Lesson: Competitive Capitalism Vs Monopoly Capitalism

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Learning outcome

After studying this chapter, a student will be able to:

- State relation between increase in output and capitalists operations.
- Describe the phenomenon of creative destruction.
- Distinguish between competitive capitalism and monopoly capitalism.
- State features of monopoly capitalism
- Contrast Schumpeter's views from Baran's views on monopoly capitalism.

I. Introduction

Over the last fifty to eighty years, there has been a transition from competitive capitalism to monopoly capitalism. We refer to competitive capitalism when there are a large number of sellers competing in the market to sell their products. With the advent of big machines and plants, capitalists now are owners of large scale firms. Not all the capitalists of competitive phase could effectively remain as capitalists in monopoly capitalism phase. The reason for the same is that it required heavy capital requirements. So, a few firms became dominant in each line of production and world witnessed oligopoly or monopoly as inevitable form of capitalism.

This chapter is broadly divided into **five** sections. First section discusses the future of capitalism on the basis of the classical writer's theories. In the second section, 'perennial gale of creative destruction' is explained. The third section provides alternative definition of competition. These three sections actually pave the way for fourth section; which is Schumpeter's defense of monopoly capitalism. In the last section, Baran's arguments are advanced which criticizes monopoly form of capitalism for there are in built mechanisms in monopoly capitalism that impede progress.

II. Survival of Capitalism

Schumpeter explored into the possibility of capitalism flourishing over next century from them. In his attempt to assess this, he explained how capitalism has survived and how its form is shaping away from perfectly competitive capitalism to monopoly capitalism. His mind was boggled with the following questions:

i) How far increase in output, in last fifty years, can be attributed to capitalist order?
ii) Has there been any increase in output at unprecedented scale?
iii) Are there reasons as to why capitalism will not last for long? Or it won't work well, as it did in past?

In search to answer his questions, he analyzed features of then prevailing economy was it conducive to the growth of economy and if yes, does it sufficiently explain this high growth pattern of under capitalism. Though the other way out is to deal with data, use statistics and regression and other techniques to do the same; but Schumpeter did apply the first method.

Answer to (i) question:

Let us rephrase the first question to: "Are there built in incentives to economic agents for increasing the output?" the answer is Yes. There are rewards and penalties for every type of performance in the economy. "**Bourgeois society has been cast in a purely economic mold**". Making money becomes everybody's motive and this is conferred upon all by the capitalist system. This is so because rewards of being party to this system's scheme are promissory to success and those who don't follow are left behind.

For all those who are capable, work hard and are endowed with supernormal brains and innovate and invent are rewarded profits and benefits. Likewise, there are penalties of destitution to all who don't run the race. The rewards accrue to small chunk of the society and prizes to be acclaimed are spectacular. These rewards are greater than they would have been in equal and just society. Somebody who is not receiving them is also lured to these big prizes and overrates their chances of winning them. To conclude, we quote, Schumpeter, "Bourgeois way of life asserts itself to dim the beacons of other social worlds."

Answer to (ii) question:

"Does condition of capitalism imply increase in output"? In answer to this classical give two contradictory views:

a) Within the framework of capitalism, capitalists self interest for maximum performance is in interest of all. Under laissez- faire capitalism, production is maximized.
b) Simultaneously they maintain that increase in output is due to "**beneficial legislation**" such as removal or reduction of protective duties, implemented in nineteenth century.

It seemed that second line of reasoning is to influence people in other lands so that English bourgeois class is put to advantage by removal of duties in other parts of the world.

Classicalists believe that 'money making deflects from its social goals.' And all are at net loss but to whom private profits accrue. But economists refuted such arguments. The alignment of capitalists' interests (of profit maximization) with social goal (of maximizing productive performance) is possible and former imply in most of the cases later. But it is yet not proven that if two converge.

Marshall makes an attempt to answer this and elaborates that in case of perfect competition capitalists' motive of profit maximization is synonymous to production maximization. Under perfect competition, a producer produces to the point where marginal cost is equal to the price they get i.e. they keep on producing additional units unless they run into the losses. Hence, **profit motive of a producer is compatible with output maximization** and cost minimization.

Though it's plausible under the conditions of perfect competition but perfect competition is an exception witnessed in agricultural mass production rather than a rule. In current times, production undertaken by capitalists tends not to be homogeneous but differentiated. Capitalists undertake restrictive practices and manipulate prices.

Answer to (iii) question:

'Would capitalist system keep on functioning smoothly as it did in past fifty years?' Adam Smith cast doubts on prevalence of perfect competition and assumes that in capitalist order monopolistic competition prevails. If this is correct, then there are two implications of arising out of such an assumption:

a) There is no stable achievable equilibrium under oligopoly and one could only observe 'endless sequence of moves and countermoves' and equilibrium would confine to only theoretical model with no substantial empirical evidence.
b) Not only it is difficult to attain but much more difficult to maintain equilibrium under oligopolistic competition. Competition has changed its form from 'beneficial' or of increasing efficiency type to 'cut throat' competition which simply would imply social wastes which emerge due to cost of advertising and campaigns, patents and so on. The equilibrium, even if achieved, would be at less than full employment level of output, because of adoption of profit-conserving strategy.

Conclusion- Schumpeter calls that conclusions drawn up to now that were based on Classical writers; other economists' theories etc are false. They all view a fragment of capitalists' society and had modeled them correctly; but have failed to draw conclusion about capitalist society as a whole. 'Capitalism is an evolutionary process as Karl Marx rightly recognized. This is discussed in next section.

III. Creative Destruction

Capitalism is dynamic and always under constant change. Capitalism is an evolutionary process and has never been and will never be stationary. What brings changes in economic conditions? Is it the social and natural environment? Or is it the automatic increase in population? Or is it our monetary system? The answer is NO. The engine of capitalism is kept in motion by new consumer goods, new means of production, new forms of industrial organization, new markets, changing demand patterns and tastes and preferences of consumers and all these are created within the capitalist structure.

To quote a few examples of changes in capitalist structure: crop rotation with three field system in medieval society, introduction of steam engines facilitated expansion of long distance trade and commerce, the productive apparatus are now manufactured in iron and steel industry etc. These all technological inventions and innovations changed economic conditions. The opening of new markets, technological advancements and organizational developments and as Schumpeter puts it- 'incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.' This process of creative destruction is at the heart of capitalism. Every capitalist is expected to live in this ever evolving economic environment.

There are two important things to understand about this fact of capitalism-

a) Feudalist structures, hand tools, charcoal furnace etc. may seem inferior to their current replacements but had full relevance in their respective times. Any system utilizes its possibilities to the best advantage. Hence, we must judge performance of every element over time.
b) Every action or strategy of the firms must not be studied in isolation but against the backdrop of relevant process at work. For ex. If someone who observes oligopolist firm and concludes that they aim at higher prices and restrictions of output is assuming that there was no past and would have no future to it. Rather it should be understood as attempts by all those oligopolists who are trying hard to survive in the market or what conditions in the past shaped their current moves should form part of explaining their behavior.

Hence, the relevant problem is to understand how capitalist structures are formed and destroyed in the process coined by J. Schumpeter- perennial gale of creative destruction.

IV. Competition Redefined

J. Schumpeter emphasizes that competition cannot be defined by number of firms vying their products in the market. One needs to emerge from the system where price competition is all one can view. Even if there is just one firm in any line of production, it is yet under competitive pressures emerging from potential firms that can enter market anytime, change in demand patterns, tastes and preferences of the consumer; technological inventions, new commodities, new type of organizations etc. These all call for another type of competition viz. quality competition.

This sort of competition not only hits the profit margin and levels of output of the firms but the very existence of the firm itself. In many cases, this will in long run, result in behavior very similar to perfectly competitive pattern and result in expansion of output and brings down prices. But government observing oligopoly or monopoly in isolation fails to see any effective competition that threatens a businessman every now and then.

V. Schumpeter’s defense to monopolistic practices

Viewing competition in this light, Schumpeter as a lawyer, defends monopolistic practices and explains how blames on capitalist practicing restrictive strategy are irrelevant. Schumpeter defends monopoly capitalism as a regime.

V.1. Defense 1- Restrictive practices as safeguard mechanism

With the introduction of new things, long run scope for an industry is reduced and under such circumstances, restrictive practices aim at maintaining established positions. In times of creative destruction, 'it steadies the ship'. Since economic conditions are continuously changing, long run investment needs a hedge against unfavorable changes- if occur. Hence, it is justified if entrepreneurs resort to protecting devices such as patents, long run contracts etc.

The costs of such patents are then transferred to consumer in the form of higher prices. Schumpeter creates an analogy to war insurance to explain that higher price is justifiable. For ex, war risk is insurable, no one will object for firms collecting cost of insurance.

So the analysis by the economists or government sees price policy as exploitative and restriction of output as social waste. But rather restrictions act as brakes, in the long run expansion process that protects rather than impeding long term investment.

V.2 Defense 2- Survival of the fittest

When new concerns or industries introduce new commodities, they tend to weed out the old or obsolete ones and only those survive that are able to weather the storm. Such new firms are aggressors by nature and wield the weapon of competition. This tends to improve total output in terms of both quality and quantity. This is made possible with the ' new thing just introduced' and also by the pressure that is exerted on the pre-existing firms.

Let's rewind and imagine that firms beforehand knew that such an introduction- sooner or later will threaten them. Hence, at the outset when any firm is making large- scale investment needs an assurance that competition will be discouraged by heavy capital requirements or lack of experience etc. However, if such innovations and inventions are inevitable in the long run, firms would create favorable situations by manipulating price, quality and quantity. These manipulations will produce profits sufficient enough to tide over unfavorable situations. This requires strategy to be of 'restrictive nature'.

While this does not amount to saying that one should try to conserve obsolescent firms indefinitely but rather their fall should not be sudden and with a crash so that depression like situation is situated. 'Restraints of trade' like formation of cartel can act as remedies in times of depression. These restraints could end in steadier and greater expansion of output that could be secured without them. Also, catastrophes are avoided which are unavoidable in the uncontrolled perfectly competitive capitalism.

V.3 Rigid prices are not evil

Rigid prices are another feature of monopoly capitalism which is accused on the grounds that rigid prices keep the gains of technological advancement refrained from buyers of that product. How price rigidity is conceived by all? A price is considered to be rigid 'if it is less sensitive to the changes in conditions of demand and supply' compared to similar changes under perfect competition.

But Schumpeter argues that limiting our definition makes the analysis itself rigid. He explains that one should bear in mind the following before proceeding the analysis of rigidity of prices:

a) If new product is better than the previous one and is available in market at lower, along with the fact that sole motive behind it's launch were these two, then leaving old one at higher quotation should not imply rigidity.
b) If improving product quality increases cost then producer selling it at constant prices does not mean price is rigid.
c) Also, if wages have risen along with technological advancement and prices remain constant; its not apt to term it price rigidity.
d) Price rigidity is a short run phenomenon and has no evidence of its prevalence in the long run.
e) It vanishes automatically until and unless it is sustained by monetary policy or events.

With such things in mind, Schumpeter defines price rigidity- a genuine one- as constant price over longer horizon and especially when technological progress has created conditions for reduction of prices. Or in short 'price rigidity keeps the fruits of technological progress from consumers. Price rigidity is criticized heavily at the times of recession or depression. But the question remains whether flexible prices under conditions of recession are fruitful? Or how short run rigidity affects long run development of total output?

Schumpeter places following ***two*** arguments to defend price rigidity in times of recession:

a) His first argument is a proof by contradiction. Assume the situation of recession wherein the supplier has not lowered the prices of their goods. If consumers continue consuming same quantity and spend their entire income; then firms profit from price rigidity. Assume again that these profits are kept idle, then total expenditure in economy shrinks leading to its collapse. But these ideas are of little practical significance.

b) Price rigidity that is pursued during recession is carried on the grounds of low sensitiveness of demand to price changes. People who are in depression are living hand to mouth or are at least worrisome about future conditions are not likely to buy a car even if prices fall by 25% and specially so if it's durable good and it's purchase is postponable.

And as before, price rigidity; another restriction, seems to rather steady the ship. The conditions of perfect and universal flexibility of prices might unstabilize the system instead of stabilizing it.

V.4 Conservation of capital is an illusion

It is argued by the economists that big businesses try to obstruct the introduction of cost reducing improvement. The motive behind their endeavor is to protect value of their investment from falling. If their existing capital is not written off at the time when cost reducing improvement has been innovated, then adoption of new technology or technique is discouraged by big firms. And hence, it carves the path for acceptance of the thought that monopoly capitalism is incompatible with progress.

Schumpeter argues that this not only specific to imperfect competition and same pursuit will be followed by few big firms in perfect competition so that they can avoid losses in the capital account. Also, assuming that private management would not accept new technology unless existing plant is written off is wrong. Rather if a higher stream of future incomes (discounted to present) are compatible with new method of production, then it will obviously be adopted. This scheme seems rational. It would be a mistake to reason out that a socialist management, acting rationally, would adopt any new method of production available; given it produces goods at lower cost (since it increases welfare).

Schumpeter rather elaborates and justifies capitalists' inaction. As state of technology appears to be in mist and advancements after advancements are launched. Capitalists take time to think about when and which technology to pick up and take action when adoption of it promises higher discounted present value of net income (then pre existing). Capitalists' code of conduct is actually rational. Since all this will involve some waiting period how system unfolds, economists may interpret it as the act of conservation of capital and falsely conclude that monopoly capitalism impedes progress.

V.5 Defense 5: Monopoly i.e. single seller confines to theories

a) Monopoly in the Long run

Monopoly, defined by the single seller who fare a demand schedule that is independent of his own actions and other's reactions, actually absent and especially so in the long run. The pure cases of long run monopoly are rarest. It's nearest approximation cases are rarer than the cases of perfect competition.

Monopoly could persist in the long run unless if it's sustained by the fiscal intervention. Other than monopoly in the public utilities, single seller could survive and maintain his position for only long if he does not behave like one.

b) Monopoly is superior

In theory, price is higher in monopoly, than that would prevail under perfect competition and at the same time output is smaller in monopoly compared to perfect competition. But there are gains that monopoly capitalism confers upon us.

Monopolist increases the sphere of better brains and reduces the sphere of influence of inferior brains. The monopolists are endowed with superior methods which are virtually absent to the crowd of competitors or are not readily available to them. This superiority may it be of brains or methods is outstanding characteristic of large scale units. These units evolve during the creative destruction process of capitalism and function entirely different from 'static scheme'. Their exploitation seems like rewards for their innovations. Hence, output in the long run by monopoly would not be smaller if they were genuine monopolies.

'Monopoly is no cushion to sleep on.' This position is attained after struggles and survival through destruction process. It does not come with a guarantee and it can be retained by alertness' and energy and if retained for long has optimum similar to perfect competitions.

c) Monopoly profits are prize

New methods or new commodities in general cases don't imply monopoly; but if is used by or produced by a single firm does not imply monopoly in the strictest sense. Since this new thing would have to compete with their old counterparts. It could be that extra or supernormal profits accrue to him but this should be seen as prizes offered to them by the capitalist society.

V.6 Defense 6: Benefits of perfect competition are misleading

Perfect Competition has one feature called free entry which is presumed to give optimal results. Barrier to entry in the pre existing production process is considered loss to the community. But free entry into new field is actually impossible in the premises of perfect competition because introduction of new methods of production and new products is hardly conceivable from the beginning. So the progress is detached from the process of perfect competition. Whenever new products are launched, perfect competition is temporarily suspended. Another kind of waste under perfect competition is excess capacity building. Hence, firms compatible with perfect competition displays internal inefficiency.

VI Attack on Monopoly Capitalism

Paul Baran draws conclusions different from Schumpeter's. He feels that monopoly capitalism or advanced capitalist has dampening effect on the economic development of a country. For his analysis, he takes the help of following FOUR classical pre requisites of development.

i) Full utilization of resources to attain maximum output level.
ii) Maximization of share of economic surplus in maximum output.
iii) Maximization of surplus ploughed back into the business.
iv) Sufficient availability of investment outlets that ensure profits.

The above stated four conditions are in sequence. Let us consider these in case of competition. Competition would force businessmen to improve the methods of production, promote technological progress and to make full use of it and to increase the output. Competition among workers would ensure that wages remain around subsistence level and increasing share of economic surplus is pocketed by businessmen by profits.

Businessmen would be compelled to accumulate and invest in new and cost reducing innovations so that they could survive through the competitive struggle.

These four conditions serve as Baran's tools for assessing the performance under two forms of capitalism viz. competitive capitalism prevalent in nineteenth century and monopoly capitalism in the twentieth century. Let's deal with it one by one.

VI.1 Classical conditions for Economic Growth-I

The first requirement for economic growth is full utilization of resources so as to ensure maximum output. Under competitive capitalism, the condition is ensured and Baran's analysis is to analyze that to what extent this condition is fulfilled. U.S has witnessed economic advancement but this does not match to the corresponding level of technological progress and creativeness of the population.

The gap between actual and potential GDP was there even in competitive capitalism but the gap has widened under monopoly capitalism. The reason could be violent fluctuations in latter part of the capitalism along with the falling rate of capital formation. Ups and downs in economic activity could possibly be seen even in competitive period but there is substantial evidence for the loss in aggregate output, increasing unemployment and unutilized capacity in monopoly capitalism. So conclusion can be drawn that first requirement for growth is not compatible with monopoly capitalism.

VI.2 Classical condition for economic growth- II

The second condition requires that the share of economic surplus in the total output should be rising. This could be fulfilled only if wages are kept at minimum subsistence level. But subsistence minimum has been continuously rising and is not a firm floor. So, the subsistence minimum's definition is derived from wage level pertaining to a particular period and it changes from period to period. So, the hypothesis of maximum possible economic surplus can't be agreed or disagreed by relying on the minimum subsistence approach.

Kalecki though tested this hypothesis for U.K for the period 1889-1938 and with the help of data showed that share of labor was constant for the period. The same analysis for U.S does not yield conclusive results. Some believe that there was an upward trend in labor's share I product and others feel that no such improvement took place. Kuznet's calculations concluded that worker's share declined in 1949 compared to in 1939.

Baran says that no statistical answer is possible then. Hence, one should seek a theoretical explanation for it. In the last fifty to eighty years, monopoly capitalism has taken over competitive capitalism and there has not been a decline in relative share of labor. This should be seen in the light of the fact that the working class has absorbed small businessmen, craftsmen and the like. The capitalist class shrinked and a few big monopolists were left with ownership of large scale firms. So, it seems that there has been redistribution of profits among the capitalists and in a manner that income is redistributed from small to big business. The concentration of profits is intimately linked with concentration of assets. So, to show the redistribution of profits hypothesis correct, consider the following table:

Table 1: Distribution pattern of profits

Year	Number of corporations	Percent of total corporations	Percent of total corporate profits
1923	1026	0.26	47.9
1951	1373	0.23	54
1951	747	0.12	46.5

Source: P. Baran, *The Political economy of Growth,* 1957

Although, the economic surplus, measured in absolute terms has swollen in capitalists' monopoly phase than competitive phase but is markedly lower than the largest possible surplus in the face of ever rising subsistence minimum wage level.

VI.3 Classical conditions for economic growth-III

The third condition calls for maximum amount of surplus to be invested in business. Thrifty nature of the capitalist ensures that he ploughs back profits into the business. The uneven distribution of profits under monopoly capitalism results in smaller share of economic surplus going into the capitalists' consumption and henceforth, proportion of economic surplus retained in the business is large. This proportion increases substantially in the periods of prosperity.

Retaining profits and investing in business is one part of the story and it would successfully translate into higher growth if and only if there are opportunities for profitable investments. This is dealt with in next classical condition.

VI.4 Classical condition for economic growth-IV

The fourth classical condition is availability of outlets for profitable investment of the surplus. Baran argues that left to its own, monopoly capitalism would not be able to provide outlets sufficient to absorb the economic surplus so generated. He assumes that consumption and investment's growth is not in line with the growth of economic surplus and hence economy will operate below optimum as a result of it.

Larger the size of surplus, greater would be the expansion of productivity and output. Excessive accumulation would mean reduction in the current level of consumption. This would leave less of profitable investment opportunities and those who can invest, would not invest and as a result, accumulation falls. It is witnessing this phenomenon that people want to curb excessive accumulation as it carries seeds of under consumption along with it.

Schumpeter says that the fall in availability of profitable outlets is not due to the internal working of the capitalism rather it is due to the following two external factors:

i) Slowing down of population growth
ii) Technological progress

But Baran opposes Schumpeter's views on the external factors being held responsible for inadequacy of investment outlets.

Baran claims that slowing down of population can not be sufficient enough to let investment fall. Kaleki also identifies with it and make emphasis on the point that increase in purchasing power is more important than the increase in population.

Schumpeter claims that technological progress would reduce the cost of capital goods and as time progresses capital requirements would shift from heavy capital to latest forms of capital that would embody new technology. But Baran attacks his views and furthers his argument by saying that technological innovations can't reduce investment directly and there are instances where adoption of new discoveries means heavy expenditure.

Alvin. H. Hansen has quoted 'The problem of our generation is, above all, the problem of inadequate investment outlays' which supports Baran's arguments.

VI.5 How investment differs in Competitive and Monopoly Capitalism?

Consider the case of competitive capitalism first. In competitive capitalism, it is reasonable to assume that the rate of profit is same within and across the industries. Capitalists have the incentive to adopt the cost reducing technological innovation since it would enable him to sell larger output and hence higher profits. This profit rise is temporary and will disappear once all firms adopt new technology while in the process financially weaker firms will be out. This process is not one time. It goes on and propels economic growth.

Let's consider the investment under monopoly capitalism. Monopolist's investment decisions are guided by the marginal profit rate rather than total profit. Since the increase in quantity would mean decrease in price and the demand curve is downward sloping and hence return on old investment also changes. So this means that for the adoption of new machinery to be feasible, the increase in profits due to reduction in cost of production has to be big enough to cover capital losses incurred due to substitution of capital. Due to this reason they would wait until existing plant is written off and only if that technological innovation is a major improvement will be adopted. This is referred to as the conservation of capital. Monopolist could conserve the value of his capital as he is not under competitive pressures of others adopting new machine. The innovations that a monopolist will be willing to adopt, would rather be factor-saving than output-increasing.

The question still remains that whether oligopolists have the incentive to reduce cost and price and capture larger market share? The answer is NO. The model that is followed under oligopoly is of 'price leadership' and explicit agreements/cartels are formed to avoid price war. This would mean that high cost firms are not thrown out of the market. The excess capacity creation feature of oligopoly further adds to the problem of reduction in investment. Monopolists and oligopolists have little inducements to plough back the profits into the business and barriers to entry would mean that investment demand can't be created by outsiders too.

The monopolist or oligopolist would seek other industries i.e. those are competitive, to make investments. Upon entering industries where concentration is low, they tend to shape this industry to their own likeness. Since they had huge profits to invest, they would make huge investments and would make large size firms and would practice tactics like in their previous industry. This amounts to saying that 'oligopoly and monopoly' spreads from one branch of the economy to another.' At the end, when all branches would be converted into monopoly or oligopoly, the outlets for new capital formation won't be available. Thus, the progress is slowed down under monopoly capitalism as compared to competitive capitalism.

Summary

- Capitalist order promises rewards for supernormal brains and penalties for obsolete and while doing so, it would mean that capitalist strain their every nerve to increase output. Though classical seem little sceptical about the view and it is agreed by all that profit maximization and output maximization are not compatible under monopolistic competition.

- Schumpeter views entire capitalism as evolutionary in nature and maintains that this though destroys few structures of capitalism but is for the good and hence, called it "Perennial gale of creative destruction".

- Competition is not measured by number of firms in a given industry but competitive pressures are build up due to new markets, new suppliers, new commodities, new technology and new forms of organization and competition is present even in oligopolistic form of capitalism.

- Schumpeter defends Monopoly capitalism by arguing that restrictive practices like patents, entry barriers and rigid prices, steady the ship during depression. The situation would have been worsened if such practices are not adopted.

- Monopolists' conservation of capital is nothing more than waiting time so as new technology unleashes its features. It is rational on part of monopolist to write off existing capital on the basis of net present discounted value.

- Schumpeter also agrees that monopoly in long run cannot exist and its position is no cushion to sleep on, it can slip away from him and can be retained only if he does not behave like one.

- Baran, in contrast to Schumpeter, argues that there are in-built or internal mechanism in monopoly capitalism that reduces the amount of investment and hence growth under monopoly capitalism compared to competitive capitalism.

Exercises

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Question Number	Type of question
1	Multiple Choice question

Question

i) Restrictive practices produces less than socially optimal output is believed by:
   a) Classical
   b) P. Baran and Classical
   c) P. Baran and Schumpeter
   d) Schumpeter

ii) Which of the following are associated with "Perennial gale of creative destruction":

A) It is a one-time event
B) It destroys old structures
C) It creates new structures
D) Destruction ends capitalism

a) A&B
b) A&D
c) B&C
d) All of above.

iii) When a new method of production is introduced, a monopolist:
a) Adopts it there and then.
b) Do not adopt since he is monopolist has no threat of being out-beaten by others.
c) Waits and then adopt.
d) Conserves the value of capital.

iv) We have witnessed which of the following, in last fifty to eighty years span:
A) Transition from competitive capitalism to monopoly capitalism.
B) Transition from Feudalism to capitalism.
C) Increase in large scale firms.
D) Redistribution of surplus value.

a) A,B & C
b) C&D only
c) A,C &D
d) All of above

Correct Answer / Option(s)	i) → b) ii) → c) iii) → c) iv) → c)

Justification/ Feedback for the correct answer

i) Because Schumpeter defends restrictive practices.
ii) Perennial gale of capitalism is a continuous process that destroys old structures and creates new one and such a replacement is for betterment of capitalism.
iii) he waits so that he could sure that new technology was a major breakthrough and not a little upgradation over previous one.

Question Number	Type of question
2	True or False

Question

a) According to Schumpeter, even a monopolist is facing competition.
b) Restrictive practices are justifiable in the perennial gale of creative destruction.
c) Lowering down of prices at the time of depression would create effective demand and brings stability.
d) Monopoly in long run is a myth.

Correct Answer / Option(s)	a) True b) True c) False d) True

Justification/ Feedback for the correct answer

a) There is competition from potential supplier, new commodities, technology etc. that threaten its existence and is much more effective than price competition.
b) It acts as shock absorber for the pre-existing firms.
c) The reduction of prices at the times of depression would bring instability. Reduction in prices would not create demand if demand is postponable. In the face of reducing prices, demand will be postponed since a greater reduction will be expected.
d) Monopoly position can't be enjoyed for long. This position has to be maintained and retained and is possible if he doesn't behave like one.

Question Number	Type of question
3-8	Long answer question

Q3. What are the arguments in favor of competitive capitalism?

Q4. 'Competitive capitalism is better form of capitalism compared to monopoly capitalism'. Critically examine this statement.

Q5. 'Restrictive practices steady the ship in times of storm'. Elaborate

Q6. 'Capitalism should be studied in its then-existing context and context is continuously changing'. Do you agree? Explain how?

Q7. 'Monopolist reaping benefits of his monopoly position can be witnessed in short run and disappears in long run unless sustained by state intervention'. Do you agree? Why or why not?

Q8.'monopolistic practices and price rigidities are justifiable in the perennial gale of creative destruction'. Elaborate.

Glossary

- **Oligopoly**: Oligopoly is the form of competition where a few big firms dominate in the industry.

- **Cartel**: Cartel refers to explicit collusion of firms who agree to set price for all member firms. Cartel formation makes them powerful and output is concentrated in the hands of such member firms.

- **Price- leadership**: In the oligopoly form of competition, a big firm becomes the price setter and such a price is followed by rest all in the industry. This type of price setting is known as price leadership mode

- **Rigid prices**: Prices are rigid in the oligopoly. This was given by Paul Sweezy. Price so set is followed for long. The reason is that when a firm raises price none in the industry follows and hence he becomes a loser and on the other hand, if he lowers price then it calls for price war. Hence to avoid both of these extreme situations he sticks to a price so set in industry.

- **Restrictive practices**: Restrictive practices refer to act of oligopolists or monopolists that restrict competition.

- **Excess capacity**: Excess capacity is said to be prevailing in a firm if production of that firm is less than achievable or optimal output of that firm.

- **Patents**: Patent gives exclusive right of production to its innovator or inventor and prohibits others to produce such commodity or use newly devised technique, whichever the case maybe.

References

1. J Schumpeter, *Capitalism, Socialism and Democracy,* George Allen and Unwin 1976, Chapters 6,7 & 8

2. P. Baran (1957), *The Political Economy of Growth,* Chapter 3, Pelican edition, 1973