HE ABSORPTION OF SURPLUS

THE SALES EFFORT

Paul Baran

Paul Sweezy

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In analyzing the utilization of society's economic surplus—the difference between total social output and the socially necessary costs of producing it—economic theory has traditionally centered attention on capitalists' consumption and private investment, the subject dealt with in the preceding chapter. Not that other modes of utilization have been completely ignored. State and church have always been recognized as co-consumers of surplus, and both the classics and Marx considered that in addition to public officials and the clergy there was an important category of "unproductive" workers, typified by domestic servants, who received a large part or all of their incomes from capitalists and landlords. Further, Marx added to the charges on surplus what he called the expenses of circulation:

> The general law is that *all expenses of circulation, which arise only from changes of form, do not add any value to the commodities.* They are merely expenses required for the realization of value, or for its conversion from one form into another. The capital invested in those expenses (including the labor employed by it) belongs to the dead expenses of capitalist production. They must be made up out of the surplus product and are, from the point of view of the entire capitalist class, a deduction from the surplus value or surplus product.[1]

In principle there has thus never been any question about the existence of modes of surplus utilization other than capitalists' consumption and accumulation. However, these alterna-

[1] *Capital*, Volume 2, Chapter 6, Section 3.

tive modes have generally been treated as a subject of secondary interest. They were thought of as involving a redistribution of the consumption outlays of the capitalist class or as reducing somewhat the rate of accumulation, never as a decisive factor in determining the way the whole economic system works and the character of the society resting on this economic base.

It is easy to understand why, under competitive capitalism, these views prevailed. The dominant bourgeoisie of the eighteenth and nineteenth centuries was interested in reducing taxes and tithes to a minimum, with the result that the proportion of surplus consumed by church and state was much smaller than it had been in feudal times and could reasonably be thought of as continuing to decline as capitalist society grew richer. Likewise the expenses of circulation were greatly reduced compared to the mercantile period when merchant capital still held the upper hand over industrial capital, and this too seemed to point to a future in which capitalists' consumption and accumulation would increasingly pre-empt society's surplus product.

Whether these two modes of utilization would be sufficient to absorb all the surplus the economy was capable of producing, a question which made an early appearance in economic literature, was earnestly debated by Malthus and Ricardo, and dominated the writings of Sismondi and a long line of heretical "underconsumptionists." The theme also appears, though in a distinctly subordinate place, in the writings of Marx and his followers. What prevented both the classics and Marx from being more concerned with the problem of the adequacy of modes of surplus absorption was perhaps their profound conviction that the central dilemma of capitalism was summed up in what Marx called "the falling tendency of the rate of profit." Looked at from this angle, the barriers to capitalist expansion appeared to lie more in a shortage of surplus to maintain the momentum of accumulation than in any insufficiency in the characteristic modes of surplus utilization. And of course in the theories of the neo-classical economists, focused as they were on the equilibrating mechanisms of the market, the whole problem of capitalism's long-run tendencies virtually dropped out of sight for a half century or more.

When we pass from the analysis of a competitive system to that of a monopolistic system, a radical change in thinking is called for. With the law of rising surplus replacing the law of the falling tendency of the rate of profit, and with normal modes of surplus utilization patently unable to absorb a rising surplus, the question of other modes of surplus utilization assumes crucial importance. That they should be there in large and growing volume becomes a life-and-death issue for the system. And as they grow relative to capitalists' consumption and accumulation, they increasingly dominate the composition of social output, the rate of economic growth, and the quality of society itself.

One of these alternative modes of utilization we call the sales effort. Conceptually, it is identical with Marx's expenses of circulation. But in the epoch of monopoly capitalism, it has come to play a role, both quantitatively and qualitatively, beyond anything Marx ever dreamed of.

2

The sales effort made its appearance long before capitalism's latest, monopolistic phase. There is hardly any phenomenon in the economic and social universe which springs up without prior notice, like a *deus ex machina*. It is usual for tendencies to make a tentative appearance and to remain weak and insignificant for a longer or shorter period of time. Some never outgrow the stage of being tiny shoots, and are overpowered and smothered by countervailing processes. Others grow to be mighty trees which ultimately turn into prominent features of the social landscape.[2] Thus the sales effort is much older than

[2] It is the ability to distinguish between the former and the latter which constitutes the essential difference between comprehension of the historical process and the empiricist's accumulation of historical "facts."

capitalism as an economic and social order. It appears in various forms in antiquity, becomes quite pronounced in the Middle Ages, and grows in scope and intensity in the capitalist age. Its essence is succinctly described by Sombart:

> To excite interest, to evoke confidence, to awaken the urge to buy—this is the climax of the fortunate trader's endeavor. The means by which it is attained make no difference. It suffices that it is achieved by internal rather than external compulsion, that the other parties to their transaction enter the deal not against their will but by their own resolve. Suggestion must be the aim of the trader. Of the means of inner compulsion there are many.[3]

Yet large and variegated as the arsenal of these "means of inner compulsion" may have been in earlier times, it is only under monopoly capitalism in its most advanced stage—in the United States today—that they have assumed gigantic dimensions. This expansion has profoundly affected the sales effort's role in the capitalist system as a whole: from being a relatively unimportant feature of the system, it has advanced to the status of one of its decisive nerve centers. In its impact on the economy, it is outranked only by militarism. In all other aspects of social existence, its all-pervasive influence is second to none.

The tremendous growth of the sales effort and the spectacular intensification of its sway stem from its having undergone a far-reaching qualitative change. Price competition has largely receded as a means of attracting the public's custom, and has yielded to new ways of sales promotion: advertising, variation of the products' appearance and packaging, "planned obsolescence," model changes, credit schemes, and the like.

3

In an economic system in which competition is fierce and relentless and in which the fewness of the rivals rules out price cutting, advertising becomes to an ever increasing extent the

[3] *Der Bourgeois: Zur Geistesgeschichte des Modernen Wirtschaftsmenschen*, Munich and Leipzig, 1913, p. 74.

principal weapon of the competitive struggle. The immediate commercial purposes and effects of advertising have been thoroughly analyzed in economic literature and are readily grasped. Under conditions of atomistic competition, when an industry comprises a multitude of sellers each supplying only a small fraction of a homogeneous output, there is little room for advertising by the individual firm. It can sell at the going market price whatever it produces; if it expands its output, a small reduction of price will enable it to sell the increment, and even a small increase of price would put it out of business by inducing buyers to turn to its competitors who continue to offer the identical product at an unchanged price. To be sure, even under such circumstances there can still be advertising by producers' associations, urging consumers to expand their purchases of some generic product. But appeals of this kind ("Drink More Whiskey" or "Smoke More Cigarettes") have never played a major role in the history of advertising.

The situation is quite different when the number of sellers is small and each accounts for a large proportion of an industry's output and sales. Such relatively large firms are in a position to exercise a powerful influence upon the market for their output by establishing and maintaining a pronounced difference between their products and those of their competitors. This differentiation is sought chiefly by means of advertising, trademarks, brand names, distinctive packaging, and product variation; if successful, it leads to a condition in which the differentiated products cease, in the view of consumers, to serve as close substitutes for each other. The more telling the effort at product differentiation, the closer is the seller of the differentiated product to the position of a monopolist. And the stronger the attachment of the public to his particular brand, the less elastic becomes the demand with which he has to reckon and the more able he is to raise his price without suffering a commensurate loss of revenue.

All this applies in the first instance to consumer goods, but it is of considerable and growing relevance in the area of producer goods as well. It is enough to look at any of the innumerable general and specialized magazines addressed to businessmen to become convinced that even highly informed, technically competent buyers are by no means impervious to the appeal of advertising.

Just as advertising and related policies can create an attachment in buyers to a given product, it is also possible to generate demand for a new, or apparently new, product. In the words of E. H. Chamberlin in his pathbreaking work on the subject:

> Advertising affects demands . . . by altering the wants themselves. The distinction between this and altering the channel through which existing wants are satisfied, although obscured in practical application by the fact that the two are often mingled, is perfectly clear analytically. An advertisement which merely displays the *name* of a particular trademark or manufacturer may convey no information; yet if this name is made more familiar to buyers they are led to ask for it in preference to unadvertised, unfamiliar brands. Similarly, selling methods which play upon the buyer's susceptibilities, which use against him laws of psychology with which he is unfamiliar and therefore against which he cannot defend himself, which frighten or flatter or disarm him—all of these have nothing to do with his knowledge. They are not informative; they are manipulative. They create a new scheme of wants by rearranging his motives.[4]

And, obviously, the more intense the newly created wants are, the higher can be the price of the products and the larger the profits of the firm which caters to these wants. Accordingly, as noted by Scitovsky, "the secular rise in advertising expenditures is a sign of a secular rise of profit margins and decline of price competition."[5]

4

Ambiguous as statistical time series often are in the area of economic and social developments, the fact that advertising

[4] *The Theory of Monopolistic Competition*, Cambridge, Massachusetts, 1931, p. 119.

[5] Tibor Scitovsky, *Welfare and Competition*, p. 401n.

expenditures in the American economy have experienced a truly spectacular secular rise is unquestionable. A century ago, before the wave of concentration and trustification which ushered in the monopolistic phase of capitalism, advertising played very little part in the process of distribution of products and the influencing of consumer attitudes and habits. Such advertising as did exist was carried on mainly by retailers, and even they did not attempt to promote distinctive brands or labeled articles. The manufacturers themselves had not yet begun to exploit advertising as a means of securing ultimate consumer demand for their products. By the 1890's, however, both the volume and the tone of advertising changed. Expenditures upon advertising in 1890 amounted to $360 million, some seven times more than in 1867. By 1929, this figure had been multiplied by nearly 10, reaching $3,426 million.[6]

Thus as monopoly capitalism reached maturity, advertising entered "the state of persuasion, as distinct from proclamation or iteration."[7] This new phase in the work of the advertiser was already fully described as early as 1905 in *Printer's Ink:*

> This is a golden age in trademarks—a time when almost any maker of a worthy product can lay down the lines of a demand that will not only grow with years beyond anything that has ever been known before, but will become to some degree a monopoly. . . . Everywhere . . . there are opportunities to take the lead in advertising—to replace dozens of mongrel, unknown, unacknowledged makes of a fabric, a dress essential, a food with a standard trademarked brand, backed by the national advertising that in itself has come to be a guarantee of worth with the public.[8]

Accordingly, the advertising business has grown astronomically, with its expansion and success being continually promoted by the growing monopolization of the economy and by

[6] *Historical Statistics of the United States: Colonial Times to 1957*, Washington, 1960, p. 526.

[7] E. S. Turner, *The Shocking History of Advertising*, New York, 1953, p. 36.

[8] Quoted in David M. Potter, *People of Plenty*, Chicago, 1954, pp. 170-171.

the effectiveness of the media which have been pressed into its service—especially radio, and now above all television. Total spending on advertising media rose to $10.3 billion in 1957, and amounted to over $12 billion in 1962.[9] Together with outlays on market research, public relations, commercial design, and similar services carried out by advertising agencies and other specialized firms, the amount now probably exceeds $20 billion. And this does not include the costs of market research, advertising work, designing, etc., carried on within the producing corporations themselves.

This truly fantastic outpouring of resources does not reflect some frivolous irrationality in corporate managements or some peculiar predilection of the American people for singing commercials, garish billboards, and magazines and newspapers flooded with advertising copy. What has actually happened is that advertising has turned into an indispensable tool for a large sector of corporate business. Competitively employed, it has become an integral part of the corporations' profit maximization policy and serves at the same time as a formidable wall protecting monopolistic positions. Although advertising at first appeared to corporate managements as a deplorable cost to be held down as much as possible, before long it turned into what one advertising agency has rightly called "a must for survival" for many a corporate enterprise.[10]

[9] *Statistical Abstract of the United States: 1963*, Washington, p. 846.

[10] An extreme case of this "must for survival" principle is presented by a proprietary drug called Contac recently launched by one of the country's largest pharmaceutical firms. This drug's advertising budget is estimated at a "breathtaking $13 million, spent in probably one of the most elaborate drug product campaigns ever devised. Most of the budget is in television." For this outlay, the pharmaceutical firm "is said to be deriving about $16 million in drug store sales, expressed in wholesale prices." (*New York Times*, January 9, 1964.) Allowing for a handsome profit margin, which of course is added to selling as well as production cost, it seems clear that the cost of production can hardly be more than a minute proportion of even the wholesale price. And when the retailer's margin is added, the fraction of the price to the consumer must be virtually invisible.

5

As mentioned earlier, the phenomenon of advertising has not escaped the attention of academic economics. Already Alfred Marshall distinguished between "constructive" and "combative" advertisements—commending the former as designed "to draw the attention of people to opportunities for buying or selling of which they may be willing to avail themselves," and condemning the latter as being mainly tools of persuasion and manipulation.[11] Later, Pigou went further, suggesting that "the evil might be attacked by the state through the taxation, or prohibition, of competitive advertisements—if these could be distinguished from advertisements which are not strictly competitive."[12] And this method of dealing with the matter—sorting out "good" and "bad" aspects of advertising, defending the one and inveighing against the other—has dominated most subsequent writing by professional economists, has indeed become a characteristic feature of a prominent branch of economics, the so-called economics of welfare.

Work by these economists, and even more the voluminous publications of a large number of commentators on social problems who have adopted a similar approach, have made a significant contribution to our knowledge about advertising. With this information on hand, it can hardly be seriously claimed that advertising performs to any appreciable extent what Marshall and Pigou considered to be a "constructive" function or leads to what other economists have called a "more informed and more perfect market." Indeed, few would question today the statement of Louis Cheskin, a veteran expert in marketing techniques, that "because consumers know little about most products, they look for labels, trademarks, and brand names," or his observation that "a superior product means superior in the eyes of the consumers. It does not necessarily mean superior in terms of objective value or according to laboratory

[11] *Industry and Trade*, London, 1920, p. 305.
[12] *Economics of Welfare*, 4th ed., London, 1938, p. 199.

standards." The preferences of the consumer, in other words, are not generated by confronting him with a choice between genuinely different products but rather by the employment of increasingly refined and elaborate techniques of suggestion and "brainwashing": this too has become a matter of common knowledge. To quote Cheskin again, "studies that have been conducted in the last twelve years show conclusively that individuals are influenced by advertising without being aware of that influence. An individual is motivated to buy something by an ad, but he often does not know what motivated him."[13] Equally convincing are the numerous studies which show that advertising induces the consumer to pay prices markedly higher than those charged for physically identical products which are not backed by suitable advertising techniques.[14]

Finally, the argument sometimes advanced in favor of advertising, that it enables the media to finance the production of high-quality musical and literary programs, is on a level with burning down the house in order to roast the pig. There is not only serious question as to the value of artistic offerings carried by the mass communication media and serving directly or indirectly as vehicles of advertising; it is beyond dispute that all of them could be provided at a cost to consumers incomparably lower than they are forced to pay through commercial advertising.

6

The kind of reasoning that seeks to weigh the "good" and the "bad" sides of advertising has led traditional welfare economics to a nearly unanimous condemnation of advertising as involv-

[13] Louis Cheskin, *Why People Buy*, New York, 1959, pp. 65, 54, 61. Clearly, to condemn so-called subliminal advertising as particularly obnoxious is hardly justified: all advertising is in essence subliminal.

[14] We discuss later the related yet separate function of advertising, of frequently defrauding the consumer either by making him like what he gets regardless of price and quality or by inducing him to buy a product which differs substantially from its advertised description.

ing a massive waste of resources, a continual drain on the consumer's income, and a systematic destruction of his freedom of choice between genuine alternatives.[15] Yet this approach has consistently failed to encompass the two issues which are really most important. One is that advertising in all of its aspects cannot be meaningfully dealt with as some undesirable excrescence on the economic system which could be removed if "we" would only make up our minds to get rid of it. The very offspring of monopoly capitalism, the inevitable by-product of the decline of price competition, advertising constitutes as much an integral part of the system as the giant corporation itself. As Pigou casually observed—without further pursuing the theme—"it could be removed altogether if conditions of monopolistic competition were destroyed."[16] But obviously overcoming capitalism—for this is what destruction of monopolistic competition would mean today—has not been within the purview of welfare economics, the concern of which is to remove or rather to mitigate the most calamitous results of capitalism in order to fortify the very system that necessarily produces and reproduces these calamitous results.

The second and even greater weakness of the welfare-

[15] This does not apply to the "new" welfare economics which reflects perhaps more than any other field of economics the eclipse of reason in bourgeois thought in the age of monopoly capitalism. Taking as its point of departure the consumer's "revealed preference," this fashionable doctrine refrains from expressing any "value judgments." Thus one of its most eminent spokesmen, Paul A. Samuelson, washes his hands of the whole matter: "Defenders of advertising claim many economic advantages for it. Useful information can be brought to the public; mass production markets are created; and as a by-product of advertising expense we have a private press, a choice of many radio and television programs, and thick magazines. So the argument goes. On the other side, it is claimed that much advertising is self-canceling and adds little to the consumer's valid information; that for each minute of symphonic music, there is half an hour of melodrama. The situation would be the more debatable were it not for the surprising fact, turned up by the Gallup poll, that many people seem to like advertising. They do not believe all they hear, but they cannot help remembering it just the same." *Economics*, 5th ed., New York, 1961, p. 138.

[16] *Economics of Welfare*, p. 199.

economics approach to advertising derives from the explicit or implicit assumption of full employment of resources which underlies all of its reasoning. With Say's Law as the point of departure, advertising (and the sales effort in general) is seen as creating certain "distortions" in the economy. For one thing, since it is agreed that the costs of advertising and selling are borne by the consumer,[17] it is held that the proliferation of advertising causes a redistribution of income: the income of consumers is reduced while that of the advertisers and of the advertising media is increased by the same amount. Furthermore, since advertising admittedly diverts consumers' purchases from one commodity to another, causes them to make their buying decisions on irrational grounds, and induces them to spend some of their income on worthless or adulterated products, it is blamed for falsifying the outcome of free consumers' choice and thus interfering with the maximization of consumers' satisfaction. But within this frame of reference advertising is not seen as altering the total volume of consumers' purchases, and therefore hardly calls for much attention in an analysis of the working principles of the capitalist system as a whole.

This treatment systematically obscures the central function of advertising and of all that goes with it in the economy of monopoly capitalism—a function much more clearly understood by businessmen and business analysts dealing with the realities of the American economy. Thus the McGraw-Hill Department of Economics writes: "In fact, broadly defined, as it properly can be, to include the whole range of marketing operations from product design through pricing and advertising right on to doorbell pushing and the final sale, selling or marketing not only is a symbol of a free society but is in ever-increasing measure a working necessity in our particular free

[17] "In the last analysis, these costs, borne by the consumer, must be counted as selling costs—costs of *altering* his demands, rather than as production costs—costs of satisfying them." Chamberlin, *The Theory of Monopolistic Competition*, p. 123.

society."[18] And the predicament that would overcome "our particular free society" in the absence of this whole range of marketing operations is outlined in the grim words of a prominent New York investment banker: "Clothing would be purchased for its utility value; food would be bought on the basis of economy and nutritional value; automobiles would be stripped to essentials and held by the same owners for the full ten to fifteen years of their useful lives; homes would be built and maintained for their characteristics of shelter, without regard to style, or neighborhood. And what would happen to a market dependent upon new models, new styles, new ideas?"[19]

This in truth is the nub of the matter. What indeed would happen to a market continually plagued by insufficient demand? And what would happen to an economic system suffering from chronic underconsumption, underinvestment, and underemployment? For the economic importance of advertising lies not primarily in its causing a reallocation of consumers' expenditures among different commodities but in its effect on the magnitude of aggregate effective demand and thus on the level of income and employment. This has been readily grasped by professors of marketing and advertising as well as by business journalists, but with few exceptions it has been ignored by economic theorists.[20]

This neglect is due to not recognizing that monopoly capital-

[18] Dexter M. Keezer and associates, *New Forces in American Business*, p. 90.

[19] Paul Mazur, *The Standards We Raise*, New York, 1953, p. 32. It does not seem to have occurred to Mr. Mazur that in the selection of clothing and food, esthetic considerations and taste could play their part; that houses could be built, and built well, without regard to Madison-Avenue imposed "style" but with full regard to the art of achitecture; that neighborhoods could be neither "exclusive" nor "restricted" nor dreary tracts nor slums but parts of residential areas well planned with regard to natural location, proximity to places of work, parks, playgrounds, and transportation facilities.

[20] The most notable exception, and we believe the first, was K. W. Rothschild. See his unfortunately little noticed paper "A Note on Advertising," *Economic Journal*, April 1942.

ism is characterized by a tendency to chronic stagnation as well as to the complex nature of the way in which advertising operates to counteract it. For while it is essential to understand that the entire advertising effort constitutes one mode of utilization of the economic surplus, the manner in which it is treated in business accounting tends to obscure this basic point. The difficulty arises from the fact that advertising expenses, being counted as costs, appear to be on the same footing as production costs and of course do not enter into profits. Yet since they are manifestly unrelated to necessary costs of production and distribution—however broadly defined—they can only be counted as a part of aggregate surplus.

This segment of surplus is marked by certain peculiarities. For one thing, it is a composite of two heterogeneous elements. The first element is that part of society's aggregate advertising and other selling expenses which is paid for by an increase of the prices of consumer goods bought by productive workers. Their real wages are reduced by this amount, and the surplus, which is the difference between the aggregate net output and the aggregate real wages of productive workers, is correspondingly increased. The other element is more complicated. It is the remainder of the advertising and selling expenses which are borne by the capitalists themselves and by unproductive workers via increased prices of the goods which they purchase. This component of the outlays on advertising and the sales effort, not being borne by productive workers, does not constitute an increase of the surplus but does cause its redistribution: some individuals living off the surplus are deprived of a fraction of their incomes in order to support other individuals living off the surplus, namely, those who derive their incomes from wages, salaries, and profits generated by the selling "industry" itself.

An even more significant characteristic of the segment of the total surplus which nourishes the sales effort is what might be called its "self-absorbing" nature. For at the same time that some of this surplus is being extracted from productive workers and an additional amount is being withdrawn from unproductive workers, the whole amount involved is utilized for the maintenance of the sales effort. Unlike the component of surplus which takes the form of net profits, the fraction which takes the form of selling costs calls for no counterpart in capitalists' consumption, no investment outlets. It provides, as it were, its own offsets and outlets. (There is just one qualification to this statement: the profits of advertising agencies and other enterprises engaged in the sales effort obviously enter the general pool of profits and must be offset by capitalists' consumption or investment or both.)

The direct impact of the sales effort on the income and output structure of the economy is therefore similar to that of government spending financed by tax revenue. This impact, measured by what has come to be called in economic literature the "balanced budget multiplier," is to expand aggregate income and output by an amount as large as the original revenue (and outlay).[21] And of course the expansion of aggregate income is associated with higher employment of unproductive workers in advertising agencies, advertising media, and the like.

So far we have directed attention to the direct relation of advertising to income generation and surplus absorption. The indirect effects are perhaps no less important and operate in the same direction. Generally speaking, they are of two kinds: those which affect the availability and nature of investment opportunities, and those which affect the division of total social income between consumption and saving (what Keynesians call the propensity to consume).

With regard to investment opportunities, advertising plays a role similar to that which has traditionally been assigned to innovations. By making it possible to *create* the demand for a product, advertising encourages investment in plant and equipment which otherwise would not take place. It makes no differ-

[21] The balanced budget theorem is discussed at greater length below, pp. 144-145.

ence whether the advertised product is really new or not: a new brand of an old product will do as well. There is of course a waste of resources in such cases; but in the presence of unemployment and idle capacity, these resources would have otherwise remained unutilized: advertising calls into being a net addition to investment and income.

With regard to the division of total income between consumption and saving, the effect of advertising is unambiguous and, though unmeasurable, probably very large. In this connection it is essential to keep in mind that the monopoly capitalist period has witnessed a large growth of national income and an even larger growth of the economic surplus. These developments, taken together with the technological advances to which they have been related as both cause and effect, have led to important changes in the occupational distribution of the labor force. The stratification within the working class narrowly defined has increased, with many categories of skilled and white collar workers achieving incomes and social status which not so long ago were enjoyed only by members of the middle classes. At the same time, old strata of "surplus eaters" have grown and new ones have been added: corporate and government bureaucrats, bankers and lawyers, advertising copy writers and public relations experts, stockbrokers and insurance agents, realtors and morticians, and so on and on seemingly without limit. All of these groups, and of course also what C. Wright Mills called the corporate rich and the very rich, have incomes large enough to live not only in comfort but in varying degrees of luxury. A large proportion of them customarily save some of their incomes, and when their incomes rise all are faced with a choice between consuming or saving the increment. On the other hand, it is also true that these groups are eminently credit-worthy and, given the proliferation of lending institutions which is characteristic of monopoly capitalism, find it easy to borrow money to purchase a house, an automobile, a boat, or whatever strikes their fancy. In these circumstances, the amount of what is often called discretionary spending—the sum of income which might either be saved or spent plus credit available to consumers—is enormous, running to tens of billions of dollars a year. The function of advertising, perhaps its dominant function today, thus becomes that of waging, on behalf of the producers and sellers of consumer goods, a relentless war against saving and in favor of consumption.[22] And the principal means of carrying out this task are to induce changes in fashion, create new wants, set new standards of status, enforce new norms of propriety. The unquestioned success of advertising in achieving these aims has greatly strengthened its role as a force counteracting monopoly capitalism's tendency to stagnation and at the same time marked it as the chief architect of the famous "American Way of Life."

7

The strategy of the advertiser is to hammer into the heads of people the unquestioned desirability, indeed the imperative necessity, of owning the newest product that comes on the market.[23] For this strategy to work, however, producers have to pour on the market a steady stream of "new" products, with none daring to lag behind for fear his customers will turn to his rivals for their newness.

Genuinely new or different products, however, are not easy to come by, even in our age of rapid scientific and technologi-

[22] Some advertising—that of savings banks, savings and loan associations, life insurance companies, and the like—of course works in the opposite direction, but quantitatively this is small compared with the efforts of the purveyors of goods and services.

[23] Vance Packard quotes the research and marketing director of the *Chicago Tribune* (which styles itself "The World's Greatest Newspaper") as saying that "tradition bores us now. Instead of being an asset, it is virtually a liability to a people looking for the newest—the newest—always the newest!" *The Waste Makers*, New York, 1960, p. 165. Packard's works, like those of many other latter-day muckrakers, provide a great deal of useful information and at the same time show, in Marx's words, "the strength and the weakness of that kind of criticism which knows how to judge and condemn the present, but not how to comprehend it." *Capital*, Volume 1, Chapter 15, Section 8e.

cal advance. Hence much of the newness with which the consumer is systematically bombarded is either fraudulent or related trivially and in many cases even negatively to the function and serviceability of the product. Good examples of fraudulent newness are admiringly described by Rosser Reeves, head of the Ted Bates advertising agency, one of the country's largest:

> Claude Hopkins, whose genius for writing copy made him one of the advertising immortals, tells the story of one of his great beer campaigns. In a tour through the brewery, he nodded politely at the wonders of malt and hops, but came alive when he saw that the empty bottles were being sterilized with live steam. His client protested that every brewery did the same. Hopkins patiently explained that it was not *what* they did, but what they *advertised* they did that mattered. He wrote a classic campaign which proclaimed "OUR BOTTLES ARE WASHED WITH LIVE STEAM!" George Washington Hill, the great tobacco manufacturer, once ran a cigarette campaign with the now-famous claim: "IT'S TOASTED!" So, indeed, is every other cigarette, but no other manufacturer has been shrewd enough to see the enormous possibilities of such a simple story. Hopkins, again, scored a great advertising coup when he wrote: "GETS RID OF FILM ON YOUR TEETH!" So, indeed, does every toothpaste.[24]

These examples could of course be endlessly multiplied. But from our present point of view the important thing to stress is not the ubiquity of this phenomenon but that it is confined entirely to the marketing sphere and does not reach back into the production process itself.

It is entirely different with the second kind of newness. Here we have to do with products which are indeed new in design and appearance but which serve essentially the same purposes as old products they are intended to replace. The extent of the difference can vary all the way from a simple change in packaging to the far-reaching and enormously expensive annual changes in automobile models. What all these product varia-

[24] Rosser Reeves, *Reality in Advertising*, New York, 1961, pp. 55-56. This book is reputed to be the most sophisticated guide to successful advertising.

tions have in common is that they do reach back into the process of production: the sales effort which used to be a mere adjunct of production, helping the manufacturer to dispose profitably of goods designed to satisfy recognized consumer needs, increasingly invades factory and shop, dictating what is to be produced according to criteria laid down by the sales department and its consultants and advisers in the advertising industry. The situation is well summed up by the McGraw-Hill Department of Economics:

> Today, the orientation of manufacturing companies is increasingly toward the market and away from production. In fact, this change has gone so far in some cases that the General Electric Company, as one striking example, now conceives itself to be essentially a marketing rather than a production organization. This thinking flows back through the structure of the company, to the point that marketing needs reach back and dictate the arrangement and grouping of production facilities.[25]

Vance Packard adds the information that "whenever engineers in the appliance industry assembled at conferences in the late fifties, they frequently voiced the lament that they had become little more than pushbuttons for the sales department," and he quotes Consumers Union to the effect that "a good deal of what is called product research today actually is a sales promotion expenditure undertaken to provide what the trade calls a profitable 'product mix.'"[26] And even this is not all. Researchers for *Fortune* magazine, that faithful chronicler of the mores and virtues of Big Business, looking into the Research and Development programs of large American corporations, found that this multi-billion-dollar effort is much more closely related to the production of salable goods than to its much touted mission of advancing science and technology.[27]

[25] Dexter M. Keezer and associates, *New Forces in American Business,* p. 97.

[26] *The Waste Makers,* p. 14.

[27] Eric Hodgins, "The Strange State of American Research," *Fortune,* April 1955. A similar conclusion is suggested by D. Hamberg, "Invention in the Industrial Research Laboratory," *Journal of Political Economy,* April, 1963.

As far as the consumer is concerned, the effect of this shift in the center of economic gravity from production to sales is entirely negative. In the words of Dexter Masters, former director of Consumers Union, the largest and most experienced organization devoted to testing and evaluating consumers goods:

> When design is tied to sales rather than to product function, as it is increasingly, and when marketing strategy is based on frequent style changes, there are certain almost inevitable results: a tendency to the use of inferior materials; short cuts in the time necessary for sound product development; and a neglect of quality and adequate inspection. The effect of such built-in obsolescence is a disguised price increase to the consumer in the form of shorter product life, and, often, heavier repair bills.[28]

But for the economy as a whole, the effect is just as surely positive. In a society with a large stock of consumer durable goods like the United States, an important component of the total demand for goods and services rests on the need to replace a part of this stock as it wears out or is discarded. Built-in obsolescence increases the rate of wearing out, and frequent style changes increase the rate of discarding. (In practice, as Masters points out, the two are inextricably linked together.) The net result is a stepping up in the rate of replacement demand and a general boost to income and employment. In this respect, as in others, the sales effort turns out to be a powerful antidote to monopoly capitalism's tendency to sink into a state of chronic depression.

8

The emergence of a condition in which the sales and production efforts interpenetrate to such an extent as to become virtually indistinguishable entails a profound change in what constitutes socially necessary costs of production as well as in the nature of the social product itself. In the competitive model, given all the assumptions upon which it rests, only the minimum costs of production (as determined by prevailing tech-

[28] Quoted by Vance Packard, *The Waste Makers*, p. 127.

nology), combined with the minimum costs of packaging, transportation, and distribution (as called for by existing customs), could be recognized by the market—and by economic theory—as socially necessary costs of purveying a product to its buyer. That product itself, although under capitalism not produced with a view to its use value but as a commodity with a view to its exchange value, could be legitimately considered an object of utility satisfying a genuine human need. To be sure, even during capitalism's competitive phase, to which this model approximately applies, socially necessary costs exceeded what they would have been in a less anarchic system of production, but there was no real problem of selling costs and certainly no interpenetration of the production and sales efforts. Socially necessary costs could be unambiguously defined, and at least in principle measured, as those outlays indispensable to the production and delivery of a useful output—given the attained state of development of the forces of production and the corresponding productivity of labor. And once costs had been defined, the social surplus was easily identifiable as the difference between total output and costs.[29]

Matters are very different under the reign of oligopoly and monopoly. Veblen, who was the first economist to recognize and analyze many aspects of monopoly capitalism, put his finger on the crucial point at a relatively early stage:

> The producers have been giving continually more attention to the salability of their product, so that much of what appears on the books as production-cost should properly be charged to the production of salable appearances. The distinction between workmanship and salesmanship has been blurred in this way, until it will doubtless hold true now that the shop-cost of many articles produced for

[29] Capitalist accounting methods treat rent and interest as costs for the individual firm. If the total costs of social output are calculated by adding up the costs of the individual producers, rent and interest will be included as costs and excluded from the surplus. Both classical and Marxian economics, however, had no difficulty in seeing through this appearance to the reality that rent and interest are as much components of the social surplus as profits.

the market is mainly chargeable to the production of salable appearances, ordinarily meretricious.[30]

Whether this phenomenon was really as widespread in the early 1920's as Veblen's statement might seem to imply is questionable. What is not open to dispute is that as a description of the situation in the 1950's and 1960's it is one hundred percent on target. And it raises a question which is as important as it is difficult for any theory which has socially necessary costs and surplus among its fundamental concepts.

The question is: what are socially necessary costs when, in Veblen's words, the distinction between workmanship and salesmanship has been blurred? This question does not arise from the mere existence of selling costs. As long as the selling "industry" and the sales departments of producing enterprises are separate and do not impinge upon the production departments, everything is plain sailing. In that case, selling costs, like rent and interest, can be readily recognized as a form of surplus to be subtracted from aggregate costs in order to arrive at the true socially necessary costs of production. But how should we proceed when selling costs are literally indistinguishable from production costs, as is the case, for example, in the automobile industry? No one doubts that a large part of the actual labor which goes into producing an automobile—how much we shall examine presently—has the purpose not of making a more serviceable product but of making a more salable product. But the automobile, once designed, is a unit which is turned out by the combined efforts of all the workers in the shop and on the assembly line. How can the productive workers be distinguished from the unproductive? How can selling costs and production costs be separated?

The answer is that they cannot be distinguished and separated on the basis of any data entering into the books of the automobile companies. The only meaningful procedure is to

[30] Thorstein Veblen, *Absentee Ownership and Business Enterprise in Recent Times*, New York, 1923, p. 300.

compare the actual costs of automobiles as they are, including all their built-in sales features, with what would be the costs of automobiles designed to perform the same functions but in the safest and most efficient manner. The costs of the latter would then be the socially necessary costs of automobiles, and the difference between these hypothetical costs and the actual costs of automobiles would be labeled selling costs. If we generalize from this example, it will be seen that on a social scale the identification of that part of the social product which represents sales costs, and should therefore be included in surplus, necessarily involves a comparison of the hypothetical costs of a hypothetical product mix with the actual costs of the actual product mix.

It is salutary to remember that comparisons of this kind, while for obvious reasons not undertaken in quantitative terms, were in principle fully acceptable to classical political economy. Its proponents had no hesitation about contrasting the structure and costs of output that would be forthcoming under the regime of laissez faire with the structure and costs of the output which was actually being produced by the hybrid feudal-mercantilist-capitalist system against which they fought their ideological and political battles. Their object was to confront reality with reason and to draw the necessary conclusions for conscious action designed to bring about desirable change. And this confrontation inevitably involved comparisons of what was with what would be reasonable.

Modern economics of course sees matters quite differently. For it, whatever is produced and "freely" chosen by consumers is the only relevant output; all costs incurred in the process are on a par and all are by definition necessary. From this starting point, it is only logical to reject as unscientific any distinction between useful and useless output, between productive and unproductive labor, between socially necessary costs and surplus. Modern economics has made its peace with things as they are, has no ideological or political battles to fight, wants no confrontations of reality with reason.

Not the least deplorable result of this attitude is that the energies of economists and statisticians have been directed away from the subjects here under consideration, though their elucidation is clearly of crucial importance to an understanding of the working principles of monopoly capitalism. To be sure, the required research work is beset with formidable conceptual and practical difficulties. Drawing up specifications of a hypothetical product mix and estimating its cost call for much ingenuity and good judgment; information on the cost of actual output is often shrouded in secrecy and at best can be obtained only by piecing together scattered and incomplete bits of evidence. Nevertheless, that much can be accomplished in this area has been proved beyond any doubt by a brilliant and methodologically path-breaking study of the costs of automobile model changes by Franklin M. Fisher, Zvi Grilliches, and Carl Kaysen.[31] A brief summary of this study will serve to define more sharply the nature of the questions with which we are concerned, to give some idea of the orders of magnitude involved, and to suggest lines along which further research is urgently needed.

The principal problem—the necessity of comparing the cost and quality of actual output with the cost and quality of a hypothetical output—is solved by Fisher, Grilliches, and Kaysen by taking 1949 as their point of departure and using the model of that year as the standard of quality and cost. The authors emphasize that the 1949 model was chosen as a standard not because of any particular merits but simply because that was the earliest year for which all necessary data were available. Conceptually, it would clearly have been possible to adopt as the standard a more rationally conceived and constructed model than that of 1949—safer, more durable, more

[31] "The Costs of Automobile Model Changes Since 1949," *Journal of Political Economy*, October 1962. An abstract, omitting details of estimating procedures, was presented at the 1961 annual meeting of the American Economic Association and appears in the *American Economic Review*, May 1962, beginning at page 259. Our quotations are from the latter version.

efficient, more economical to operate. Perhaps such an automobile actually exists somewhere in the world, perhaps it would be necessary to have a team of experts blueprint one. From a methodological point of view, either could be substituted for the 1949 model, and such a substitution would undoubtedly result in much higher estimates of the costs of model changes. But even taking the imperfect product of 1949 as its yardstick, the investigation leads to an estimate of costs which the authors themselves consider to be "staggeringly high."

They "concentrate on the cost of the resources that would have been saved had cars with the 1949 model lengths, weights, horsepowers, transmissions, etc., been produced in every year. As there was technological change in the industry, [they] were thus assessing not the resource expenditure that would have been saved had the 1949 models themselves been continued but rather the resource expenditures that would have been saved had cars with 1949 specifications been continued but been built with the developing technology as estimated from actual car construction cost and performance data." These calculations showed that the cost of model changes "came to about $700 per car (more than 25 percent of purchase price) or about $3.9 billion per year over the 1956-1960 period."

And this is by no means the whole story, since "there are other costs of model changes which are not exhausted with the construction of the car but are expended over its life." Among these are costs resulting from accelerated obsolescence of repair parts, higher repair costs stemming from certain changes in car design and construction, and additional gasoline consumption. Confining themselves to estimating the last of these items, the authors found that

whereas actual gasoline mileage fell from 16.4 miles per gallon in 1949 to 14.3 miles per gallon ten years later, then rising to about 15.3 in 1960 and 1961, the gasoline mileage of the average 1949 car would have *risen* to 18.0 miles per gallon in 1959 and 18.5 in 1961. This meant that the owner of the average 1956-1960 car was paying about $40 more per 10,000 miles of driving (about 20 percent of his total gasoline costs) than would have been the case had 1949 models been continued.

The additional gasoline consumption due to model changes was estimated to average about $968 million per year over the 1956-1960 period. And in addition, the authors estimated that "since such additional expenditure continues over the life of the car, . . . even if 1962 and all later model years were to see a return to 1949 specifications, the 1961 present value (in 1960 prices) of additional gasoline consumption by cars already built through 1961 discounted at 10 percent would be about $7.1 billion."

Summing up the costs of model changes proper and of additional gasoline costs caused by model changes, the authors concluded: "We thus estimated costs of model changes since 1949 to run about $5 billion per year over the 1956-1960 period with a present value of future gasoline costs of $7.1 billion. If anything, these figures are underestimates because of items not included."

All these calculations take for granted that the costs of automobiles include the enormous monopoly profits of the giant automobile manufacturing corporations (among the highest in the economy) and dealers' markups of from 30 to 40 percent of the final price to the purchaser. If these were omitted from costs, it appears that the real cost of production of a 1949 automobile built with the technology of 1956-1960 would have been less than $700. If we assume further that a rationally designed car could have been turned out at a cost of, say, $200 less than the 1949 model, and assume further the existence of an economical and efficient distributive system, we would have to conclude that the final price to consumers of an automobile would not need to exceed something like $700 or $800. The total saving of resources would then be well above $11 billion a year. On this calculation, automobile model changes in the late 1950's were costing the country about 2.5 percent of its Gross National Product!

It comes as a surprise that such a crucial component of the sales effort as advertising amounted to no more than $14 per car, about 2 percent of the cost of model changes. While automobiles are unquestionably an extreme case, this nevertheless may be taken as an indication of the scope and intensity of the interpenetration of sales and production activities, of the vast amount of selling costs that do not appear as such but are merged into the costs of production. In the case of the automobile industry, and doubtless there are many others that are similar in this respect, by far the greater part of the sales effort is carried out not by obviously unproductive workers such as salesmen and advertising copy writers but by seemingly productive workers: tool and die makers, draftsmen, mechanics, assembly line workers.

But what we would like to stress above all is that the Fisher-Grilliches-Kaysen study definitively establishes the feasibility in principle of a meaningful comparison between an actual and a hypothetical output, and between the costs incurred in producing the actual output and those that would be incurred in producing a more rational output. If carried out for the economy as a whole, such a comparison would provide us with an estimate of the amount of surplus which is now hidden by the interpenetration of the sales and production efforts.

9

This is not to suggest that a full-scale computation of this kind could be adequately carried out at the present time. No group of economists, no matter how imaginative, and no group of statisticians, however ingenious, could, or for that matter should, attempt to specify the structure of output that could be produced under a more rational economic order. It would certainly be very different from the structure with which we are familiar today; but, as so often, it is possible to see clearly what is irrational without necessarily being able to present the details of a more rational alternative. One need not have a specific idea of a reasonably constructed automobile, a well planned neighborhood, a beautiful musical composition, to recognize that the model changes that are incessantly imposed upon us, the slums that surround us, and the rock-and-roll that blares at us exemplify a pattern of utilization of human and material resources which is inimical to human welfare. One need not have an elaborate plan for international cooperation and coexistence to perceive the horror and destructiveness of war. What is certain is the negative statement which, notwithstanding its negativity, constitutes one of the most important insights to be gained from political economy: an output the volume and composition of which are determined by the profit maximization policies of oligopolistic corporations neither corresponds to human needs nor costs the minimum possible amount of human toil and human suffering.[32] The concrete structure of a rational social output and the optimal conditions for its production can only be established in the fullness of time—by a process of groping, of trial and error—in a socialist society where economic activity is no longer dominated by profits and sales but instead is directed to the creation of the abundance which is indispensable to the welfare and all-round development of man.

10

On an equal footing with the sales effort—or at least that part of it which is separable from production—as a mode of utilizing surplus is the diversion of a vast volume of resources

[32] That products designed according to the dictates of profit maximization can be in the most literal sense inimical to the elementary need for survival is illustrated by a report in the *New York Times* (March 3, 1964), according to which the American Automobile Association finds the automobile manufacturers guilty of grossly neglecting safety considerations for the sake of body glamor. Recommendations of competent engineers, said Robert S. Kretschmar, a national director of the AAA and head of its Massachusetts branch, "have been over-ridden by the body stylists and the merchandising people." And he continued: "The manufacturers look upon an automobile as 'glamor merchandise,' not as a mechanism that should be made as safe as possible." Among safety shortcomings were listed "a lack of fail-safe brakes, faulty tires, poor interior design, poor steering design, and weak and thin construction." And yet the automobile industry spends many millions of dollars every year on research and development!

into what is booked in national income accounts under the rubric "Finance, Insurance, and Real Estate."[33] Since no new questions of principle are involved, there is no need for lengthy discussion of these activities and their economic significance. What does require emphasis, however, is their sheer magnitude.

In 1960 this sector of the economy accounted for income totaling $42.3 billion, equal to 10.2 percent of aggregate national income for that year.[34] This was almost as much as the combined income generated in agriculture, mining, and contract construction. That some of the resource utilization of the finance, insurance, and real estate sector should be counted as necessary costs of producing the social output no one would deny. Any society based on division of labor and the purchase and sale of commodities requires some sort of banking system, though its functions could be much simpler and hence its costs much lower than they are now. If all sorts of insurance were automatically provided to everyone as part of a comprehensive social security system, all the footless trappings of agents and salesmen and collectors and accountants and actuaries and huge buildings to house them could be dispensed with. And as for real estate—which in dollar volume accounts for well over half the total income of the sector ($25.8 billion in 1960)—a staff of supervisory and service workers is clearly necessary, but the entire parasitic business of buying and selling and speculating in real estate, where the big money is made under capitalism, would have no reason for existence in a rational social order. Most of what our society lays out for finance,

[33] "The finance, insurance, and real estate division includes private establishments in the field of finance (banks and trust companies; credit agencies other than banks; holding companies; other investment companies; brokers and dealers in securities and commodity contracts), insurance (carriers of insurance, and insurance agents and brokers), and real estate (owners, lessors, lessees, buyers, sellers, agents, and real estate developers)." United States Department of Commerce, *Business Statistics 1963, a Supplement to the Survey of Current Business,* p. 235.

[34] *Statistical Abstract of the United States: 1962,* p. 317.

insurance, and real estate is merely a form of surplus absorption, characteristic of capitalism in general, and, in its present greatly expanded magnitude, of monopoly capitalism in particular. To a large extent it is rooted in the very nature of the corporate system, never better described than by Marx at a time when the corporation was only beginning its climb to dominance: "It reproduces a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators, and merely nominal directors; a whole system of swindling and cheating by means of corporate promotion, stock issuance, and stock speculation."[35] And yet the entire expenditure of resources needed to maintain this gigantic system of speculating, swindling, and cheating, just like the expenditures on advertising and model changes, figures in the capitalist mode of reckoning as necessary costs of production.

Perhaps this is as it should be. Just as advertising, product differentiation, artificial obsolescence, model changing, and all the other devices of the sales effort do in fact promote and increase sales, and thus act as indispensable props to the level of income and employment, so the entire apparatus of "finance, insurance, and real estate" is essential to the normal functioning of the corporate system and another no less indispensable prop to the level of income and employment. The prodigious volume of resources absorbed in all these activities does in fact constitute necessary costs of capitalist production. What should be crystal clear is that an economic system in which *such* costs are socially necessary has long ceased to be a socially necessary economic system.

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