after each cycle, given that the competitors get bigger and stronger after each cycle, which, in turn, increases the intensity and hence destructiveness of market competition. How does it work then? What roles do the credit system and finance capital play in different phases of market competition? The next section provides answers to these questions.

#### *4. The Working Dynamics of Market Competition*

In order to understand the working dynamics of competition together with its effects on different social classes across an entire business cycle, Marx implicitly proposed a macroeconomic model in the third volume of *Capital*. His model includes a central bank, the state, a credit system or financial sector, an agricultural sector and an industrial sector, with many industries consisting of large joint-stock companies, small and medium-sized firms. As mentioned above, market competition in his theory is multidimensional, but market competition between corporations and/or firms is taken as the basis by which different phases of competition can be distinguished. This does not mean, however, that competition between other market forces or other dimensions of market competition are overlooked in each phase. He implicitly distinguishes four different phases of market competition across an entire business cycle during which competition between different market forces appears in different intensities and forms. These phases are the following: the acceleration of competition, hyper- or intense competition, destructive and bloody competition and finally, deceleration of competition. We can now turn to investigate the peculiar characteristics of each phase of competition.

##### *4.1. Acceleration of Market Competition*

In this phase, production, sales and profits rise slowly because employment, income and consumer spending are rising and the climate of business opinion starts to change from one of pessimism to one of overall optimism. This may be due to the fact that either the overall economy is expanding or the fact that one industry or sector is growing faster than other industries or sectors, as a result of higher demand and limited supply. Therefore, prices and profit margins are relatively higher for the commodities produced by the industry or the sector for three reasons. First, if there are only a few producers there will be little or less competition among them. Second, high demand creates competition among buyers or consumers. Third, raw materials

and labour are cheaper in the initial stages of competition. From the perspective of raw material suppliers and workers, competition is intense. At this moment, there is no need for credit from the financial sector, because the companies increase the amount of production by using idle capacity, depending on consumer demand.

Increasing demand requires additional investment in the core industry and closely interrelated industries. This, in turn, slowly triggers demand for credit to finance new investment in the industry or sector, since the corporations do not yet have enough capital to make money, but make investment decisions with an idea that their future profits will cover their expenses. When the prospects of increasing profits appear on the horizon, the shares of joint-stock companies valorize and the financial sector lends to the industrial sector to meet initial capital needs for new investments, anticipating higher profit margins. Credit is cheap and abundant at the beginning because interest rates set by the central bank are lower and there is less demand for credit due to lower economic activity overall. It means that competition within the credit system is intense, but financiers are also hesitant to lend easily, given the fact that there is still uncertainty.

Cheap inputs and expensive outputs mean higher profit margins which attract new competitors. Competition does not accelerate between the existing corporations in the industry immediately with the appearance of new entrants because demand is still high for the industry's goods and/or services. As more entrants show up, however, the existing firms in the industry use two main strategies to deter more entrants and defend their market position in advance. They use a large amount of credit to build additional capacity and/or merge with their smaller counterparts. Greenfield investment and mergers and acquisitions (M&As) depend on the amount of idle capacity in the industry as well as the interest rates.<sup>29</sup> Managers of the joint-stock companies, unlike the owners of firms, recklessly invest by using credit borrowed from the financial sector for two reasons: first, to meet the increased demand; second, to repel the new entrants. The ultimate aim is to prevent the acceleration of competition.

As the level of economic activity in the core industry as well as closer industries picks up, competition increases but its intensity is not high because the cost of capital, labour and other inputs are still lower due excess capacity on the input side. Compared to the input prices, the price of commodities is still high, but not very high

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<sup>29</sup> A. A. Bolbol, and M. A. Lovewell, "Three Views on Stock Markets and Corporate Behavior: Tobin, Veblen, and Marx." *Journal of Post Keynesian Economics*, 23:3 (2001), p. 527-543, p. 538-539.

compared to the initial stage of business cycle due to an increasing amount of supply. Despite the efforts of the existing firms in the industries or sectors to protect their markets, higher profit rates attract new competitors from other industries and sectors from different geographical areas, whether from within a country or from another country, depending on the rules and regulations governing business conduct. It means a gradual relocation of plants from one place to another or building new plants in a particular region. Competition also relocates labour by moving them from other industries and sectors such as agriculture to the industry where demand for labour is higher, as the core and related industries absorb the reserve labour capacity rapidly.

#### 4.2. Hyper- or Intense Competition

At this stage, the existing capacity of inputs is used up to a large extent. Shortages develop particularly in categories of key skills and essential raw materials that cause an abrupt rise in production costs. As shortages develop in more and more markets, a situation of excess demand develops, which pushes up the prices of commodities and services. However, the price rise does not match the decline, as the number of suppliers increase. Decreasing or squeezing profit margins are the main reason behind hyper-competition. New entrants push up input costs, while reducing prices of their finished commodities. The rate of profit starts to decrease because of an increase in wages, price of raw materials and interest rates, accompanied by a decline in the price of the finished commodities.<sup>30</sup> In other words, there is a profit squeeze from two sides. This, in turn, hastens competition, which becomes more intense, but still not 'bloody.' Intense competition has a deep impact on the strategy of firms.

At the firm level, competition fosters the introduction of new machinery in order to reduce production costs.<sup>31</sup> Technological improvement and mechanization deeply influence the conditions of the working class, affecting the composition of workforce and causing reckless exploitation of labour power. Mechanization destroys the monopoly of male labourers over the heavier work, while it also drives out old women and very young children from lighter work. The weakest of the manual labour force are badly hit by

overpowering competition, creating a reserve army of labour.<sup>32</sup> Competition among workers causes a decline in the price of labour and allows capitalists to extend the length of the working day.<sup>33</sup> Increasing productivity and cheapening of goods are due to the utilization of new and improved machines and a greater division of labour. The employment of larger amounts of labour and the introduction of gigantic machines are essential for reducing the costs of production, and hence allow corporations to sell cheaply without ruining themselves. Cheap selling requires cheap production that depends on a greater division of labour, the use of new machines and their technical improvement and more profitable and extensive exploitation of the environment.<sup>34</sup> New machinery and the greater division of labour are the means for conquering new markets, since the quantity of supply increases, while the costs of production decline below the old price in the process of competition.<sup>35</sup>

The privileged position of some capitalists is destroyed because of the decline in the price below the old as well as the new costs of production.<sup>36</sup> As Marx argues, "[t]he more powerful and costly means of production that he has called into life enable [the capitalist], indeed, to sell his commodities more cheaply, they compel him, however, at the same time to sell more commodities, to conquer a much larger market for his commodities."<sup>37</sup> Improved machines also compel capitalists to seek new geographic markets to sell greater amounts of commodities that intensify competition within and between countries to cover their expenses and make profits.<sup>38</sup> In short, every new production technique makes the commodities cheaper initially and those capitalists who apply it first earn more profit because of a large difference in the costs of production of commodities and their market prices, accordingly. However, competition forces producers to have similar profit margins by universalizing new production techniques within the industry by accelerating the process of their emulation and hence diffusion.<sup>39</sup> Equalization never occurs because the actors look for new ways to increase their profit margins.

<sup>30</sup> For a special treatment of the relationship between the change in interest rates and the industrial cycle in Marx's theory of capitalism, see F. P. Cipolla, "Interest Rate Changes in Marx's Theory of the Industrial Cycle." *International Political Economy*, 27:1 (Spring 1997), p. 73-84.

<sup>31</sup> K. Marx, *Grundrisse: Foundations of the Critique of Political Economy*, p. 776.

<sup>32</sup> K. Marx, *Capital: A Critique of Political Economy, Vol. 1 The Process of Capitalist Production*, pp. 430-43, 462 and 472.

<sup>33</sup> *Ibid.*, p. 549.

<sup>34</sup> K. Marx, *Wage Labor and Capital*, (Moscow: Progressive Publishers, 1952), p. 38.

<sup>35</sup> K. Marx, *Grundrisse: Foundations of the Critique of Political Economy*, p. 765.

<sup>36</sup> K. Marx, *Wage Labor and Capital*, p. 39.

<sup>37</sup> *Ibid.*, p. 39, emphases are original.

<sup>38</sup> K. Marx, *Capital: A Critique of Political Economy, Vol. 3*, p. 1014.

<sup>39</sup> *Ibid.*, p. 373-374.

In this phase of the cycle, competition becomes hyper- or intense during which capitalists push their capacity beyond its limits to produce more and sell their products even at a temporary loss to secure the market share in the competitive struggle.<sup>40</sup> During that time, in addition to building new factories and plants, M&As gain momentum because capitalists think that building additional capacity takes too much time. M&As also become convenient as the larger firms' stocks valorize which makes easy for them to use their stocks as currency to buy other firms.<sup>41</sup> The credit system serves as a basis for speculative activities on the market, enabling the acts of buying and selling to take longer time.<sup>42</sup> Speculative activities also serve the interests of the financial sector by helping it find customers easily at higher interest rates in the face of increasing demand for credit. Higher interest rates mean higher profits for finance capital.

The corporations expand both horizontally and vertically to exploit an increasing prospect of higher profit rates. Reckless expansion in industrial investment and productive capacity without higher returns are boosted through market speculation and dirty tricks, as firms want to inflate their profits in order to attract more capital. Hyper-competition also has an impact on the quality of commodities. "If, however, this large capital is opposed by small capitals with small profits, as it is under the presupposed condition of intense competition, it crushes them completely. The necessary result of this competition is a general deterioration of commodities, adulteration, fake-production and universal poisoning, evident in large towns."<sup>43</sup> An abrupt temporary rise in wages causes a sharp decline in the rate of profit.<sup>44</sup> Furthermore, a steep price hike in input costs and a sharp decline in the rate of profit due to market glut reverse the business sentiments and expectations. On the whole, production in large quantities creates market glut and thus the problem of realization of profit appears on the horizon. This opens a new phase in the process of market competition that is very destructive and 'bloody.'

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<sup>40</sup> Ibid, p. 361-362

<sup>41</sup> A. A. Bolbol and M. A. Lovewell, "Three Views on Stock Markets and Corporate Behavior: Tobin, Veblen, and Marx," p. 538-539.

<sup>42</sup> K. Marx, *Capital: A Critique of Political Economy*, Vol. 3, p. 567.

<sup>43</sup> K. Marx, *Economic and Philosophic Manuscripts of 1844* (Moscow: Foreign Languages Publishing House, 1961, 2<sup>nd</sup> impression), p. 44.

<sup>44</sup> K. Marx, *Capital: A Critique of Political Economy*, Vol. 3, p. 365.

### 4.3. Destructive and 'Bloody' Competition

In this phase of market competition, profits drop steeply as demand falls off and some firms encounter financial difficulties. Cost cutting through the reduction of the workforce, the closure of plants and the termination of greenfield investment become the common practice for both large corporations and small firms. Unused capacity increases, while the level of new investment, production and employment decline. Two actors play a determining role to make competition destructive and 'bloody.' The first is the financial sector. As soon as it realizes that the promised profits cannot be delivered, financiers suddenly stop lending to the industrial sector, although it is in urgent need. Secondly, the central bank increases interest rates to cool down the overheated economy with the purpose of controlling inflation. To a large extent, a decrease in the amount of credit together with its rising costs accelerate the eruption of the crisis because the resulting strains in the sphere of production become clear with the decline of credit. In short, the credit system plays the role of the principal lever of overproduction and excessive speculation in commerce.

This only goes to show how the valorization of capital founded on the antithetical character of capitalist production permits actual free development only up to a certain point, which is constantly broken through by the credit system. The credit system hence accelerates the material development of the productive forces and the creation of the world market, which it is the historical task of the capitalist mode of production to bring to a certain level of development, as material foundations for the new form of production. At the same time, credit accelerates the violent outbreaks of this contradiction, crises, and with these the elements of dissolution of the old mode of production.<sup>45</sup>

Decreasing profit opportunities, increasing interest rates and decreasing credit availability mean devaluation of shares of firms. Scarce and costly capital with increasing interest rates by the central bank causes the bankruptcy of few large and many small and medium-sized firms that need credit urgently, regardless of whether they are healthy or not.<sup>46</sup> Moreover, competition becomes destructive, as capitalists want to survive. The average rate of profit declines because underselling is a dominant practice during this phase of market competition. In times of crisis, a capitalist who controls a large amount of capital can make more profit in absolute terms than

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<sup>45</sup> Ibid, p. 572.

<sup>46</sup> Ibid, p. 535.

their smaller counterparts, as the former deliberately reduces prices to drive the smaller competitors from the market.<sup>47</sup> Many small industrial capitalists, farmers and a few large capitalists are thus squeezed from two sides. As a consequence of scarce and expensive credit and underselling, many small capitalists disappear suddenly from the market. Ultimately, the small firms and farmers who do not have enough capacity to produce at a greater scale are driven out of the market.<sup>48</sup> The determining factor in this phase is not the level of technology, but the firms' access to credit.

'Bloody' competition hastens the process during which larger capitalists buy these bankrupt firms. Concentration (an increase in the quantity of capital owned by an individual capitalist through reproduction on an extended scale) and centralization of capital (growing of capital "in one place to a huge mass in a single hand" without reproduction on an extended scale) are the natural outcomes of this process.<sup>49</sup> Whereas concentration depends upon a positive growth in the magnitude of 'socialized capital' centralization may result from a mere change in the ownership of the existing socialized capital. In short, competition precipitates the processes of accumulation, concentration and centralization of capital within a country at the end.<sup>50</sup>

What does concentration and centralization mean for market competition then? Basically, it means that the industry has entered into a period of industrial consolidation during which competition between the corporations and small firms and among workers becomes bloody and destructive. The only goal for capital is to survive the bloody or destructive competition by remaining alive. However, bankruptcies are unavoidable. To increase profit rates in situations of the falling prices and/or intensifying competitive struggles, capitalists either reduce the variable part of total capital to increase the rate of unemployment, use new machinery or increase the productivity of the existing labour by using new and improved methods. In doing so, each actor can force the other to decrease the individual value of his/her total product below its general value. They also devalue the constant capital. In that process, the rate of the constant capital vis-à-vis the variable capital increases.<sup>51</sup>

<sup>47</sup> Ibid, p. 331-332.

<sup>48</sup> K. Marx, *Wage Labor and Capital*, p. 44 and K. Marx, *Capital: A Critique of Political Economy*, Vol. 1, p. 705.

<sup>49</sup> K. Marx, *Capital: A Critique of Political Economy*, Vol. 1, p. 625-627.

<sup>50</sup> K. Marx, *Wage Labor and Capital*, p. 41.

<sup>51</sup> K. Marx, *Capital: A Critique of Political Economy*, Vol. 3, p. 363.

An increase in the rate of unemployment means the intensification of competition among the workers which causes a decline in the price of labour and allows the capitalists to extend the working time, as labour loses its bargaining power. Since one worker can do the same job done by five, ten or twenty with the greater division of labour, the process, first of all, increases the competition among workers by five, ten or twenty-fold. Competition among workers, in turn, makes labour power cheaper. Moreover, the increased division of labour causes the deskilling of labour and hence lowers its cost: since tasks can be learned quickly, one worker can be replaced easily and thus competition amongst workers increases.<sup>52</sup> Furthermore, less skilled work earns lower wages. As a result, workers have to work more either by extending working hours or by increasing production per hour. This intensification of work means the deterioration of terms of bargaining and living conditions for the working class.<sup>53</sup> Big capitalists also restrict their mutual competition by means of cartels from time to time to increase competition among workers. By and large, this stage determines the nature of competition in the next and final stage.

#### 4.4. Deceleration of Competition

This stage of competition is characterized by a low level of output with the decline in demand, increasing unemployment, a substantial amount of unused or idle productive capacity, low or negative profits, lack of new investments and few competitors. A sharp decrease in the number of players is caused by bankruptcies in the previous stage. Decreasing profit opportunities do not attract new entrants anymore. Even some of those in the industry look for new opportunities and leave the industry either by selling their plants or closing them down. In sum, since few corporations remain in the industry it becomes easy to form coalitions and agreements. Accordingly, the remaining firms agree among themselves to prevent damage caused by competition through agreements, which are mainly directed against the workers.

Demand for credit also decreases at this moment, parallel with the decrease in the level of overall economy activity. Moreover, banks and credit institutions are reluctant to lend generously to corporations, especially small firms, within crisis-ridden industries. Decreasing economic activity means higher unemployment and lower wages. Decreasing wages imply less purchasing power and less

<sup>52</sup> K. Marx, *Wage Labor and Capital*, p. 41.

<sup>53</sup> K. Marx, *Capital: A Critique of Political Economy*, Vol. 1, p. 549.



demand for the commodities within the national economy. This opens a period of stagnation: the falling rate of profit prepares the ground for a slump in production in the core industries and other sectors, thus precipitating an economic depression.

However, a slump in production prepares the ground for an expansion of production in the next cycle because devaluation "clears the way for profit opportunities by existing capital due to less competition, less pressure on wages, and lower production costs."<sup>54</sup> The abnormal amount of unpaid labour becomes the source of competition among the capitalists, as each capital wants to command the vast quantity of unpaid labour with the goal of increasing its profits.<sup>55</sup> Capital also moves to other industries and sectors located in different regions within a country or in different regions of the world, depending on profit opportunities and their freedom to move. When competition appears on the scene again, it becomes more violent and more destructive on the capitalists' as well as the workers' side.<sup>56</sup> There is no end to the process as long as there are two competitors, since higher profits attract new capitalists into the profitable areas with a greater division of labour and more advanced machinery at a greater scale.

In short, competition precipitates the processes of accumulation, concentration and centralization of capital within one country.<sup>57</sup> Concentration and centralization of capital in one country, in turn, hastens competition between monopolists of different countries.<sup>58</sup> States do not always allow a monopolist of another nation to take over their monopolists. The attitude of states determines the ultimate limit of economic globalization. They allow M&A activities to a certain extent as long as they do not threaten the life of their monopolists. In other words, capitals from different countries increase their control on different industries and sectors located in different countries only up to a certain point. Moreover, profit margins also decrease in these countries, as the corporations exploit untapped natural resources, labour and vast consumer markets for their commodities. After exhausting the profit opportunities, they withdraw from these countries by shutting down or selling their plants and migrate to other countries and other industries. This is why economic globalization is not a uni-linear, but a cyclical process.

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<sup>54</sup> A. A. Bolbol and M. A. Lovewell, "Three Views on Stock Markets and Corporate Behavior: Tobin, Veblen, and Marx," p. 540.

<sup>55</sup> K. Marx, *Capital: A Critique of Political Economy, Vol. 1*, p. 549.

<sup>56</sup> K. Marx, *Wage Labor and Capital*, p. 44.

<sup>57</sup> *Ibid.*, p. 41.

<sup>58</sup> K. Marx, *The Poverty of Philosophy*, p. 152.

## 5. Overall Evaluation and Conclusion

To grasp the dynamics of market competition requires a serious attention to Marx's observations about the deep structural changes in the capitalist market economy that took place in the second half of the nineteenth century: the emergence of joint-stock companies, the replacement of industry by commerce and the increasing significance of the credit system. Marx's theory brought several innovations that distinguish it from other theories. The first and fundamental innovation that Marx's theory of market competition offers is that it does not equate competition with market structure, as the neoclassical economic theories of perfect, imperfect and monopolistic competition do. In contrast, competition is a dynamic process. Thus, Marx's theory is similar to the Austrian School's theory of competition. The second innovation Marx's theory brought is that it does not suggest a one-to-one relationship between the number of firms and the intensity of competition. Rather, it takes into account both the number and size of firms in evaluating market competition.<sup>59</sup> As we have just seen above, it also considers many other factors that decelerate or accelerate competition, such as the cost of labour power. In short, his theory of competition is much more elaborate and complex than the theories advanced by Smith, Ricardo and the neoclassical economic theories of competition.

Thirdly, it did not oppose competition to monopoly. Marx demonstrates that it is possible to find competition, monopoly, as well as their synthesis, in his dynamic account of how monopoly produces competition, while competition also produces monopoly. There is also an antagonism between competition and monopoly. Both competition and monopoly enter into the struggle of competition to maintain themselves. This is a real innovation in the literature of market competition. Fourthly, Marx's theory of competition clarifies the nature of the relationship between competition and market power very well. In contrast to Smith and Ricardo's theory of competition and the neoclassical economic theories of competition, including the Austrian and Chicago variations, Marx's theory demonstrates that market competition cannot clear market power. In this sense, his theory is similar to the theory of imperfect competition and Thorstein Veblen's theory of market competition. Marx did not only examine the effects of competition on price movements, but also its impact on factors including technology, productivity, industry structure, inter-

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<sup>59</sup> K. Marx, *Capital: A Critique of Political Economy, Vol. 1*, p. 626.

sectoral relations, firm structure and behaviour, economic growth, capital accumulation and income distribution.

Fifthly, Marx's theory of competition does not restrict the level of analysis to the industry as with the perfect, imperfect or monopolistic competition theories, since they have their origins in the Marshallian partial equilibrium model. Nor does his theory only focus on the firm level, like the members of the Austrian School of economics. Marx advanced a dynamic theory of competition based on a solid macroeconomic model that relates individual firm, industry and inter-industry levels simultaneously. His macroeconomic theory is based on general disequilibrium, not the one like the Walrasian general equilibrium model. In short, Marx's general economic theory does not presuppose either partial or general equilibrium, as Marshall's and Walras's economic models presuppose. Furthermore, he included the impact of competition on core industries and sectors besides the related ones located in different countries. Finally, as a consequence, Marx's theory has the conceptual capacity to consider the geographical or spatial dimensions of market competition. In short, his theory can answer the questions and the criticisms that the mainstream theories of market competition fail to answer.

However, this does not mean that his theory of competition is perfect and immune to criticisms. Certainly, there are several problems with his understanding of competition. The first problem with his theory of competition is that it focuses narrowly on market competition on the basis of price, while overlooking non-price forms of competition such as advertising and product differentiation. His ignorance of modern advertising is understandable, however, given the time period in which he lived. Secondly, he only defined competition as a destructive and 'bloody' war. Even though he mentioned cooperation and collaboration between capitals, the ultimate aim of such cooperation is to reduce the bargaining power of workers, not to increase the market price of commodities. As a logical implication of the second criticism, the third is directed against his understanding of the movement of prices. For Marx, producing more and selling cheaper is the only means available by which firms drive their rivals out of the market and increase their market share. In this regard, Marx pictured prices as perfectly flexible downwards. This may be true in some cases, but not all. Instead of reducing prices, larger firms with market power usually use it to curtail output and keep prices higher, despite the existence of abundant idle capacity. Despite these criticisms, Marx's theory of competition is well-advanced and complex compared to the existing theories of competition in that it provides us with all the essential conceptual as

well as analytical tools to comprehend the dynamics of economic globalization, its possibilities and limits, together with its intended and unintended consequences.