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Reflections on Luis Suarez-Villa's *Corporate Power, Oligopolies and the Crisis of the State*

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Abstract: Book review of Luis Suarez-Villa's *Corporate Power, Oligopolies and the Crisis of the State* (2015). State University of New York, ISBN: 978-1-4384-5485-6.

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The beginning of this century is marked by the mass-scale resolution of the accumulated contradictions in the global financial and economic system affecting most developed and developing countries: the Great Recession of 2007-2009, debt crises in the Eurozone, stagnation in the world economy, and bubbles in the domestic stock markets and cryptocurrency markets. These phenomena are accompanied by, on the one hand, the methodological collapse of the neoliberal paradigm of political economy and the inability of mainstream economic thought to describe and explain what is happening, and on the other hand, the rise of the price of crisis phenomena, the effect of which has been to devastate the national budget, increasing the deficit and laying salvation expenses on the shoulders of taxpayers. The result is the almost universal rescue of so-called systemically important companies from various sectors of the economy amid rising social and financial entropy.

What is the reason for the dramatic changes in the global financial architecture? The answer to this question is given in part by Professor Suarez-Villa in his book *Corporate Power, Oligopolies, and the Crisis of the State*. This extensive study on the example of the USA is another beacon of reason and social justice over apologetic supporters of neoliberal dogma, a lighthouse to protect the ships of the national economies in the fog of market uncertainty, risk and ambitions.

Overall, Suarez-Villa's book is dedicated to the research of tendencies and laws of development of the national economic and financial system of the United States over the past thirty years. The focus, as the title of the book tells us, is on the transition from the industrial to the post-industrial model of advanced capitalism in the United States and related manifestations of this transition. The essence of the research is the analysis of the changes of concentration in different markets (goods, services, loan capital, stock market, education, medicine) and the impact of capital concentration on efficiency and social acceptability. The effects of excessive concentration are: overaccumulation of capital in the national economy; financialisation of the national economy (the transformation into the economy of a 'gambling house'); the dominance of speculation in the financial sector; the decoupling of the financial sphere from the real economy; the gradual disappearance of production (the gap between reproduction and commodification); reduced employment; and the emergence of the analogue of oil dependence in the US economy – the 'financial needle' with all its ensuing consequences.

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Below I present some reflections on the subject and the main ideas highlighted by Professor Suarez-Villa in his book.

However, before turning to the main theses of the book, I would like to share the overall experience and to point out some of the advantages and disadvantages of this study.

The advantages of this book include the following.

i) The undoubted merit of Professor Suarez-Villa is that he, among other researchers, has once again drawn attention to the problem of the excessive concentration of market power in the hands of a few companies – the oligopolisation problem – and, as a possible consequence, the cartelisation of industries. The emergence of mega-enterprises is always fraught with risk of explicit or implicit guarantees, leading to opportunistic behaviour on the one hand, and on the other, the emergence of powerful entry barriers to the industry, which leads to reduced competitive pressure on the market and to the development of coordinated collusions with the aim of preserving market power.

ii) The study was conducted on the example of the United States. A number of reviewers of this study have already stressed this fact as a disadvantage. On the contrary, in my opinion, given the fact that the US economy is a world-leader and for many decades has set the tone for corporate structures of economic systems of other developed and developing countries, a description of the problem within the example of the United States can hardly be considered a disadvantage. Consider the fact that, for example, corporate lending standards in Japanese banks during the bubble of the 1980s were copied from the sales plans of the United States' banks. The same is true nowadays: US innovations in management and the establishment of vertical and horizontal hierarchies in corporate management penetrate systems around the world.

iii) The research is extensive and covers almost all sectors of the economy and finance of the United States. The author has done a large amount of work in order to show a picture at the macro (even at the mega) level. In the opinion of the reviewer, this attempt is quite successful.

iv) Work of such a large scale requires significant and substantial arguments, and needs to be backed up by a strong argumentation base. The author of this book has fulfilled this requirement. Almost every research thesis is supported either by empirical evidence, statistical sources or expert opinion. On this issue we can confidently say that this study is backgrounded effectively.

v) Any study, especially an economic one, requires not only a solid argument but also statistical reasoning. For example, the chapters revealing the trend towards concentration of the sector (Chapter 1. Oligopoly), describing the effects of financialisation (Chapter 2. Financialism) and revealing stagnation as the inevitable consequence of oligopolisation of the US economy (Chapter 4. Stagnation) have sufficient statistical support that obviously, in our opinion, cannot be considered as a *cri de coeur,* as some reviewers suggest.

vi) A distinctive and positive feature of this book is a critical analytical approach to the study of the problem of concentration in the U.S. economy. The *modus cogitandi* of the author allows us to look at problems from a different angle, disadvantageous and objectionable to certain circles of academic thought: instead of simple market approach with supply and demand analysis, the author uses Marxian reproduction approach to show relationships between real and fictive capital not to mention linkages between reproduction and commodification. Instead of analysing market equilibria (which are present only in elegant mathematical models) and protecting classical economics in conventional manner, Professor Suarez-Villa applies dialectical approach of Marxian economic theory to expose accumulated contradictions in US national economic system.

vii) The use of the reproduction approach (based on works by Karl Marx and Rudolf Hilferding) allows us to see a picture of dynamics and development of the economy (within the example of the USA) in the dialectical sense as the process of unity and struggle of opposites, which consists of the accumulation of contradictions and their inevitable resolution. The growth of social tension, increased income gap between rich and poor, and large-scale crisis events, stunning the world and described by the author, represent a primary attempt of the system to resolve these contradictions. The problem of the overaccumulation of capital, formation of controlled bubbles and their use for the enrichment of the financial elite, are the clearest examples of contradictions that have been successfully demonstrated by Professor Suarez-Villa.

viii) When reading this book, one could clearly feel the power and passion put by the author into this study. The structure and presentation of the material are logical and consistent, allowing one to feel the seriousness and thoroughness of the approach to the problem.

ix) The book presents a holistic rather than a superficial understanding of the structure of the modern economic system of the United States and the place of its individual subsystems or markets. For example, reflections on the role of the educational system and the causes of the flourishing of the neoliberal economic school complete the cycle of reproduction of conditions of stability and sustainability to preserve the market power of oligopolistic corporations. This power and its stability is backed up by the relationship between financial and political elites, in part by using different mechanisms (lobbying, funding of political programs, etc.). The integrity and consistency of the picture presented by the author indicates a clear vision of the problem and the holism of perception.

Given the above, the research seems highly relevant and interesting, both for academic professionals within the US and foreign experts, not to mention students of economic faculties. It could be recommended as an additional literature source for students taking such courses as “International economics” as well.

At the same time, we also should pay attention to some aspects that could enrich the book and to an even greater extent protect the core of the study from criticism, both constructive and emotional, in its etymology.

Firstly, most theses presented in the book are designed to reinforce the main ideas of the author. Often, reinforcement factors/arguments are derived from (media) investigations that may be considered to be of secondary importance for scientific papers. However, given the nature of the research, their use in any case cannot be considered unacceptable. Theses, supported by statistical information, could be enhanced by the use of econometric methods, rather than comparing the statistical values for separate time intervals.

Secondly, for greater relevance and scale of the research it would be worthwhile to complete the picture with examples from other countries, both developed and developing, given the similar nature of the effects of industries’ oligopolisation. For example, the case of the United States describes the dominance of the financial elite over the political one. However, it is also of great interest to study different forms of parasitism by oligopolies in cases of dominance of the political elite over the financial one.

Thirdly, the study includes statement of the problem, description, argument positions and analysis of possible consequences in case of the state holding the status quo. Thus the logical conclusion of the study, in our view, may be a set of proposals or definition of the vector: the direction to take in order to remove or at least mitigate the effects of oligopolisation and the capture by corporations over society.

The above described proposals cannot be considered as shortcomings of the work in the absolute sense of the word, but represent only a view of the present reviewer.

1. The Rise of Oligopolies in the USA

The study begins with the formulation of the problem. The problem in the case of this book stands as the oligopolisation of most sectors of the US economy, beginning in the 1980s. The main channel of oligopolisation and concentration of the economy is through mergers and acquisitions, whereby corporations increased their market power – the resource necessary for the preservation of their niches and for the increase of their revenues. On the other hand, achieving the status of a mega-company contributed to the removal of the problem of price competition, allowing those mega-companies to protect themselves from uncertainty and risk, as well as threats from other players. However, the formation of coordinated collusion in many markets may clearly lead to deterioration in the quality of goods and services, reduced availability of goods, and higher prices in order to extract more surplus value in the absence of competition. Knowing this since the 19th century, how could the national authorities have taken such a step?

Professor Suarez-Villa gives us the answer to this question: the trigger to the development and transition of capitalism in the United States to its new quality (post-industrial capitalism) was an inevitable resolution of the accumulated contradictions in the capitalist system in the 1970s. The double oil crisis of the 1970s plunged the US economy into a period of stagflation – slow economic growth in parallel with the growth in inflation due to oil shocks – which staked the fate of the capitalist model. The response of the authorities was the deregulation and liberalisation of most sectors of the economy under the auspices of the neoliberal school of economic thought.

The consequence of this development for thirty years has become excessive concentration of most sectors of the US economy stemming from the effects in the form of barriers to entry within the industry, limited competition and shortage of goods supply.

The formation of oligopolies, including the financial markets (and the credit market) is a consequence of the need of concentration of capital to meet the growing needs of the real sector. However, the deregulation of the financial market and the wave of mergers and acquisitions led to the formation of the gap between the financial and economic sector that laid the foundation for the overaccumulation of capital.

In other words, the financial sector surpassed the real sector. And this was the basis for the two processes described in the study by Professor Suarez-Villa: financialism and the shift in the reproduction process.

2. Financialism or the Gambling House Economy

The result of the deregulation and liberalisation of the national economy was an active strengthening in international capital mobility; waves of mergers and acquisitions in the financial sector that led to the formation of the megabanks, hedge funds and large investment companies; and the share of the financial services sector coming to occupy more than half of the total US GDP.

Overaccumulation of capital has led to the search for sources of higher yield inside the US economy and beyond. This led to a wave of bubbles in 1990, 2000 and the Great Recession. In the real sector of economy, financial capital was not able to find such a high rate of return, which led to the gradual offshorisation and outsourcing of production, with a concomitant reduction of jobs in connection with the globalisation of international trade and the need to minimise costs.

The main channel for the existence of this fictitious capital has become speculation: the formation of bubbles with high rates of return, far from levels determined by fundamental values; grabbing the yield; and the collapsing of the bubble. And all this gambling, all the actions of the "speculative monster" spawned by liberalisation policy, are paid for by the taxpayers and the state, leading to continuous growth of the budget deficit, and transforming the economy into the debt pyramid.

The book describes in detail various tools and channels establishing the relationship between financial and political elites, which in the opinion of the author, help oligopolies to dictate their terms to the public authorities directly or indirectly.

The result of this development is the de-industrialisation of the economy, loss of jobs, growth of financial and social inequality, reduction of the availability of public goods (education, healthcare), the rise of conditions for fictitious economic growth and, as a consequence, long-term stagnation.

From an economic point of view, one of the most interesting parts of the book is an alternative vision of the goals and objectives of US monetary policy.

Due to the need to support economic growth in the casino economy, the main task of monetary authorities is not so much to maintain price stability, but to maintain or restore the rate of return on the stock market through operations with Treasury Bills. Given that the author's view on the US monetary policy is non-trivial in nature, in my opinion, the policy of controlled bubbles in order to maintain economic (albeit fictive) growth is of great interest.

3. Stagnation as a Result of Corporatocracy

In the long term, the author identifies the trend in the stagnation of US economic growth caused by the destructive activities of the oligopolies in terms of a decrease in GDP growth, industrial production, capacity utilisation on the background of reducing tax rates, increasing possibilities for tax deductions, and so on.

According to the author, the overaccumulation of capital and the desire to preserve income has led to deindustrialisation of the economy, loss of jobs, a decline in investments in the real sector of the economy, and the outsourcing of production.

It is the reduction of opportunities for profitable investment that is, in the author's opinion, one of the main causes of stagnation. The consequence is a reduction in the number of organisations involved in the minimum wage, a declining middle class, and the increase of the population living below the poverty line.

Logically, this trend should lead to a slowdown in economic growth or lead to a stable economic depression. However, the US economy is growing. Why? According to the author, (and given the fact that 80% of US GDP is consumption), the main role in maintaining economic growth is played by debt and bank lending. So, since 1980, the debt load of households increased from 68% up to 130% in 2005. It turns out that on the one hand, the use of debt tools allows households to support and expand consumption, but on the other, it hinders long-term development, given the budget constraint of households. The other source of growth – financial markets, where monetary authorities, raising the rate of return, regulate the speculation activities, bringing short-term profits for corporations.

Thus, the author reveals the vicious circle between financial and real capital: the relationship between them leading, from a social point of view, to the destruction of the national economy of the United States.

About the Author

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Dmitry Burakov is a PhD in Economics, and an associate professor of monetary economics at Financial University under the Government of the Russian Federation. His research and writings focus on financial and monetary economics, behavioural economics and labour economics. He is the author of several books dedicated to the problems of financial instability.